



# PORTUGAL

## FINANCIAL SECTOR ASSESSMENT PROGRAM

July 2026

### TECHNICAL NOTE ON FINANCIAL SAFETY NET AND CRISIS MANAGEMENT ARRANGEMENTS

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

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INTERNATIONAL MONETARY FUND

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July 8, 2026

## TECHNICAL NOTE

FINANCIAL SAFETY NET AND CRISIS MANAGEMENT  
ARRANGEMENTS

Prepared By  
**Monetary and Capital Markets  
Department**

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

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## Glossary

|           |                                                                                                                                     |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------|
| ASF       | Insurance and Pension Funds Supervisory Authority ( <i>In Portuguese: Autoridade de Supervisão de Seguros e Fundos de Pensões</i> ) |
| BANIF     | Banco Internacional do Funchal, S.A.                                                                                                |
| BdP       | Bank of Portugal ( <i>Banco de Portugal</i> )                                                                                       |
| BES       | Banco Espírito Santo, S.A.                                                                                                          |
| BRRD      | Bank Recovery and Resolution Directive                                                                                              |
| CMVM      | Securities Market Commission ( <i>In Portuguese: Comissão do Mercado de Valores Mobiliários</i> )                                   |
| CNSF      | National Council of Financial Supervisors ( <i>Conselho Nacional de Supervisores Financeiros</i> )                                  |
| DRE       | Resolution Department ( <i>In Portuguese: Departamento de Resolução</i> )                                                           |
| D-SIB     | Domestic Systemically Important Bank                                                                                                |
| DSP       | Banking Prudential Supervision Department ( <i>In Portuguese: Departamento de Supervisão Prudencial</i> )                           |
| EA        | Euro Area                                                                                                                           |
| EBA       | European Banking Authority                                                                                                          |
| ECB       | European Central Bank                                                                                                               |
| ELA       | Emergency Liquidity Assistance                                                                                                      |
| EU        | European Union                                                                                                                      |
| FdR       | National Resolution Fund ( <i>In Portuguese: Fundo de Resolução</i> )                                                               |
| FGD       | Deposit Guarantee Fund ( <i>In Portuguese: Fundo de Garantia de Depósitos</i> )                                                     |
| FOLTF     | Failing or Likely to Fail                                                                                                           |
| FSAP      | Financial Sector Assessment Program (IMF)                                                                                           |
| G-SIB     | Global Systemically Important Bank                                                                                                  |
| IRT       | Internal Resolution Team                                                                                                            |
| JST       | Joint Supervisory Team                                                                                                              |
| KAs       | Key Attributes of Effective Resolution Regimes for Financial Institutions                                                           |
| LSI       | Less Significant Institution                                                                                                        |
| MoF       | Ministry of Finance                                                                                                                 |
| MoU       | Memorandum of Understanding                                                                                                         |
| MREL      | Minimum Requirement for Own Funds and Eligible Liabilities                                                                          |
| NCA       | National Competent Authority                                                                                                        |
| NCB       | National Central Bank                                                                                                               |
| NCWO      | No Creditor Worse Off (Principle in Resolution)                                                                                     |
| NRA       | National Resolution Authority                                                                                                       |
| PIA       | Public Interest Assessment                                                                                                          |
| SCV Files | Single Customer View Files                                                                                                          |
| SI        | Significant Institution                                                                                                             |
| SRB       | Single Resolution Board                                                                                                             |
| SRF       | Single Resolution Fund                                                                                                              |
| SRM       | Single Resolution Mechanism                                                                                                         |
| TLAC      | Total Loss-Absorbing Capacity                                                                                                       |

## EXECUTIVE SUMMARY<sup>1</sup>

**The mandates and responsibilities of the institutions in the financial safety net in Portugal are set within the Banking Union framework.** The European authorities that have jurisdiction in the Portuguese banking system include the European Central Bank (ECB), the European Commission (EC), the Single Resolution Board (SRB), and the European Stability Mechanism (ESM). The EU's single rulebook on crisis management and domestic legislation forms the framework under which the Portuguese authorities operate.

**The financial safety net in Portugal is comprised of three principal institutions.** These include Banco de Portugal (BdP), the Deposit Guarantee Fund (FGD), and the Ministry of Finance (MoF). The European Central Bank (ECB) supervises Significant Institutions (SIs). For the resolution of SIs and Less Significant Institutions (LSIs) with cross-border operations, the SRB takes the lead, with national authorities executing operational tasks. In Portugal, BdP is responsible for the direct supervision and resolution of LSIs with no cross-border operations; the FGD provides depositor protection to all credit institutions established in Portugal, whether they are SIs or LSIs; and the MoF implements economic and financial policies and, in crises, may provide financial support.

**Portugal's resolution regime is well established, but certain areas can be further enhanced.** The regime is shaped by the EU resolution framework, which—including the Bank Recovery and Resolution Directive (BRRD), BRRD II, and more recent BRRD revisions—has been transposed into Portuguese Law. BdP and the SRB share responsibility for bank resolution: the SRB is accountable for SIs and cross-border LSIs, while BdP handles domestic LSIs; BdP is responsible for executing resolution for both SIs and LSIs. The organizational structures supporting resolution have been enhanced: BdP now has a stand-alone, autonomous Resolution Department (DRE). The DRE and the Banking Prudential Supervision Department (DSP) regularly exchange information in normal times; however, their information-sharing protocol should be strengthened to enable earlier exchange about distressed institutions in times of crisis. Legal reforms are needed to improve cooperative groups' resolvability by enabling joint resolution of their central body and affiliated cooperatives. Resolution funding is expected to be sourced from the EU's Single Resolution Fund (SRF) but comes with significant preconditions. A financial stability exemption from these limits, as recommended by the recent EA FSAP, should be pursued.

**The Portuguese resolution framework has a comprehensive set of resolution tools, but these could be further enhanced.** These include bail-in, sale of business, bridge bank, and asset management vehicles. BdP has previously applied the bridge bank tool for the resolution of Banco Espírito Santo, S.A. (BES), and the sale of business and asset management vehicle tools for the resolution of Banco Internacional do Funchal, S.A. (BANIF) in 2014 and 2015, respectively. A further refinement of the sale of business tool is needed to provide BdP with mechanisms for auctioning packages of failed banks' assets and deposits. This would give BdP greater flexibility to liquidate smaller LSIs under an administrative liquidation regime. Bridge bank powers have been successfully

<sup>1</sup> This technical note was prepared by David Hoelscher.

used in the resolution of BES in 2014, where the National Resolution Fund (FdR) provided the needed capital (relying in part on loans from the Portuguese State) and became the sole shareholder. The FdR still holds a minority stake in the bridge bank, although an agreement has already been signed to sell the remaining stake to a private acquirer.

**Resolution planning, including preparation of resolvability assessments, is well advanced.** BdP participates in SRB-led resolution planning for SIs and cross-border groups and is responsible for resolution planning for LSIs without cross-border operations. Three of such LSIs are currently considered to have potential systemic significance and would be resolved by BdP, in close cooperation with the SRB. Resolvability assessments have been conducted for all institutions with a positive PIA. BdP has now shifted its priority to the operationalization of resolution tools and to enhancing resolvability assessments.

**LSIs with negative public interest assessment (PIA) are liquidated via the corporate court-based insolvency regime, which is unsuitable; an administrative insolvency regime should be adopted.** BdP initiates resolution when it is determined that an institution is failing or likely to fail (FOLTF) and there is a positive PIA. If resolution is not considered in the public interest, the failing institution is to be wound up under the corporate (court-based) insolvency proceedings. Liquidations under the corporate law tend to be slow, raising the risk of asset value erosion. The authorities are therefore urged to adopt an administrative bank insolvency regime. Resolution tools should be integrated into this administrative liquidation process. The selection of resolution strategies requires improving the decision-making framework that governs it to better manage the liquidation of entities with negative PIA.

**The FGD is well established, but its governance and effectiveness should be further enhanced and funding backup mechanisms established.** The FGD should be assigned full-time permanent staff to enhance its ability to effectively fulfil its mandate. The FGD Board should be restructured to exclude representatives of the banking industry and prevent possible conflicts of interest. Government involvement in FGD's decision-making should be scaled back. The minimum relative requirement for domestic public debt holdings in FGD's portfolio should be removed, as it limits FGD's ability to diversify risks. The mandatory MoF (or even parliamentary) approval for FGD expenses, including covered deposit payouts or resolution intervention, should be removed. An emergency liquidity backup facility from the MoF (or temporarily from BdP) should be set up in case the FGD cannot meet payout obligations. FGD staff and members of its management committee should benefit from special legal protection for actions taken in good faith in normal course of duty.

**Crisis management would be strengthened by establishing a permanent inter-agency body responsible for coordination across authorities during crises.** The National Council of Financial Supervisors (CNSF) has a coordination role in regulation and supervision arrangements. In a crisis, BdP acts as the primary technical and operational authority. It is expected to coordinate with the MoF, the Securities Supervisor (CMVM), the Insurance Supervisor (ASF), and the SRB (the latter for cross-border banks) and to lead the execution of bank resolution measures. The development of the trilateral crisis management protocol should be concluded to provide in-depth operational guidance, clearly defined institutional mandates, and information-sharing mechanisms.

**Table 1. Portugal: Recommendations on the Financial Safety Net**

| Recommendations |                                                                                                                                                                        | Timeline <sup>1</sup> | Responsibility |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------|
| 1               | Adopt an administrative bank insolvency regime for financial entities with a negative PIA. (¶8-10)                                                                     | MT                    | MoF, BdP       |
| 2               | Enhance the information-sharing protocol between the DSP and the DRE to facilitate earlier transmission of information on distressed institutions during crises. (¶52) | ST                    | BdP            |
| 3               | Adopt a strategy for retaining high-skilled staff and securing stable staff levels at the DRE. (¶15)                                                                   | ST                    | BdP            |
| 4               | Undertake legal changes to enable coordinated resolution of cooperative groups. (¶40)                                                                                  | ST                    | MoF            |
| 5               | Adopt an explicit methodology for including cost considerations in determining a resolution strategy. (¶51)                                                            | MT                    | BdP            |
| 6               | Expand the National Resolution Handbook and the Operational Steps Documents to include all resolution tools. (¶53)                                                     | ST                    | BdP            |
| 7               | Refine the mechanisms for auctioning packages of assets and deposits to support resolution and liquidation processes. (¶63)                                            | MT                    | BdP            |
| 8               | Expand the mandate of the FdR to enable it to function as an ex-post resolution fund. (¶72)                                                                            | MT                    | MoF, BdP       |
| 9               | Remove requirements on minimum FGD and FdR investments in own sovereign debt to limit portfolio concentration. (¶71)                                                   | ST                    | MoF            |
| 10              | Remove the requirement for government approvals of FGD and FdR disbursements, including FGD payouts. (¶71 and ¶87)                                                     | ST                    | MoF            |
| 11              | Expand the full-time dedicated staff to bolster FGD's capacity. (¶86)                                                                                                  | MT                    | BdP            |
| 12              | Introduce legal changes to exclude banking representative from the FGD Board. (¶86)                                                                                    | ST                    | MoF, BdP       |
| 13              | Introduce a public backstop liquidity facility for the FGD. (¶88)                                                                                                      | ST                    | MoF, BdP       |
| 14              | FGD should participate in the discussions on resolution funding with the objective of ensuring that legal safeguards of the use of its funds are met. (¶90)            | MT                    | BdP            |
| 15              | Recalibrate the FGD target level to ensure that it is sufficiently funded. (¶89)                                                                                       | MT                    | BdP            |
| 16              | Grant legal protection to existing and former FGD officials, staff, and agents. (¶91)                                                                                  | ST                    | MoF, BdP       |
| 17              | Ensure that the trilateral crisis management protocol that is under development covers robust operational modalities to support the agencies' effectiveness. (¶97)     | MT                    | MoF, BdP       |
| 18              | Adopt and implement a multi-year crisis simulation exercise plan. (¶103)                                                                                               | MT                    | MoF, BdP       |

<sup>1</sup> I: Immediate (less than one year); ST: short term (1-2 years); MT: medium term (3-5 years).

## INTRODUCTION

**1. This report focuses on the key elements of Portugal’s safety net framework and arrangements for crisis preparedness and crisis management.** It is based on a review underlying the legal, policy, and operational framework, including relevant documents, authorities’ questionnaires and discussions with the team. Given the predominance of banks in the financial sector, the FSAP’s work in this context is focused on banks and banking groups and, apart from the financial system-wide institutional arrangements, it does not address non-bank financial institutions and financial market infrastructures.

**2. The Portuguese financial system is composed of 66 institutions.** Nine of these institutions are considered significant institutions (SIs) and are under the oversight of the SRB; 22 are considered less significant institutions (LSIs) and are overseen by BdP; and 35 are branches of EU credit institutions. While most institutions in Portugal are LSIs and EU branches, their market share is only 14.4 percent and 7.9 percent of total assets, respectively (as of 31 December 2025).

## INSTITUTIONAL AND RESOLUTION REGIME

### A. Findings

**3. The mandates and responsibilities of the institutions in the financial safety net in Portugal are established within the Banking Union framework.** The European authorities that have jurisdiction in the Portuguese banking system include the European Central Bank (ECB), the European Commission (EC), the Single Resolution Board (SRB), and the European Stability Mechanism (ESM). The EU’s single rulebook on crisis management and domestic legislation forms the framework under which the Portuguese authorities and firms operate. The institutions in Portugal include Banco de Portugal (BdP), the Deposit Guarantee Fund (FGD), and the Ministry of Finance (MoF).

**4. BdP and the SRB share responsibilities for bank resolution.** For SIs and cross-border LSIs, SRB takes the lead, with BdP as national resolution authority implementing operational tasks. BdP has primary responsibility for resolving LSIs with no cross-border activities, although the SRB can exercise direct powers if necessary. Portugal’s bank resolution regime is largely shaped by the EU’s BRRD. BdP’s key responsibilities include (i) prudential supervision of LSIs; (ii) macroprudential supervision; (iii) preparation of the resolution plans for non-cross border LSIs and exercising resolution powers under the BRRD for institutions under its remit; and (iv) financial stability and crisis management. BdP also provides administrative and technical services to the National Resolution Fund (FdR) and the FGD. The BRRD was transposed into Portuguese law in 2015. Amendments introduced in BRRD in 2019 were transposed in 2022, and final amendments emerging from recent revisions of the BRRD were incorporated in Portuguese law in 2025.

**5. The Ministry of Finance (MoF) is responsible for implementing the government's economic and financial policy.** These policies include establishing the legislative framework for the financial system and for use of public funds during financial crises. It has oversight of the money, financial, and foreign exchange markets. BdP must notify the MoF when an institution is deemed FOLTF and there is no reasonable prospect that the failure can be prevented through private sector measures, corrective measures, or use of write-down and conversion powers. The MoF may provide financial support to the FGD and the FdR. The MoF participates in the crisis management framework and approves any use of public funds in resolution, if needed. The MoF is also one of the key institutions that coordinates with EU institutions on state aid decisions.

**6. Once an SI is determined to be FOLTF, the SRB is responsible for assessing whether using its resolution powers would be in the public interest via a Public Interest Assessment (PIA).** At present, the SRB can trigger resolution when it concludes that: (i) resolution is necessary for achieving its resolution objectives; and (ii) winding up of the institution under corporate insolvency proceedings would undermine the resolution objectives. The SRB and BdP regularly conduct a PIA to assess the systemic impact of every institution's failure and determine whether the institution should be subject to detailed planning for the use of resolution tools. Currently, three of the 22 non-cross border LSIs that are under the remit of BdP are deemed to have systemic significance and would be resolved by BdP using available resolution tools. The LSIs which, under their resolution plan, do not have a positive PIA, are expected to follow the application of normal insolvency proceedings.

**7. BdP participates in the resolution planning and preparation of SIs through its participation in joint teams with the SRB—IRTs (internal resolution teams).** IRTs are established by the SRB and include staff from both the SRB and BdP. These teams act as the main platform for day-to-day cooperation, enabling coordinated efforts and information sharing. Within the IRTs, BdP contributes at various stages of the resolution planning cycle, including assessing recovery plans, drafting resolution plans, and assessing institutions' resolvability. It also participates in determining and monitoring the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). BdP implements all decisions taken by the SRB that need to be addressed by individual institutions (resolution planning and resolution decisions).

## B. Recommendations

**8. An administrative insolvency regime for banks with a negative PIA should be adopted; relying on the corporate insolvency regime to liquidate failed banks has numerous limitations.** The court-based insolvency process is slow and is likely to lead to asset value erosion. BdP should therefore be legally empowered to implement an administrative bank insolvency regime for all banks. Under this framework, BdP would be responsible for liquidating all failed banks with a negative PIA. The court-based insolvency regime would be reserved for the liquidation of non-bank financial entities, permitting to respond promptly to financial distress and preserve asset value. Such a regime could also be used for addressing failures in the cooperative sector.

**9. Under such administrative insolvency regime, BdP should be able to use sale-of-business powers also for non-systemic LSIs, rather than relying on the court-based corporate insolvency regime.** Under this new regime, BdP would be able to ensure an orderly wind-down of a failed institution, protect critical functions, and preserve asset value. The DRE should have capacity to determine the costs associated with use of each tool and factor these cost considerations into selecting the most appropriate resolution strategy.

**10.** BdP should establish a group to draft a White Paper, laying out the proposal to introduce an administrative regime for financial institutions, and use the White Paper to garner inter-institutional support from key stakeholders, including the MoF.

## ORGANIZATION OF RESOLUTION FUNCTIONS

### A. Findings

**11. Within BdP, the DRE is responsible for resolution activities.** Important progress has been made over the last years in establishing a stand-alone, autonomous department with formalized procedures for implementing resolution measures. The DRE has the same autonomy and status as all other departments within BdP and manages its own dedicated staff. The DRE reports directly to the Board and to the Vice-Governor, who represents BdP at the SRB. Its responsibilities include: (i) drafting resolution plans; (ii) conducting resolvability assessments; and (iii) coordinating with the SRB on SIs.

**12. DRE is organized into two divisions and one unit, employing a total of 33 employees.** One division focuses on resolution planning, while the other handles legal support, resolution policies, and the operationalization of resolution tools. An operational unit provides support for the FdR and FGD. Following the designation of BdP as the resolution authority for CCPs in January 2025, efforts are underway to recruit and train staff for these new responsibilities. Staff turnover poses a significant challenge due to high market demand for the DRE's highly specialized skills, putting considerable pressure on BdP's ability to retain its personnel.

**13. Although formally separate, DRE and DSP maintain close cooperation.** During normal periods, they continually exchange both quantitative and qualitative information throughout the annual planning cycle. The DSP provides quantitative information such as prudential and financial data and information needed, for example, to calibrate the MREL, as well as qualitative data including recovery plans, capital conservation plans, liquidity assessments, restructuring plans, and inspection reports. In return, the DRE shares resolution plans, MREL monitoring updates, and resolvability assessments. Coordination between the two departments intensifies during a financial crisis. For example, the DSP informs the DRE when it implements corrective measures in a crisis, determines that conditions for corrective intervention are met, or appoints a temporary administrator.

**14. The BdP Board retains authority over resolution actions.** When an institution faces severe distress, the DSP and DRE jointly inform the Board. The Board may then decide to: (i) enhance supervisory measures, including early intervention; (ii) promote greater data and information sharing; and (iii) activate the resolution arrangements, such as hiring independent valuers to determine if the institution is FOLTF and preparing resolution valuations.

## B. Recommendations

**15. Developing a strategy to retain highly skilled staff and maintain stable staff levels in the DRE should be a top priority for BdP.** The DRE's work is highly specialized and technical, with activities such as operating FdR and FGD requiring significant training and experience. Expanding the DRE's responsibilities—including oversight of the administrative liquidation of smaller institutions—will further increase workload pressures.

# EMERGENCY LIQUIDITY ASSISTANCE

## A. Findings

**16. BdP provides temporary emergency liquidity assistance (ELA) to banks to prevent disorderly failures of solvent institutions.** While BdP is responsible for granting ELA, it must report each operation to the ECB. The ECB has authority to object if the assistance conflicts with the objectives and duties of the European System of Central Banks (ESCB). For smaller amounts, BdP only notifies the ECB; for large or prolonged assistance, ECB approval is required.

**17. The ELA is temporary short-term funding for illiquid but solvent institutions.** Such institutions can borrow up to €500 million, with BdP required to inform the ECB only ex post. For amounts between €500 million and €2 billion, the ECB must be informed promptly before the assistance is granted. Requests above €2 billion require approval by the ECB Governing Council. ELA is typically provided overnight and can be renewed. Extensions beyond 12 months require ECB non-objection; a funding plan updated on a quarterly basis; justification by the BdP Governor to the ECB President; and possible additional conditions from the ECB Governing Council. Provision of ELA requires coordination among the DSP (on solvency and unencumbered assets), the markets department (on monitoring liquidity needs, assessing collateral, preparing contract, and provision of liquidity), and the compliance and risk management department (on proposal preparation, design of risk control measures and development of asset valuation methodologies).

**18. Institutions must meet several conditions to be eligible for ELA.** In particular, an institution must: (i) be solvent, with regulatory capital ratios meeting minimum regulatory requirements—including a Common Equity Tier 1 capital ratio of 4.5 percent, Tier 1 capital ratio of 6 percent, total capital ratio of 8 percent, and leverage ratio of 3 percent; (ii) post adequate collateral, which may extend beyond that accepted in normal Eurosystem operations—such as marketable, non-marketable, and real estate assets that can be valued, with adequate quality, and subject to appropriate haircuts as determined by BdP. Haircuts may reach up to 85 percent, if necessary,

depending on the risk profile of the assets; and (iii) have a viable plan—based on a forward-looking solvency assessment—that shows how it intends to restore liquidity within the required timeframe and repay the ELA. For the duration of the operation, the markets department, together with the compliance and risk management department, performs daily activities, including risk control, direct contact with the bank, asset valuation, asset mobilization and demobilization, and communication with the ECB.

**19. A declaration of FOLTF does not automatically preclude ELA provision.** Granting ELA to an institution in resolution or declared FOLTF is assessed on a case-by-case basis. BdP may provide liquidity to an institution that breaches regulatory requirements, if it determines that there is a credible prospect of restoring compliance within 24 weeks after the reference quarter in which the bank's capital shortfall was identified (i.e., meet a forward-looking solvency requirement). If an institution in resolution is provided liquidity assistance, it is subject to intensified supervisory oversight. In addition to the aforementioned daily activities performed by the market and risk and compliance departments, the DSP and DRE also conduct ex post reviews, including regular 24-week tests on the bank's solvency, recapitalization, and funding plans.

## B. Recommendations

**20. Monitoring of institutions receiving ELA, particularly those declared FOLTF, should be intensified.** Although BdP already monitors such entities, supervision of FOLTF institutions that receive ELA should be further strengthened. These institutions should promptly prepare a formal monthly quantitative recovery plan with specific projections and specific actions to be undertaken. Failure to meet targets should prompt a formal revision of the agreement between the institution and BdP. Non-compliance should lead the DSP to exercise its authority to impose binding restructuring measures.

## EARLY INTERVENTION

**21. BdP conducts continuous supervision of LSIs to detect early signs of financial distress.** When DSP identifies financial weaknesses, it may require a restructuring plan involving: (i) limits on lending, deposit growth, or other business activities; (ii) implementation of recovery plan options; and/or (iii) management dismissal. During the normal course of action, DSP shares qualitative and quantitative information with the DRE. Upon identifying an early deterioration in an institution's risk profile, the DSP notifies DRE and shares detailed information about the institution. In a crisis, DSP informs DRE of corrective measures and the appointment of a temporary administrator.

**22. As financial distress in a bank emerges, BdP initiates a series of early intervention measures.** The objective is to stabilize the distressed bank and prevent resolution or insolvency. The corrective actions BdP may impose include additional capital buffers, liquidity requirements, and sector- or borrower-specific exposure limits. BdP may also conduct on-site inspections, issue recommendations or injunctions, and impose fines or sanctions. BdP's early intervention powers also

include requirements on (i) implementing recovery plans, including capital raising, asset sales, and cost-cutting; (ii) altering the bank's business strategy or operations; and (iii) changing senior management and reducing risk exposures.

**23. If the bank's condition continues to deteriorate, BdP may escalate its intervention.** It may enforce legal or operational restructuring and appoint a temporary administrator or special manager to oversee or replace management. Restrictions on dividends, capital distributions, and specific business activities may also be imposed. Persisting deterioration could result in BdP declaring the institution FOLTF.

## RECOVERY AND RESOLUTION PLANNING

### A. Recovery Planning

**24. Recovery plan elements for LSIs and SIs have been largely harmonized since 2012.** These plans are supervisory tools requiring banks to prepare in advance for restoring financial viability without relying on extraordinary public support. Institutions must submit recovery plans annually, except where BdP permits longer cycles for smaller, less complex banks. LSIs must submit plans to BdP, while SIs submit to the ECB. Quantitative requirements for SIs and LSIs have been standardized over several assessment cycles. However, BdP may simplify recovery plan obligations for certain institutions by allowing shorter plans and fewer indicators and scenarios. Eligibility for simplification is determined through quantitative criteria—such as size, interconnectedness, scope, and complexity—and qualitative criteria, including performance of critical functions or level of eligible deposits not fully covered by the FGD.

**25. Cooperatives outside the integrated system (SICAM) are subject to simplified recovery plan requirements.** These are adapted to their simpler business models and local scope of operations. For other cooperatives, the central entity often coordinates a comprehensive group recovery plan, covering member institutions that are not subject to simplified obligations. Caixa Central de Crédito Agrícola Mútuo acts as the central body for the Crédito Agrícola Group, coordinating recovery planning for affiliated cooperatives.

**26. All Portuguese LSI groups or individual LSIs if not belonging to a group have to submit a recovery plan to BdP.** The recovery plans detail the institutions' ability to restore their financial position in a crisis and include all relevant up-to-date information. The LSIs that report a recovery plan under full obligations represent about 80 percent of Portuguese LSIs' total assets.

**27. Recovery plans of cross-border groups are reviewed within supervisors colleges.** The assessment is led by the consolidated supervisor, who involves BdP when the group has significant operations in Portugal. There are presently no LSI cross-border groups under BdP's supervision.

## B. Resolution Planning

**28. Resolution planning is structured under the SRB's governing regulation.** The SRB has direct responsibility for planning and managing the resolution of SIs and LSIs that operate in multiple member states. Work on each SI is conducted by an Internal Resolution Team (IRT), led by an SRB staff member and including BdP staff. IRTs are responsible for drawing up resolution plans for SIs and assessing whether they are resolvable. The SRB has published guidance on critical topics that need to be considered, such as operational continuity and liquidity in resolution.

**29. BdP participates in resolution planning for SIs and LSI cross-border groups and is responsible for resolution planning of non-cross-border LSIs.** Currently, three LSIs are considered potentially systemic in Portugal and could be subject to BdP-led resolution using available tools. Failures of other LSIs are not considered systemic and are handled through corporate (court-based) insolvency proceedings. Resolution plans are also developed for non-systemic LSIs, though resolvability assessments are limited in these cases.

**30. Resolution plans use standard templates and guidelines, typically developed by the SRB.** Banks actively engage in resolution planning by providing data, performing dry runs, and implementing changes to enhance resolvability. Plans are assessed for credibility, feasibility, and their impact on financial stability. The SRB is consulted on resolution plans for LSIs by BdP to ensure consistency with EU practices.

**31. A key objective of resolution planning is to identify appropriate resolution strategies for each institution.** Resolution authorities select a preferred strategy, which may include: (i) sale of business (transferring good assets to another bank); (ii) establishment of a bridge bank (moving critical operations to a temporary bank); (iii) asset separation (selling nonperforming assets to an asset management company); and (iv) bail-in (imposing losses on shareholders and creditors). As part of this process, MREL requirements are determined—set by the SRB for SIs and by BdP for LSIs.

**32. The requirements for resolution planning reflect proportionality considerations.** The simplified obligations regime allows BdP to partially exempt institutions from submitting detailed information and to draw up simpler resolution plans. BdP has developed its own simplified obligation methodology, assessing institutions based on size, interconnectedness, complexity, business model risk, and volume of deposits. Institutions meeting or exceeding certain thresholds in these areas are ineligible for simplified obligations. BdP may also consider qualitative factors and override the model-based classification.

**33. BdP is gradually shifting its focus from drafting to operationalizing resolution plans and improving its crisis preparedness.** The DRE has made significant progress in developing a National Resolution Handbook outlining procedures for implementing resolution tools. So far, the Handbook includes the procedural outline and descriptions of the bail-in and sale of business tools, with the remaining tools expected by 2026. It details crisis response steps and procedures, including DSP-DRE interactions such as regular and special monitoring in crisis stages, activation of the early

warning system, assessment of resolution conditions (including FOLTF declaration and assessment of exhaustion of private measures and supervision actions), and oversight of the Business Reorganization Plan's review, approval, and monitoring.

**34. BdP has advanced its work on Operational Steps Documents (OSDs), and banks have been asked to prepare playbooks.** The OSDs provide comprehensive actions tables, with responsible parties and timelines. To date, baseline OSDs covering each resolution tool and OSDs, have been produced for two cross-border institutions. These institution-specific OSDs address the preparation and implementation of both the preferred and alternative resolution strategies and are developed jointly with the SRB. The playbooks outline how banks would implement resolution tools. Most institutions with a positive PIA have prepared playbooks on implementing bail-in, which are now being examined to identify limitations to resolvability. Playbooks on the remaining resolution tools are under preparation. Once these are completed, BdP will work with the institutions to identify structural and operational changes needed to enhance institutions' overall resolvability.

**35. Cooperative banks are fully integrated into the resolution planning process and subject to the same requirements as other institutions.** In Portugal, one cooperative group currently has a positive PIA and undergoes full resolution planning, making it ineligible for simplified obligations. Cooperative group structures are often federated or mutual-based, and, so resolution planning typically focuses on the consolidated position of the entire group, coordinated by the central institution (e.g., Caixa Central de Crédito Agrícola Mútuo).

## C. Resolvability Assessments

**36. The SRB has reported that SIs have made good progress in achieving a high level of resolvability.** The SRB publishes an annual resolvability report including information on its assessment of banks' progress towards meeting the SRB's expectations and its priorities for future work, even though there is little disclosure on bank-specific issues, due to confidentiality restrictions.

**37. Resolvability assessments are mandatory for all institutions with a positive PIA and resolution strategies.** These assessments are conducted annually as part of resolvability exercises conducted within the context of each institution's resolution planning cycle. All such institutions have completed initial resolvability assessments and are currently enhancing them. The SIs have finalized playbooks for implementing bail-in and are developing playbooks for other resolution tools. The LSIs have completed initial assessments, but their progress lags behind that of SIs due to a later start. Under the current resolution framework, institutions with a negative PIA are subject to liquidation, and resolvability assessments are not performed.

**38. The institutions were provided with a framework for participating in the resolvability assessment.** They are expected to submit specific documents covering seven key resolvability dimensions: (i) governance; (ii) loss absorption and recapitalization capacity; (iii) liquidity and funding in resolution; (iv) operational continuity in resolution and access to FMI services; (v) information systems and data requirements; (vi) communication; and (vii) separability and restructuring, including bail-in playbooks. BdP reviews these submissions and implements a

monitoring process to track the bank's progress in enhancing resolvability. In 2024, BdP introduced a heatmap tool to score resolvability progress across these seven dimensions for LSIs, in line with the SRB's methodology.

**39. Based on the documents submitted, BdP assesses the level of compliance and performs an overall resolvability assessment of each institution.** Institutions are classified into one of four resolvability risk categories:

- **Low:** Missing elements do not hinder successful resolution implementation but may reduce plan quality.
- **Medium:** Missing elements moderately restrict resolution implementation and may lower plan quality.
- **High:** Missing elements severely impair successful implementation of the resolution plan.
- **N/A:** The principle is not applicable to the institution.

## D. Recommendations

**40. Legal changes are necessary to enable the resolvability of cooperatives.** Cooperatives pose specific resolution challenges. In Portugal, the cooperative sector comprises an integrated system with a central institution and numerous smaller affiliated cooperatives. Legal changes are needed to empower BdP to address cooperatives' resolvability, including through measures such as forced mergers and loss-sharing arrangements with the central body.

**41. The Resolution Handbook should be finalized and subsequently tested, as planned by the DRE.** The testing should involve both the DRE and other departments. The Handbook should be expanded to include all available resolution tools. To support the selection of appropriate resolution strategies, BdP should develop the capacity and methodology needed to evaluate the costs of each tool. Incorporating cost estimates would complement the use of PIA in determining resolution strategies.

# RESOLUTION PROCESS

## A. Findings

**42. The resolution process is well-established.** As an LSI's financial condition deteriorates, the DSP intensifies its monitoring of the institution. DSP shares basic information with the DRE, which then notifies the SRB of the signs of distress. For SIs, cross-border LSIs, or any entity whose resolution strategy involves the SRF, the SRB initiates the resolution process. For LSIs without cross-border activities, the BdP Board may activate preparatory work for resolution.

**43. BdP's Board of Directors initiates the formal resolution process.** Both the DSP and DRE can trigger resolution, which may occur when: (i) the bank is declared FOLTF; (ii) private or supervisory actions are unlikely to restore viability; and (iii) resolution, rather than liquidation, is in the public interest (the PIA is positive). The FOLTF designation is made by the Board based on off-site analyses, Early Warning Indicators, or on-site inspections. If the Board determines that resolution is not in the public interest, the failing institution is liquidated through corporate (court-based) insolvency proceedings.

**44. As the institution's financial condition deteriorates but before a formal FOLTF declaration, the Board establishes a resolution team.** Team members are appointed and enhanced monitoring is initiated. The SRB and other relevant authorities are notified. External advisors may be engaged, and a virtual data room is set up. Concurrently, information is updated and the resolution plan revised as necessary. Once resolution is triggered, decisions and implementation can take place within days.

**45. The DRE determines whether it is in the public interest to resolve an LSI without cross-border activities.** This determination considers both the institution's current condition and its potential impact on the financial system. If the PIA is positive, the DRE begins preparations to resolve the institution using available resolution tools. If the PIA is negative and insolvency proceedings pose no threat to financial stability, the institution is liquidated through the corporate (court-based) insolvency regime.

**46. For institutions slated for resolution, the DRE prepares the resolution strategy.** Based on the preferred strategy, BdP may appoint legal and financial advisors and initiate valuation of the institution's assets. A draft Resolution Decision is then prepared outlining the PIA, the resolution strategy, and an updated balance sheet of the institution. BdP also coordinates with other authorities, such as the CMVM in cases involving bail-in. If the resolution strategy requires SRF funding, the SRB is informed and assumes responsibility. The Resolution Decision, including proposed resolution tools, is finalized and approved by the Board. Meanwhile, the DSP intensifies supervisory monitoring of the institution.

**47. BdP has identified preferred resolution strategies for all institutions under its remit with positive PIA.** These strategies include the use of bail-in and sale of business tools. For other LSIs, resolution plans provide for liquidation under corporate insolvency proceedings, as many do not meet the PIA threshold to justify use of resolution tools. The selection of resolution strategy is based on the PIA analysis (resolution versus liquidation) and the institution's financial characteristics. The law prohibits BdP from selecting resolution over liquidation based only on a least cost analysis between the two strategies.

**48. On the resolution weekend, typically on a Friday after market close, the BdP Board formally declares the institution FOLTF.** The resolution strategy is approved by the BdP Board for LSIs without cross-border activities and by the SRB for SIs and LSIs with cross-border activities. A formal Resolution Decision is adopted and communicated to the institution. Losses are imposed on shareholders and creditors, as appropriate, and the failure is formally communicated to key

stakeholders, including the DGS, CMVM, and resolution authorities in other jurisdictions (which does not preclude communication and coordination in early stages). If it has not been suspended before, trading is suspended and a formal communication strategy is agreed upon and implemented.

**49. Once BdP takes control of the institution, it updates its financial data and initiates the resolution decision.** The chosen strategy may involve bail-in, bridge bank, sale of business, or use of an asset management vehicle. If additional time is needed to assess the public interest criteria or gather necessary data to decide on resolution strategy, BdP may impose a temporary moratorium. Recognizing that such a moratorium can weaken the institution's financial condition, it is limited to a maximum duration of 48 hours.

**50. When an institution is placed in resolution, BdP may appoint a special administrator under the control of the resolution authority to manage the institution.** The special managers implement resolution actions in line with BdP's decision, particularly regarding ownership restructuring such as capital increases or sale of shares or other instruments. The appointment of a special manager is particularly relevant for implementing the bail-in tool, given the need to manage the failed institution and coordinate with capital market regulators. However, special managers may also be necessary for implementing bridge bank and asset management resolutions.

## B. Recommendations

**51. The criteria for choosing resolution over liquidation could be strengthened by explicitly considering the costs of each strategy.** Currently, the decision is based on the PIA and the institution's characteristics. Resolution planning typically uses bail-in for large institutions and sale of business for smaller ones. However, cost efficiency is not a legal criterion in PIAs. Despite this, selecting the appropriate strategy should account for the implementation costs of each tool. Incorporating a least cost principle would be especially beneficial when resolving LSIs under the recommended administrative insolvency regime.

**52. The information-sharing protocol between the DSP and the DRE should be extended to facilitate earlier transmission of information on distressed institutions during crisis.** Currently, the exchanged information focuses on the institution's financial and structural condition as it approaches a FOLTF declaration. Timely communication is crucial, since several resolution tools require preparation time and asset valuations must be updated for DRE to determine an effective resolution strategy. The DSP should therefore alert DRE whenever supervisory actions impact bank capital, solvency, or activities. Although not all supervisory actions lead to a FOLTF declaration, timely preparation is vital for effective resolution when failure occurs.

**53. The National Resolution Handbook should be expanded to cover all resolution tools.** The sections on the implementation of the bridge bank and asset separation tools are scheduled for completion by early 2026. Finalizing the implementation guidelines for the remaining resolution tools should be prioritized.

## RESOLUTION TOOLS

### 54. The Portuguese resolution framework has four main resolution tools:

- **Bail-in:** Write-down or conversion of liabilities into regulatory capital instruments.
- **Sale of business:** Transfer, in whole or in part, to another institution or to a third party.
- **Bridge institution:** Established by the resolution authority and operated under its control.
- **Asset management vehicle:** Partial transfer of assets and liabilities to a stand-alone vehicle.

### A. Bail-in Tool

**55. The BRRD and Portuguese legislation grant BdP bail-in powers.** These powers are used to restore a bank's capital or fund a bridge institution by imposing losses on shareholders and unsecured creditors through the write-down of equity or debt instruments and conversion of debt into equity. Consent from shareholders or bondholders is not required. A key legal safeguard ensures that creditors are not worse off than in liquidation, known as the "No Creditor Worse Off" (NCWO) principle.

**56. Bail-in can be applied both in open and closed bank resolutions; in the latter, the failing institution exits the market.** In an open-bank bail-in, the original shareholders absorb losses, new shareholders emerge from the process, and new management is appointed. The objective is to restore and sustain the institution post-resolution by internalizing losses. Open-bank bail-in is accompanied by measures addressing the institution's weaknesses to restore its viability, with specific post-resolution requirements for its long-term viability. In a closed-bank resolution, bail-in can be combined with other resolution tools, such as sale of business, bridge bank, or asset management vehicle (i.e., the asset separation tool). To apply bail-in, institutions must have sufficient loss absorption capacity—the purpose of MREL requirements. By end-2024, all Portuguese institutions (both SIs and LSIs) met the required MREL levels.<sup>2</sup> Efforts continue to ensure that the securities subject to bail-in are appropriate and do not pose systemic risks.

**57. BdP has the authority to require an institution under resolution to issue Interim Resolution Instruments (IRIS) during a bail-in.** These temporary instruments are allocated to the institution's converted creditors to provide a marketable security based on preliminary valuations (Valuation 1). Once the final valuation (Valuation 2) is available, the definitive economic rights' valuation can be determined for the converted creditor and IRIS are exchanged for shares, where applicable.

<sup>2</sup> There is one institution that has not met its full MREL requirement but is expected to meet that target in the future. The institution is meeting all agreed transition levels.

## B. Sale of Business Tool

**58. BdP has the authority to sell or transfer all or part of a failed institution's business, including assets and liabilities, to a private-sector buyer.** The objective of this sale of business tool is to preserve critical banking services and prevent disruption in the financial market. Sales are typically made to private entities, often other banks or financial institutions. Assets and liabilities not transferred remain with the resolved institution and are liquidated under the corporate insolvency law. Approval from shareholders or the creditors is not required for such sales. BdP has practical experience using this tool; for example, during BANIF's resolution, the majority of its assets, liabilities, off-balance-sheet items, and assets under management were sold at market value to Banco Santander Totta, S.A. Shareholders and subordinated debt holders absorbed losses, while the government and the FdR provided funding for the transaction.

**59. BdP used the sale of business tool in the 2015 resolution of BANIF.** Although BANIF was classified as an LSI, it was systemically important within the domestic context. At that time, BANIF was the seventh-largest bank in Portugal and faced prolonged capital and governance challenges, with deteriorating financial position that heightened the risk of default. In this resolution, and considering the prevailing circumstances, BdP opted for a single purchaser, combined with the asset separation tool, rather than offering packages of performing assets and deposits to qualified banks. BANIF retained its banking license temporarily, but was restricted from granting credit, making investments, or accepting deposits. Additionally, BANIF was exempted from prudential regulatory requirements following the resolution.

## C. Bridge Bank Tool

**60. A bridge bank may be established if a failed institution is expected to have a systemic impact and no private sector solution is available.** BdP would create a new, empty institution and transfer the failed bank's assets and liabilities to it. Assets and liabilities not transferred remain with the residual entity, which is liquidated under corporate insolvency law. The residual institution retains its license temporarily under restrictive supervisory measures until it is liquidated. The bridge bank operates on commercial terms, managed by BdP-appointed executives, supervised by the supervisory authority, and must comply with all prudential requirements.

**61. BdP used the bridge bank tool to resolve BES in 2014.** Although the resolution occurred before the BRRD was formally incorporated into Portuguese laws, BdP followed similar principles and procedures. Most loans, including off-balance sheet assets, and most bank liabilities, including all deposits, except those of the former shareholders and management, were transferred to the bridge institution, Novo Banco. Assets and liabilities that remained in the residual entity included exposures to the non-financial group entities in foreign jurisdictions, subordinated debt and senior debt held by institutional investors. The FdR provided funding to capitalize the bridge bank. Novo Banco was later sold to private investors. In December 2015, BdP exercised its "re-transfer power" to

ensure that the failed bank's creditors absorbed further losses by transferring specific senior bonds—which had initially been placed with institutional investors and moved to Novo Banco—back to the residual BES.

## D. Asset Management Vehicle

**62. BdP has the authority to transfer problem assets to an asset management vehicle.** This tool helps clean up the balance sheet of the surviving institution by transferring assets from the failing institution to the asset management vehicle at market value. It can be used alongside other resolution tools. In BANIF's resolution, BdP combined the sale of business and asset separation tools. An asset management vehicle, Oitante, was created with the FdR as its sole shareholder to hold assets the buyer declined to acquire. BdP then sold most of BANIF's rights (including bonds issued by the vehicle as a compensation for assets transferred to Oitante) and obligations to Banco Santander Totta.

## E. Recommendations

**63. The sale of business tool should be further refined to provide BdP with greater flexibility, including in the context of the proposed administrative insolvency regime.** BdP has successfully used this tool to resolve a large institution. Refinements could allow BdP to package performing assets and deposits into smaller packages and auction them to sound institutions. This approach would enable higher asset recoveries than liquidation and permit both assets and deposits to remain in the market. Non-performing assets and off-balance sheet assets would remain in the shell to be liquidated. This approach is particularly valuable for preserving value when closing non-systemic LSIs and doing so quickly and effectively under an administrative liquidation regime.

**64. The bridge bank tool should be further refined to ensure the bridge bank's medium-term viability.** The scope of asset transfers to a bridge bank should be conservative, including only high-quality, accurately valued assets, typically excluding nonperforming loans (NPLs). As the bridge bank may remain active in the financial market for an extended period, potential investors will scrutinize its future profitability. Any doubts about the financial strength of the newly established bridge bank could trigger market pressures and potential bank runs.

# RESOLUTION FUNDING

## A. Findings

**65. There are four sources of funding for resolution measures.** These include: (i) remaining resources in the failed institutions; (ii) the SRF; (iii) funds from the FGD; and (iv) public resources:

- **Resources in failed institutions.** All institutions in Portugal with a positive PIA are required to meet MREL requirements at all times as set by the resolution authority. MREL ensures that

institutions maintain adequate loss-absorbing capacity and can be recapitalized using only shareholder and creditor resources. All Portuguese institutions comply with their MREL obligations.<sup>3</sup>

- **Resources from the SRF.** SRF funds the resolution of SIs and systemically important LSIs. Access to SRF resources is permitted only after shareholders and eligible creditors have absorbed losses equal to least 8 percent of total liabilities and own funds. The SRF can be used to resolve banks and its subsidiaries, and to fund bridge banks, or asset management vehicles. Managed under the SRB, the SRF is financed by annual contributions from banks across the Banking Union. Its euro-area target is at least 1 percent of covered deposits—over €77 billion as of end-2024. The SRF supports capital injections, guarantees, bridge bank funding, and asset management vehicles.
- **Resources from the FGD.** The FGD may contribute to funding bank resolution measures but only up to the losses it would have incurred under normal insolvency procedures. The contribution is capped at the lower of: (i) the amount of losses to be imposed to covered deposits under bail-in or other resolution tools; and (ii) 50 percent of the FGD's target level. The FGD is not involved in resolution decision-making and participates only after being instructed by BdP to provide financial assistance.

**66. The FdR currently has a limited role in funding resolutions.** It was used in past cases, including the 2014 recapitalization of Novo Banco—a bridge bank established after the resolution of Banco Espírito Santo (BES)—and the resolution of BANIF. Since the establishment of the SRF, the FdR's functions have been restricted to managing debt repayment from past resolutions (€7.6 billion in liabilities against €1.1 billion in assets as of end-2024); funding of investment firm resolutions; and collecting levies for the SRF. All FdR expenditures require approval from the MoF.<sup>4</sup> The FdR does not have a target level and is funded by the industry. At the time of the BES (Novo Banco) resolution, FdR's limited capacity necessitated temporary advanced funding (loans) from the MoF.

**67. The Boards of the FdR and BdP determine the investment policy of the FdR.** FdR's objective is to preserve the value of its portfolio while ensuring adequate liquidity. Historically, the FdR's portfolio was diversified, consisting of a high share of European sovereign bonds. As of December 2024, Portuguese sovereign debt represented approximately 12 percent of the fund's

<sup>3</sup> One small LSI is in the final stages of complying with the MREL requirements and complies with transitional requirements.

<sup>4</sup> FdR is financially separate from BdP and is managed by a three-member Board composed of a member from the BdP Board, a member appointed by the MoF and a member appointed jointly by BdP and MoF. The FdR is funded via annual contributions from member banks, including domestic banks and branches of foreign banks. BdP can request extraordinary contributions if needed and is authorized to borrow from the market. Finally, the Fund is financed by returns from investments and recoveries from resolved banks.

portfolio. Following recent policy decision, the share of Portuguese sovereign bonds (or debt management agency certificates) in total assets markedly increased to 63 percent by end-2025, with a target of 85 percent of the Fund's total investments.<sup>5</sup>

**68. Government stabilization tools may also be used during a financial crisis.** The European legal framework allows the use of public equity support and temporary public ownership tools when resolution measures alone are insufficient to prevent significant adverse effects from a systemic crisis. Such interventions are restricted to exceptional cases, where all other options—including bail-in and resolution financing arrangements—have already been exhausted to the fullest extent possible. These tools must comply with the minimum bail-in requirement of 8 percent of total liabilities and own funds.

## B. Recommendations

**69. Greater flexibility on using the SRF via a financial stability exemption for resolution funding is warranted.** BdP should collaborate with the SRB to provide more flexibility in the rules on access to the SRF, as recommended by the recent EU FSAP. Without such flexibility, the requirement to write down 8 percent of total liabilities and own funds before accessing the SRF, combined with the 5 percent cap on SRF funding, limits authorities' funding options in resolution. This exemption is particularly important in Portugal, where banks rely heavily on sight retail deposits for funding. It is also crucial in cases of slow deterioration, where capital levels decline significantly before resolution begins, reducing the institution's loss-absorbing capacity and making the 8 percent threshold difficult to achieve. Without SRF funding, Portuguese banks (and banks in the Banking Union in general) would depend on national measures and state aid as a last resort in more extreme scenarios, where losses exceed existing loss-absorbing capacity.

**70. The role of the FGD in resolution funding should be expanded.** While the FGD does not influence the strategic design of resolution mechanisms, it has a fiduciary duty to ensure its funds are used appropriately. The FGD must therefore be involved in discussions regarding the use of its funds. Specifically, it must ensure that fund usage: (i) includes safeguards against excessive use; and (ii) aligns with a least-cost resolution approach.

**71. The role of the government in the functioning of the FGD and the FdR should be curtailed.** Specifically:

- The investment policies of the FGD and the FdR should be determined by the funds themselves and by the resolution authority. Mandated minimum investments in Portuguese sovereign debt

<sup>5</sup> Both the FdR and the FGD Fund are subject to budgetary rules applicable to the public administration, even if they are industry-funded. Under those rules, the Ministry of Finance has instructed the Funds to invest their Funds in Portuguese debt to the maximum extent allowed by their investment policies. In the case of the FGD, the target is 36 percent of the portfolio if the investment is made in Portuguese sovereign bonds or 22.5 percent if the investment is made through Portuguese debt management agency certificates. In the case of the FdR, the target is indeed 85 percent invested in Portuguese sovereign debt.

increase concentration risk for both funds. The investment policy should be left to prioritize risk diversification and avoid excessive concentration in Portuguese debt.

- The requirement for government approval of individual FdR disbursements should be relaxed, and the need for parliamentary approval removed. Ensuring immediate access of FdR funds during resolution could play a role for effectively managing crises—a consideration that should be given critical attention to avoid unnecessary delays.

**72. FdR's mandate could be expanded for it to serve as an ex-post resolution fund.** Since the establishment of the SRF and the resolutions of BES and BANIF in 2014-15, the FdR's role has been limited. However, if securing adequate resolution funding during a systemic crisis proves insufficient, the FdR could be used as an ex-post fund to channel government resources for resolution as a last resort. The fund could be designed for use in exceptional circumstances only and include mechanisms requiring the banking industry to repay the government within a predetermined timeframe.

## DEPOSIT INSURANCE

### A. Findings

**73. Depositor protection is provided by the FGD.** Established in 1992, the FGD is governed by its own Board of Directors (the Management Committee), while its operations are carried out by BdP staff. All institutions authorized to accept deposits in Portugal must be members of the FGD, including cooperatives and branches of non-EU foreign banks. Branches of EU-based banks operating in Portugal do not participate, as they are covered by their home country's deposit guarantee scheme. The FGD guarantees deposits up to €100,000 per depositor per institution, managing financing from member banks, and participates in resolution funding when necessary.

**74. The management arrangements for the FGD should be strengthened.** FGD is overseen by a Management Committee comprising a representative from the BdP Board of Directors, a member appointed by the MoF, and a representative appointed by the Portuguese Banking Association. All deposit-taking institutions in Portugal are legally required to be members of the FGD, which is primarily funded through their annual contributions. The FGD currently has no permanent staff; its functions are carried out by BdP employees who handle deposit insurance alongside other responsibilities. BdP provides technical and administrative support, with various departments managing tasks such as the administrative secretariat, accounting, financial statements preparation, and legal support.

**75. The FGD pays out deposits when BdP declares deposits unavailable, typically following the withdrawal of the institution's banking license.** In such cases, the FGD aims to pay out depositors within a 7-working-day target. It requests individual depositor information within 2 working days, typically submitted in SCV format. The FGD then reviews the file format and verifies

database accuracy. Simultaneously, it determines the required payout amount and assesses available funding sources, including ex-ante funds, ex-post contributions, and alternative funding sources.

**76. In a bank failure, depositors can request reimbursement transfers to another bank via the FGD website.** Depositors log in, verify their deposit amounts, and provide the account details for the transfer. If a depositor does not have or cannot open another account, they may visit any BdP branch to receive reimbursement. After reimbursing depositors, the FGD becomes subrogated to the rights of the reimbursed depositors in the institution's winding-up proceedings up to the amount paid.

**77. The FGD may participate in funding resolution measures.** It can provide financing up to the amount by which covered deposits would have been written down or, when other resolution tools are used, up to the amount that covered deposits would have incurred as losses. In all cases, the FGD's expenditures supporting resolution measures cannot exceed the lesser of the losses it would have incurred if the institution had been liquidated under corporate insolvency proceedings or an amount equal to 50 percent of the FGD Fund's target level, whichever is lower.

**78. The FGD is not involved in the decision-making process for resolving a failing bank.** The FGD is informed by BdP once the criteria to apply a resolution measure are met and subsequently notified of the resolution authority's decision to act. After notification, the FGD transfers the required contribution without participating in the decision-making process.

**79. The FGD payout covers both individuals and legal entities.** Eligible deposits include savings accounts, checking accounts, term deposits, and other standard deposit products. The coverage limit is €100,000 per depositor per institution. As of end-2024, this coverage fully protects 97.7 percent of eligible depositors and 54 percent of the total value of deposits. The FGD covers deposits denominated in euros and foreign currencies, with the latter converted to euros at the prevailing exchange rate on the date deposits become unavailable. Temporary high balances (e.g., from property sales or insurance payouts) may be covered up to a higher limit for a limited period (typically 3–6 months). For joint accounts, the deposit amount is divided equally among account holders, with the coverage level applying individually to each.

**80. The FGD is funded by ex-ante levies on member institutions.** The minimum target level for the FGD Fund is 0.8 percent of covered deposits, with the current level at 0.95 percent (as of end-2024). This funding level allows the FGD to reimburse the covered deposits of any individual LSI currently with negative PIA in its resolution plan, or the combined reimbursement for smaller LSIs with negative PIA. Bank contributions are not a flat rate but are determined annually based on the covered deposit levels and the institution's risk profile, expressed through its Common Equity Tier 1 ratio. While the law permits payments via irrevocable payment commitments, BdP has suspended that practice.

**81. The investment policies of the FGD Fund focus on preserving portfolio value while maintaining sufficient liquidity.** Historically, investments were made in a diversified basket of EU

sovereign bonds. Recently, however, a policy decision was taken to increase the allocation of Portuguese sovereign bonds to 36 percent of the Fund's total investments or, alternatively, to allocate 22.5 percent to Portuguese debt management agency certificates. In addition, any disbursement from the Fund requires approval from the MoF and, for amounts exceeding a certain threshold, parliamentary approval. This approval process applies even if the FGD holds adequate liquidity.

**82. The FGD has backup liquidity facilities that are not yet fully operational.** Should the Fund be unable to meet payout obligations, extraordinary contributions may be levied on FGD members, up to 0.5 percent of their covered deposits. In exceptional cases, higher FGD contributions may be requested. Furthermore, the FGD may borrow from financial institutions or request loans from BdP and the Government. These additional financing sources are not immediately accessible. There are no standing credit facilities with commercial banks, and any funding arrangements with the MoF or BdP would have to be designed and negotiated.

**83. Members of the Management Committee do not receive special legal protection.** They are exposed to potential liability for actions, claims, lawsuits, or other proceedings related to decisions, acts, or omissions made in good faith during their official duties. This includes instances where the FGD executes payouts following a determination of deposit unavailability or provides financial assistance pursuant to resolution measures mandated by the resolution authority.

**84. Information is exchanged regularly between BdP and the FGD.** An MoU between BdP and the FGD specifies that the FGD is informed when a member approaches a situation involving deposit unavailability. The FGD is also notified when BdP classifies a member as being FOLTF. Since the FGD Board includes a member of the BdP Board and the Head of the DRE currently serves as Secretary-General, the FGD considers itself adequately informed about conditions in the financial sector.

**85. For groups with an established resolution college, the FGD is a member of that college.** The FGD is represented in the resolution colleges of three banking groups. These colleges play a crucial role in ensuring a coordinated and consistent approach to resolution planning and in the application of resolution tools if resolution becomes necessary.

## B. Recommendations

**86. The governance arrangements in the FGD need to be strengthened:**

- **The FGD should be assigned permanent staff.** The absence of full-time FGD staff was reasonable when its role was limited. However, the FGD's expected expansion of mandate to fund resolution measures requires deeper expertise and experience. The FGD needs staff knowledgeable in resolution funding to ensure that all safeguards are fully met.
- **The presence of a Bankers Association representative on the FGD Board raises conflicts of interest and should be avoided.** Given the FGD's access to market-sensitive and bank-specific

information, confidentiality and conflict of interest concerns require that active banks and their affiliated persons or entities be excluded from such discussions. Legal amendments should be adopted to restructure the FGD Board to ensure that no private sector representative is associated with the banking industry. Alternatively, the Bankers Association representative could recuse themselves from discussions involving individual banks, though this is a less optimal solution

**87. The role of the government should be circumscribed.** First, the mandated higher share of domestic sovereign debt in the FGD investment portfolio should be scaled back since it reduces the fund's investment decision flexibility and limits risk diversification. Second, the requirement for government approval of any FGD disbursements should be removed. Such a requirement risks undermining confidence in the deposit insurance system if it prevents the timely payouts within the expected 7 working days. Being industry-funded, the FGD should have full discretion over its decisions to maintain independence and public trust in its capacity to fulfill its mandate.

**88. An emergency public backup funding mechanism for the FGD needs to be established.** Currently, emergency funding relies on extraordinary levies on members and borrowing in the market. The FGD should avoid borrowing from financial market for emergency liquidity, as members may lack capacity to provide support and market borrowing raises conflict of interest concerns. Instead, formal arrangements should be finalized for the government to provide backup funding, including clear terms for rapid disbursement and repayment. If immediate government support is unavailable, agreements with BdP should be made for temporary support. Having a reliable backup funding mechanism from the MOF is essential to maintain the FGD's credibility and ability to act as a fast-disbursing facility, which is a core feature of an effective deposit insurance system. Like the government approval requirement, payout delays can significantly undermine the FGD's credibility.

**89. The FGD should review the adequacy of the fund's level.** The fund's new role in resolution funding may increase demands on the fund. In any case, the FGD should be sufficiently funded for the payout of insured deposits in case of concurrent failure of the several largest (e.g., two to four) non-systemic LSIs.

**90. The FGD should participate in discussions on resolution funding.** Although the FGD lacks a formal mandate to participate in SRB or BdP decisions regarding resolution options, it has a fiduciary duty to safeguard its resources. Member institutions' confidence in the deposit insurance system will be reinforced by the FGD's transparent understanding and management of its resource usage. Although the FGD does not need to have a vote in selecting resolution strategies, it should

have the ability to verify that legal safeguards are met and that the use of its resources aligns with its objectives. Without these assurances, concerns may arise about the deposit insurance system's effectiveness.

**91. The FGD Board members should be granted legal protection from liability for actions taken in good faith in the normal course of their duties.** This protection is critical given that private sector resources are used to fund resolution measures.

## INTER-AGENCY CRISIS MANAGEMENT

### A. Findings

**92. In Portugal, there is no permanent inter-agency committee dedicated to overseeing system-wide financial crisis management.** However, effective coordination occurs through established bodies and crisis-specific mechanisms. The National Council of Financial Supervisors (CNSF) coordinates the authorities' oversight and response to ongoing, non-crisis developments within the financial sector. The Council comprises BdP, the CMVM (Securities Regulator), and the Insurance Supervisor (ASF). The MoF participates as appropriate. The CNSF facilitates information exchange and coordinates analysis among the supervisory authorities, proposes supervisory measures when multiple agencies are involved, and coordinates joint actions. It meets quarterly and monitors systemic risk and macroprudential policy response but does not have direct crisis management responsibility. The CNSF has a Permanent Secretariat with dedicated facilities and a secretary, appointed from among the three authorities, with administrative support provided by BdP. Additionally, ad hoc crisis subcommittees can be formed during specific bank distress events, involving legal, supervisory, resolution, and communication experts from BdP and other authorities.

**93. The CNSF may serve as a coordination forum in crisis management matters, but bilateral arrangements predominate.** Each authority operates within its own legal and institutional framework, pursuing mandates such as financial stability, investor protection, or market integrity. In a crisis, BdP, as the resolution authority, must coordinate with the CMVM on implementing resolution tools such as suspension of trading, cancellation of financial instruments, and amendments to the book-entry register of financial instruments. Bilateral arrangements are currently being developed to facilitate information exchange and decision-making during crisis situations. BdP and the CMVM have a cooperation protocol to support effective collaboration.

**94. In a crisis, BdP leads the execution of resolution measures and coordinates with the MoF and the SRB.** BdP acts as the central technical and operational authority in such events, typically convening coordination meetings informally or through resolution colleges. The MoF leads coordination where public funds, guarantees, or EU financial assistance are involved. BdP has occasionally established temporary inter-agency committees during periods of extreme stress. For example, during Portugal's 2011–14 financial adjustment program, coordination was maintained among the MoF, BdP, and international partners.

**95. Formal cooperation among safety net agencies is established through MoUs.** BdP and the FGD have MoUs outlining procedures for early intervention in institutions, providing legal support for the FGD's participation in resolution financing, and detailing procedures for depositor payouts if necessary. At the EU level, a Cooperation Arrangement exists between national resolution authorities, including BdP, and the SRB. These MOUs define channels for crisis information exchange and coordination during resolution actions.

**96. BdP, the CMVM, and the ASF have agreed to develop a trilateral crisis management protocol.** This protocol will establish cooperation mechanisms for recovery and resolution planning, as well as for implementing resolution actions. It aims to clarify the scope, objectives, and procedures for coordination and information exchange related to systemic risk monitoring and crisis management. That protocol will define the roles and responsibilities of the three authorities, set out procedures for information sharing and decision-making under urgent conditions, and establish communication protocols and triggers for emergency meetings.

## B. Recommendations

**97. The development of the trilateral crisis management protocol is a key tool that could be made more operational.** While ensuring adequate information sharing and clearly defining each institution's mandate is essential, a more detailed and practical description of crisis management procedures would be beneficial. With the overarching objective of preserving financial stability, the protocol could formally establish a crisis committee, specify its membership, outline procedures for convening emergency meetings, and detail the preparations required from its secretariat.

# TESTING AND SIMULATIONS

## A. Findings

**98. The crisis management framework has been tested through multiple exercises.** The DRE has conducted a series of scenario tests to strengthen coordination both within BdP and with other safety net agencies. It has also run table-top exercises involving domestic agencies to refine response procedures. Over the past five years, the DRE has participated in two simulation exercises organized by the SRB, conducted one simplified exercise independently, and is currently developing a second exercise in collaboration with the CMVM.

**99. Several notable simulation exercises have been conducted:**

- **In 2022, the SRB organized a simulation focusing on cross-border large banking group with a Portuguese SI subsidiary.** Home and Portuguese resolution authorities tested the SPE's operationalization, including the bail-in tool and write-down and conversion powers. Participants relied on the information from the banking group and used the IT systems developed for resolution purposes, such as the bail-in calculation tool.
- **In 2023-24, the DRE participated in an LSI simulation exercise, involving a failing LSI and the use of the SRF.** Different national resolution authorities, including BdP, applied various resolution tools at different times to a hypothetical institution. BdP focused on the applying the sale of business tool as an asset deal.
- **In 2024, the DRE organized a national-level internal walkthrough, conducted as a tabletop exercise with senior management participation.** It tested the National Resolution Handbook,

particularly the bail-in tool. The SRB observed the exercise, which covered the four resolution phases: heading to resolution, preparing for resolution, resolution weekend, and closing the case. Participants played their usual roles or assumed the role of other authorities or the institution in resolution.

**100. The DRE is currently collaborating with the CMVM on a joint simulation exercise.** This exercise is structured in three phases (the first of which is ongoing and the others planned): (i) initial technical meetings over two to three months to align on key topics and clarify the CMVM's role; (ii) preparation of a Management Simulation through a dedicated technical meeting to draft an outline or script of board-level roles, incorporating prior technical agreements; and (iii) execution of the Management Simulation, with the SRB as a silent observer, followed by a lessons learned report. The exercise aims to deepen understanding of market procedures during resolution, especially for effectively implementing the bail-in tool.

**101. The DRE has also worked with Portuguese banks on conducting their own crisis simulation exercises.** These bank-led exercises enhance resolvability, while allowing resolution authorities to verify the banks' preparedness and capabilities for resolution events. BdP has attended most of these exercises as an observer, gaining valuable insights to refine its own internal procedures.

**102. Both the FGD and member banks conduct periodic stress testing exercises.** Member institutions regularly report on their capacity to provide accurate information on deposits and depositors. BdP, in collaboration with the FGD, conducts stress tests of the effectiveness of member institutions' mechanisms for supplying information on depositors and deposits to the FGD. The FGD also stress tests its own systems to ensure rapid payout capacity. These tests assess information-gathering arrangements and data quality on credit institutions, depositors, and deposits. The latest stress testing exercise took place between November 2023 and June 2024. As part of this exercise, the FGD tested its repayment function with two member institutions and concluded that repayments could be completed within three to four working days via electronic bank transfers or by cheque.

## B. Recommendations

**103. BdP, the CMVM, and the ASF should establish a formal, annual contingency testing program.** This program should specify which elements of the resolution framework are to be tested each year, ensuring that all elements are reviewed regularly and that each element is tested at least once within a five-year cycle. Additionally, the program should schedule live simulation exercises involving all safety net members, including the MoF, with these exercises planned well in advance. The primary objective of such live simulations is to evaluate the effectiveness of inter-agency coordination and ensure that the mandates, powers, and responsibilities of all safety net members are clearly understood.