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RETHINKING THE PORTUGUESE BANKING SECTOR IN A POST-CRISIS CONTEXT

Pedro Filipe Botelho Ferreira (no. 573)

A Project carried out on the Strategic Consulting area as an internship at A.T. Kearney,

under the supervision of:

Professor Miguel Ferreira, on behalf of Nova SBE

Paulo Gonçalves, on behalf of A.T. Kearney

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Abstract

As the financial crisis hit the Portuguese banks, the profitability of the whole sector squeezed to historical minimums. Reinventing the banking business model in the post-crisis context is an overriding issue to achieve sustainable profits and a low cost-to-income ratio. We propose banks to adopt a true multichannel approach, proceeding to a branch network reformatting and a relocation of services to online channels; adopt a true customer-centric approach and reduce the product and services portfolio complexity; finally, industrialize operations and rationalize the structure. With these measures in place, Portuguese banks will become leaner and more efficient, aspiring to a cost-to-income ratio below 45%.

Keywords: Banking, Portuguese banks, Strategic Consultancy, Market Analysis,

1. Introduction

The Portuguese banking system operated for years under a high risk-taking business model that yielded double digit returns to investors and tidy profits. A huge avalanche of events has hit the sector since 2008, and extraordinary efforts have been made by all banks, along with unconventional measures by European authorities and the Portuguese State. Now, Portuguese banks face unprecedented times with historical minimum Return on Assets (ROA) and record losses in 2013.

Since 2008 Portuguese banks have largely tackled liquidity and solvency issues that the crisis brought along. Although there is considerable work yet to be done in two specific areas – profitability and asset quality – the focus of this Work Project is on providing solutions to enhance profitability by addressing three main areas of actions where banks can directly control: Channels, Product and Services Portfolio, and Operations and Structure.

Through the analysis of current challenges and future trends, both on domestic and international markets, we present a set of strategies aimed at reorienting banks on the sustainable profitability path. External factors outside the direct control of banks that affect profitability, such as the economic recovery, or trading book activities are left behind. The set of guidelines ultimately present a new business model for banks for the post-crisis years, commercially different from the business-as-usual model that prevailed up to date.

The post-crisis environment will see the banking players emerge as either winners, survivals, or losers. The key to success will ultimately depend first on the ability to clean out the house and become leaner, and second on the determination and quickness to address the change for the new cycle, while retaining the customer base.

2. Pre-crisis context (before 2008)

In the decade prior to the International Financial Crisis, the Portuguese banking sector expansion was largely based on the growth of the credit portfolio. From 2000 to 2008, banks actually enjoyed periods of high profitability with Return on Equity (ROE), on average, above 15%. Loans almost doubled and the branch network spread all over the country: by 2008, Portugal had the third highest branch density in the Euro Area, only behind Spain and Cyprus.

However, those levels of profitability were based on a huge risk-taking model. At that time, the business model for most Portuguese banks was largely based on wholesale funding, since the growth of assets was not followed by an increase in deposits. As a result of that, banks accumulated too much debt resulting in an overleveraged balance sheet with a loan-to-deposit (LTD) ratio peaking at 172% in 2008. On top of that, the credit portfolio growth was heavily concentrated and linked to real estate and construction sectors' growth. Mortgage lending and loans to real estate and construction sectors accounted for 70% of the total credit portfolio by 2008 from 60% in early 2000.

Conversely, banks' profitability started to decline from 2000 onwards, despite the accumulation of assets. In fact, net interest margin and operating income started to decline since 2000, while operational costs remained roughly unchanged[1]. For that period, the cost-to-income ratio was relatively stable (between 53 and 58%), as increasing revenues compensated for increasing staff costs.

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[1] As a percentage of Total Assets for the whole Banking sector (source: Banco de Portugal)

3. Effects of the crisis and banks' response (2008-2014)

Since 2008, the Portuguese banking sector has been hit by a massive avalanche of events that demanded unconventional measures to save the financial system. Banks were forced to compete intensively for deposits after the liquidity squeeze caused by the frozen out of interbank markets, raising the cost of funding, and to rely more on resources from the European Central Bank (ECB).

When the credit rating of the Sovereign State was downgraded to non-investment grade, the rating of all major banks was consequently downgraded, and the access to capital markets dried up. Not only was the ECB forced to adopt unconventional measures, but also the Portuguese state has had to make capital injections in several banks so that they could meet the capital ratios required by the European Banking Authority (EBA) and the Bank of Portugal.

The new regulatory measures imposed stricter capital requirements leading banks to raise capital at higher costs than before, resorting to government lines, and disposing assets to get liquidity and comply with a Core Tier 1 ratio of 10%. In fact, nearly half of the €12 billion from the banking recapitalization fund has been used so far (€3 billion to BCP, €1.5 billion to BPI and €1.1billion to Banif), plus €1.65 billion to the state-owned bank CGD.

Although capital levels were clearly insufficient to face this stormy crisis, solvability is not the sole explanation for the profitability plummet. Since 2008 the ratio of non-performing loans to total gross loans has more than doubled reaching 5.7% of total credit in 2013. The immediate consequence was that impairments exploded (last year, credit impairment as a percentage of gross credit reached 6.2% up from 3.2% in 2010), and consequently profits shrunk for all banks.

The cost structure would reveal to be not flexible enough to adjust to falling revenues. Since 2010 core banking revenues[2] fell by more than 24%, while operational costs by only 12%; as a result of that, cost-to-income escalated by nearly 14 percentage points. On a detailed level, the cost-of-income of the five largest Portuguese banks increased for the period 2010-2013, with the exception of BPI which decreased by 2 percentage points.

The international financial crisis and the economic downturn in Portugal brought a sharp reduction on business volumes, close to zero interest rates, and increased impairments and non-performing assets. The combination of all these factors drastically affected banks' operating income and brought to light the weaknesses of the banking sector, particularly the overleveraged balance sheet, and the inflexible cost structure. Since then, profits have dived and banks were forced to raise capital; ROE and ROA reached historical minimum values last year: -11.5% and -0.7%, respectively.

Industry-wise, both intervened and non-intervened banks have put in practice restructuring plans with common lines: shrinkage of the balance sheet and of the operating structure. Among those common measures are the reduction of the branch network and front-to-back office staffing costs, a rundown of non-core businesses, the exit from non-core areas in Portugal, and the divesture of international operations.

4. Current situation and challenges

As the demand for credit decreased in the latest years, banks have undergone balance sheet shrinkage. As far as liquidity and funding are concerned, the LTD ratio is steadily

[2] Core banking revenues include net interest margin and net commissions

decreasing while deposits are gaining more weight in the funding structure. In fact, the LTD ratio reached 117% in 2013, below the 120% threshold agreed upon the bailout program to Portugal. Credit at risk and non-performing loans are at historical high level, though continue to increase at a slower pace. Non-performing loans from real estate and construction sectors account now for nearly 40% of the total of non-performing loans.

Despite a slight recovery in the net interest margin due to the repricing of deposits, profitability remains under pressure. On the other hand, solvency levels have strengthened due to asset reduction, through the disposal of non-core businesses and of poorly performing corporate loans to a loan recovery fund. Nevertheless, some major banks are now taking advantage of better markets conditions to raise capital and meet the agreed targets or eventually speed up the reimbursement of CoCos.

The Portuguese banking sector currently faces unprecedented times with several challenges lying ahead of the financial system. Although we starting to witnessing encouraging signs of recovery in the Portuguese economy [3] there is still a storm cloud hovering over profitability of the Portuguese banking sector. Tighter regulation, potential need to raise additional capital, uncertainty about future economic environment and taxation, credit impairments, and funding costs will continue to threat banks' profitability.

First, Basel III regulations will come fully into force in the next years with tighter capital, leverage and liquidity requirements. Rodrigues (2013) concluded though that the implementation of Basel III will have, on average, a minor impact on the four largest

[3] GDP forecasts were revised upwards to 1.2% for 2014 and 1.5% for the following two years according to the IMF

Portuguese banks – excluding the State-owned CGD. There is also increasing transparency pressure over off-shore centers, and increasing internal and external compliance pressure, which can negatively impact profits. Moreover, EU legislation has proposed to impose a cap on interchange fees from card transactions – 0.2% for debit and 0.3% for credit cards – causing an estimated loss of 137 million euros to the banking industry[4].

Second, the Portuguese economy is now showing some positive signs of recovery: economic confidence is up, and GDP is forecast is to grow in the next years after four years of recession, with exporting being the main driver of growth. In the past five years, while the total loans granted to non-financial corporations shrunk by 18%, loans to exporting companies increased by 13% (figure 3), with banks launching several campaigns and products to capture this specific trend.

Third, the high tax burden over households and the extraordinary tax levied over banks continue to a pose a threat not only to the economic recovery but also to banks' profitability. It can be warily expected though that taxation will smooth out over the next five years both for households, corporations and banks.

Fourth, households' savings have recovered and stabilized to pre-crisis levels, accounting for 13% of households' disposable income in 2013. Furthermore, during the last four years, public pensioners have been severely punished by austerity measures, and doubts remain as to the long-term sustainability of the public pension system. As more young adults get concerned about these issues, banks have a great opportunity to capture this growing

[4] See Evans, David (2013), The Economics and Regulation of the Portuguese Retail Payment System, December 2013

demand by reinforcing their offer for pension savings schemes and other savings/ investment products.

Finally, funding is still a major issue for Portuguese banks in the current context of increasing impairments and non-performing assets. Nonetheless, deposits rates are decreasing to pre-crisis levels and market conditions have improved substantially in latest months; thereby conditions are in place for equity/debt issuances if needed.

Even though the combination of all these challenges will continue to pressure banks' profitability, it also opens a window of opportunity. For example, the combination of increasing households' savings, and the decrease of deposits rates pose an interesting challenge for banks: offer products with higher returns for which customers are willing to pay more for the little risk borne.

5. Current market trends

Ten years from now, retail banking in Portugal and around the world will undoubtedly look different. Eistert, Buhl, Röder, and Fridgen (2012) postulate five main trends of tomorrow's retail banking: further integration between retail banking and social media; threat from online players in the money transfer and payments businesses; increasing need for advisory services through multiple channels; revolution of branch formats; and finally, increasing competition between banks and external players coming to the market, namely Internet companies.

The reality and the near future of the Portuguese retail banks will be drawn by different patterns. We see most banks going "back to basics", refocusing in traditional retail banking at its best, after years of blind expansion. Some banks are reinvesting in the relationship banking values and (re)adopting a customer-centric approach. Banks are strengthening their value proposal by offering diversified services, such as specialized investment advisory services, and exclusive benefits to their customers. Meanwhile, most banks are investing on higher value segments (affluent and private customers), by decreasing the wealth threshold to belong to these groups. That said, banks are taking advantage of higher margins clients who generate more revenue, especially coming from commissions, than the mass market.

On the track to achieve sustainable profitability, two major trends emerge on the Portuguese market. Most banks have undergone a pricing revision, increasing the commissions charged for cash activities, money transfers, and account charges. On the cost side, banks are reducing their physical presence by shutting down branches, and investing more in online channels, offering almost all services online through user-friendly platforms. Moreover, banks are exploiting the full potential of outsourcing strategies regarding IT, operations, credit control, cards or payments, and centralizing back-office activities and simplifying the governance model.

Finally, the consolidation of the Portuguese banking industry is an expectable trend. Two foreign banks with operations in Portugal (BBVA and Barclays[5]) have recently announced their exit from the country. Further consolidation may take place, though the targets and acquirers are purely speculative[6]. However, if indeed it takes places the benefits would be enormous: increase in efficiency through economies of scale and increase in operating

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[5] In total, these banks have more than €13 billion in credit and €5 billion in deposits from customers, accounting for 5% and 2%, respectively, of the total market share.

[6] Portugal exhibited a Herfindahl Index of 1191in 2012 representing a moderately concentrated market. Although this indicator shows room for consolidation it may not belong to one of the five largest banks, since the market share of the five largest banks in 2012 was 70%, well above the Euro Area average (47%).

income by stretching margins.

6. Post-crisis context (2015-onwards)

Reinventing the banking business model is fundamental in a post-crisis context where the business-as-usual model largely anchored on wholesale funding and mortgage lending and loans to the construction sector proved to be unsustainable. Moving forward, the banking sector needs to adapt to a new environment, which requires rethinking fundamentally three key drivers: channels, product and services portfolio, and operations and structure.

A. Channels

Today, branches are still perceived as the main channel through which clients and the bank interact because it is where customers have access to all functions. Although we are progressively evolving into a multichannel system, where branches are just one channel among many from which customers can choose, we are still midway. Portugal has one of the highest branch and ATM densities in Europe (figure 4), and yet one of the lowest penetration rates on online channels (figure 5). The combination of these two factors enhances cost savings by moving cash-services out of branches to ATM and online channels. Therefore, a true multi-channel platform requires banks to act simultaneously on two fronts: adopting a new branch network model, and invest in online channels to give a complete response to customers' needs and trends.

Since 2008, nearly one fifth of the total number of branches (figure 6) has been shut down in a cost-cutting effort by the Portuguese banks. Closing branches in the current economic environment was deemed as necessary because banks needed to reduce the high cost-to-income ratio, cope with increasing renting and salaries costs in the future, divest from unprofitable operations and non-core regions, and pave the way for a new *modus operandi* in which customers visit branches with little frequency and resort more than ever to online banking.

Despite recent efforts, Portugal still has one of the highest branch densities in the Euro Area, and bringing it down to the Euro Area average would imply shutting down nearly 700 branches[7]. Nonetheless, we believe there is still room for banks to trim the branch network without significantly affecting their customer base or harm their image. Hereafter, branches become the place for advisory services and other more complex issues, since cash and transactional services are relocated to online channels.

Although complex, the optimization process of the branch network should follow a set of different factors, for example, geographic potential, proximity and location of competitors' branches, in-branch traffic, or rental contract termination costs. That said, low-performing branches with little potential in non-core areas should be closed, whereas low-performing branches with high potential should be revamped instead.

The branch optimization process should not resume to a mere branch reduction though; it is about changing formats, increasing productivity and efficiency, and setting up more specialized and convenient branches with the adequate branch staff mix.

We believe the branch network model must evolve from the current undifferentiated full-service branches into a "hub-and-spoke" model, where branches play differentiated roles.

[7] 2013 year-end. Continuous optimization efforts in 2014, the exit of BBVA and Barclays from Portugal (can eventually account for 39% of the reduction effort in all branches are shut down), and the implementation of the "hub-and-spoke" model can put Portuguese banks in line with European peers.

In fact, the role and size of the branch network must adapt to meet customers' needs – especially of the Internet generation – and capture demographic and business trends – desertification of inland areas and higher concentration in metropolitan areas, or the increasing need for specialized investment counseling services, for example.

The "hub-and-spoke" model enables banks to preserve their physical presence while reducing costs: full-service hubs remotely support surrounding light branches. This model should be combined with a four-level organization of the branch network: flagship, full-service, conventional, and kiosk branches, in line with international banks experience and what is suggested by Pratz (2013).

The flagship branch would be found in premium locations with the main role of enhancing brand awareness and the customer base. This branch would have extended business hours, similar to those of surrounding retail stores and be the center of sales where customers can find dedicated experts on different areas/ segments. The flagship branch would be technology-oriented with different self-service solutions and events, based on innovation aiming at generating traffic among customers.

Located in strategic areas, full-service branches would be the hubs sustaining conventional branches. These branches would have extended working hours, highly specialized staff in selling specific products, for example, investment products, mortgages, or insurances to their zone of influence.

Conventional branches would replace much of today's network and focus fundamentally on customer activation, cards and accounts, and generic investment and mortgage advice. This type of branches is meant to be light and low-cost, with reduced business hours, and regular (less specialized) staff. These branches would allow not only cutting costs, as they become gradually cashless and back-office activities centralized on hubs, but also increase revenue because of their focus on advisory services. Much of today's transactional services would shift to kiosk branches, online channels, and the ATM network. Whenever customers seek more specialized advice or personalized solutions, they would be redirected to the nearest full-service branch.

Kiosks would be fully focused transactional branches, open 24/7 with automated tools, such as ATM and innovative, user-friendly, self-service platforms where customers can manage their accounts and investment portfolio, open term deposits or savings accounts, consult current marketing campaigns, or request remote support.

The central question here is finding the suitable branch mix for the geographic presence and commercial focus of each bank. Also important to highlight is that the new branch format requires a different mix of branch staff: a lower proportion of tellers and sellers, and higher of advisors. Above all, the "hub-and-spoke" branch model can generate significant cost-saving opportunities, as stated in Gera et al. (2012): 15-20% decrease in branches and 25% reduction in the average branch staff, which would put Portugal closer to European peers in terms of Assets per Employee (figure 8). Actually, this model and similar approaches are already being successful put in place by Citibank, BBVA, Barclays, Commonwealth Bank or J.P. Morgan in the U.S., U.K., Spain or Australia.

In the medium to long term, cost-to-income ratio will reflect the decreased branch network costs from adopting the proposed model. By contrast, online and mobile banking will require major investments in the next years and that is why reformatting the branch network is a vital issue starting today.

B. Product and services portfolio

Banks' profitability is also being pressured by the complexity and size of the product and services portfolio. The product-centric approach to business, the lack of product lifecycle view and the complexity of some products are driving up the cost-to-income ratio. Going forward, banks should simplify their product portfolio in order to increase revenues, cut costs and be better prepared to face future challenges, such as the increasing digital customers, tighter regulation and higher transparency standards.

To begin with, banks should do a holistic review of their current product and services portfolio, and the associated penetration rates, profitability per product and products per client. The focus of the action plan in this area should be on cleaning out unprofitable products, simplifying the offer, and capturing clients' needs and new trends.

Some Portuguese banks usually lack a product lifecycle view, keeping unprofitable products or those with too low penetration rates for too long. Also as new products are launched old ones are seldom discontinued, putting a heavy burden over back-office to track the products. The solution is simple: the life cycle of a new product should be already well defined before it is unveiled, including exit timing and all contractual clauses.

Banks have traditionally offered free checking accounts to customers, notwithstanding the loss of effectiveness as a sales instrument. In a study from the European Commission (COM, 2009), Portugal – along with Netherlands, Belgium and Bulgaria – ranks as one of the countries with the cheapest banking services to customers, namely account charges. In the current context, a pricing revision is urgent as other streams of revenue have little to exploit. As a response to higher commissions charged to customers, the number of minimum service accounts has increased tenfold in the last five years, for which banks cannot charge more than 10% of the minimum wage.

In the second place, the product portfolio currently offered by banks is too complex, with dozens of variations, different features, rates or methods of payments. For instance, standardizing product prices and offer less discounts can increase the revenue from those products in 5 to 15%, according to Eistert and Ullrich (2013).

The five largest Portuguese banks offer on average ten different accounts, more than 20 different debit or credit cards, and about 15 different term deposits or savings products (figure 7). We believe the size and complexity of the product portfolio cause a huge burden on IT and middle and back offices driving costs up; but also on front office by reducing the time available to explain the whole set of products and features to customers, decreasing staff productivity and the ability to increase profits as new product not always translate into profit improvement. Hence, to tackle this issue banks can simplify their product offer by 30% with an estimated impact on the relative cost-to-income ratio of 25%, from previous A.T. Kearney experiences (Eistert and Ullrich, 2013).

According to an A.T. Kearney survey (Pratz, 2013) to top retail banking practitioners, the current picture for the Portuguese market prospects a negative evolution on revenues coming from lending, and nearly a 20% increase in revenues from cards and accounts. Thus, revamping the current offer of cards and accounts is of paramount importance, followed by a pricing revision. Charging commissions or imposing new fees, differentiated by channel and by customer segment, is a way of killing two birds with one stone: moving low value-added operations to remote channels, and focusing on higher wealth segments.

The same study also considers that income from investment products in Portugal is unlikely to recover to pre-crisis levels in the short-term. As term deposits' rates remain low, customers will seek higher return products, namely from investment and commission-bearing products.

In the third place, two major trends are emerging in the industry worldwide and allowing banks to differentiate among themselves. On the one hand, most universal retail banks offer a global value proposition to each segment/ customer type charging a price to the bundle of products and services. On the other hand, some banks are allowing customers to self-select products and services and be charged only for the products they care, in a full transparency move putting the customer back in the center of the business.

Improving the product portfolio is also required to meet customers' need for higher returns and bring in those customers with less money but the desire to invest in more complex products, for instance, from capital markets. Although it is not predictable that customers will be willing to take more risk in the post-crisis years, they are currently looking for products with high returns and little risk. In fact, some safe investment products such as savings accounts, government bonds or life insurance offered yields below inflation causing real net worth losses to customers.

The solution passes by offering products for which customers are willing to pay a fair margin for little risk; for instance, low-risk investment funds, structured products, or certain government and corporate bonds with high credit rating. Pratz (2013) suggests more sophisticated products, such as, "syndicated loans to small and medium enterprises, crowd-funding offers, packages of inflation-indexed loans, green energy projects, or other assets (such as fleet financing)". Alternatively, banks can seek to expand revenue by providing new services and higher standards to non-qualifying customers. For example, offer access to private banking services in exchange for a monthly fee to non-qualifying customers.

Finally, new technologies and social media are not only changing how customers buy products and services, but also the type of products offered. In fact, the purchase decision is taking place earlier in the process: customers do their own research, resort to different online and offline sources and only come in-house to purchase the product. New products linked to social media have appeared in the market from case-study companies, such as: Zopa, a peer-to-peer lending service; Fidor Bank, which offers interest rate on savings depending on the number of likes on Facebook; or Pygg, which allows users to transfer money to their friends on different social media networks.

C. Operations and Structure

Operations, IT infrastructure and the heavy organizational structure cause a huge burden on Portuguese banks' efficiency. After years of business expansion, domestically and abroad, banks need to rationalize their structure to adjust for the shrinkage in commercial activity. We recommend banks two main strategies: proceed to a back-to-end industrialization of operations and processes and exploit the potential of outsourcing strategies.

The industrialization of banking operations and systems requires the adoption of a global and unique operating model for the bank and its foreign subsidiaries with the same back-office organization, and with common technological platforms. HSBC and Banco Santander are the best example of banks that are on the successful path to implementing a global operating model, which should be a reference for Portuguese banks to follow.

In the road to industrialization, crucial drivers include the standardization and automation of processes and operations, or the mutualization of operating platforms. In fact, we still observe today excess manual filling of questionnaires, excess paper load, and duplicated authorizations, resulting in higher servicing costs and lower staff productivity. On the other hand, mutualizing operating platforms is becoming a common practice among international banks because it allows reducing costs, accessing more expertise, and ultimately achieving economies of scale.

Another industrializing strategy is streamlining processes using a front-to-back and digital perspective. Examples of such initiatives includes providing advisory services remotely – through videoconference or online chat – to customers, becoming paperless – by charging customers for paper statements, and allowing to sign electronically legally binding contracts –, or further integration between banks and social media platforms. Centralizing back-offices would help achieving this goal through a faster and more efficient decision-making process.

Finally, we believe a rigorous control over general and administrative expenses (G&A) can lead to significant efficiency gains. Portuguese banks have one of the highest rates of G&A as a percentage of banks' total assets (figure 8). A reduction of 20% in these expenses would put Portuguese banks in line with European peers, with a potential decrease of 5 percentage points in cost-to-income. To do so, we recommend banks to adopt an integrated expense management model per cost category, explore outsourcing opportunities, review current contracts (renting, cash-in-transit, security, cleaning, advertising), and have a tighter control over internal expenses. Naturally, reformatting the branch network as described before would help achieving this goal considerably.

7. Conclusions

In the last years, the Portuguese banking sector has undergone a massive overhaul that resulted in a leaner and more efficient sector. There are today fewer non-core operations, fewer branches, fewer staff, and fewer credit institutions. Most banks undertook major restructuring and are now on the road to achieve sustainable cost-to-income ratios. They are also better capitalized and prepared to face forthcoming challenges. Yet the results are still not visible in the short-term and not enough to face future challenges and embrace new trends. As a result of that, continuous efforts must be made to adjust to a more demanding banking environment in the post-crisis years.

Going forward, banks should focus primarily on two seemingly opposite goals: providing an excellent quality service through a customer-centric and multichannel approaches, and continue the cost-cutting efforts, aspiring to a cost-to-income ratio of 45%. To achieve this goal we postulate a set of guidelines on three main drives. Regarding channels, the implementation of a “hub-and-spoke” model can generate a 15-20% decrease in branches and a 25% decrease in branch staff, while investing in online channels has huge cost-savings potential. Second, banks must simplify the product and services portfolio by 30%, standardize product prices with expected revenue of 5-15%, and the increasing demand for higher returns will translate into higher commissions received. On operations and structure, we recommend industrializing operations, explore outsourcing strategies, centralize back-office, rationalize business units, become paperless and implement an integrated management expense model to reduce G&A by 20%.

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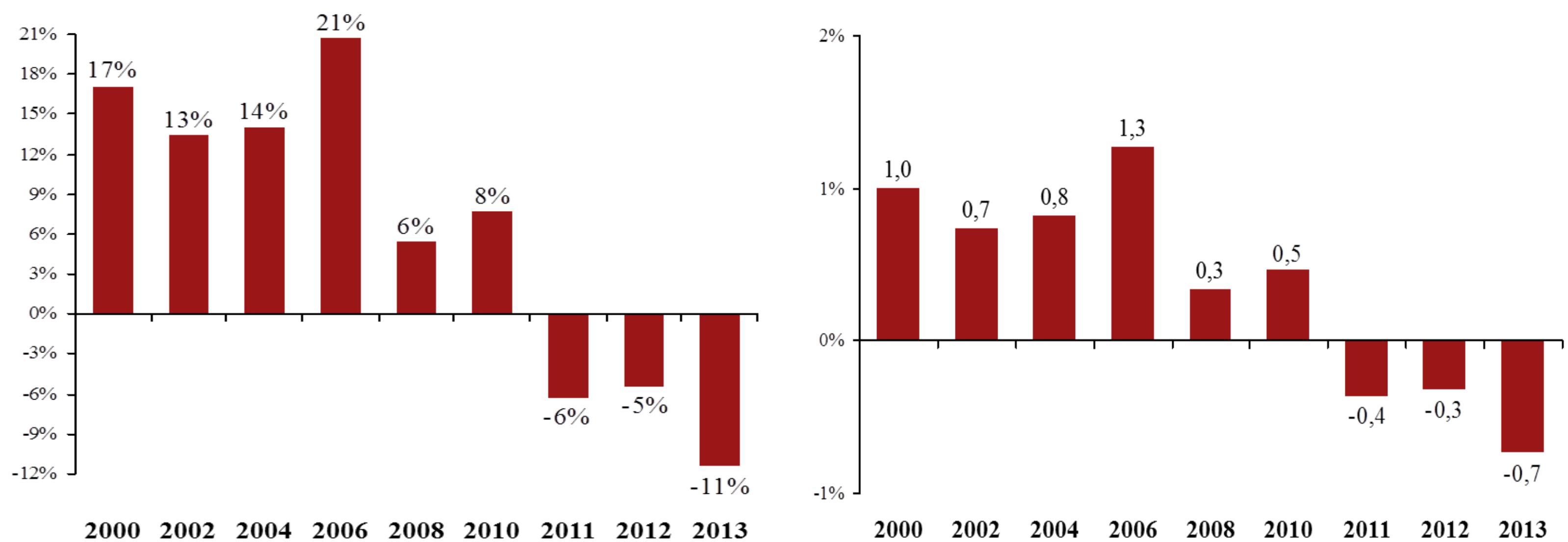
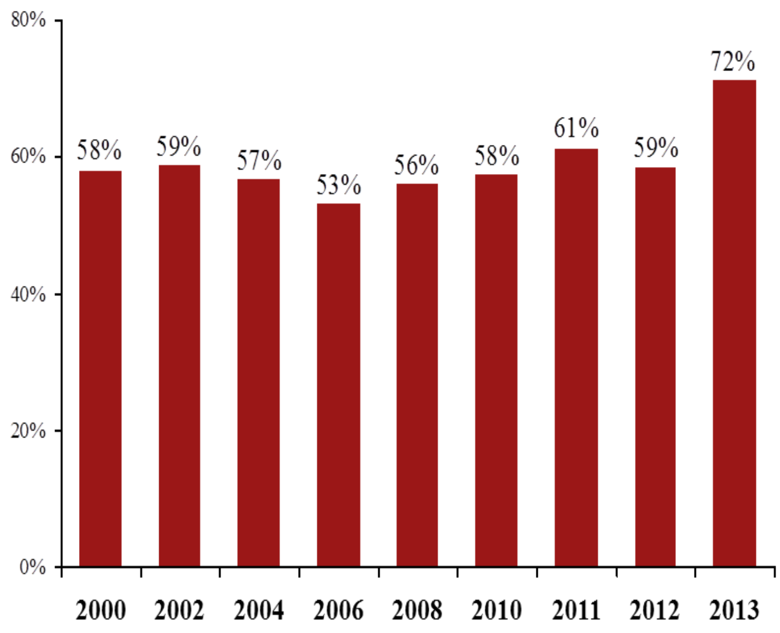
Appendices

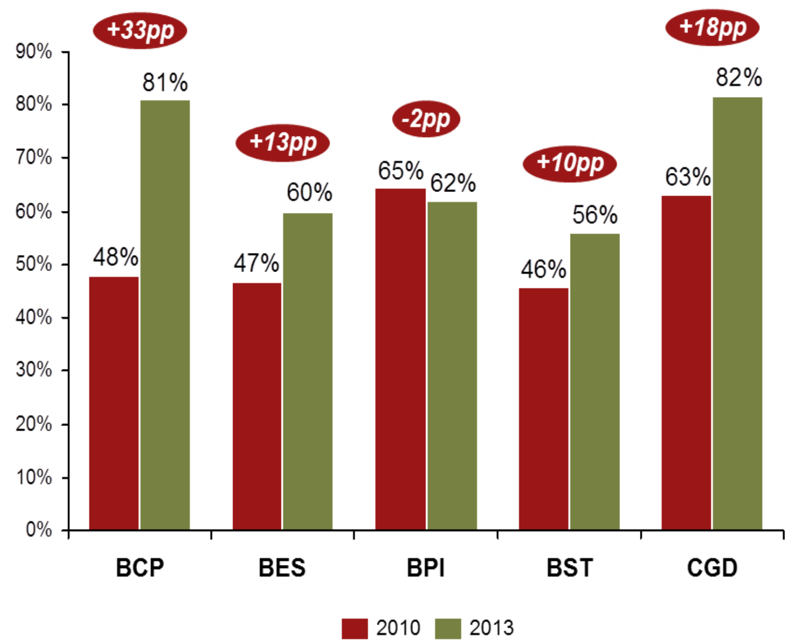
FIGURE 1 – RETURN ON EQUITY (LEFT) AND RETURN ON ASSETS (RIGHT) FOR THE PORTUGUESE BANKING SECTOR (2010-2013)



SOURCE: BANCO DE PORTUGAL

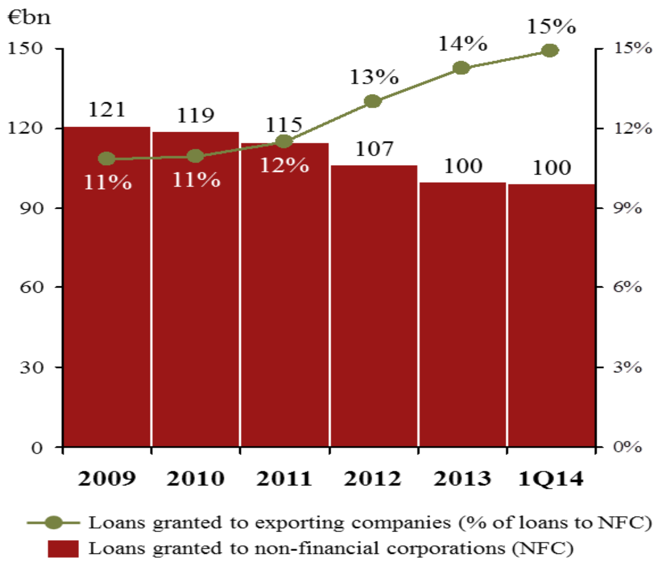
FIGURE 2 – COST-TO-INCOME RATIO FOR THE PORTUGUESE BANKING SECTOR (LEFT) AND FOR THE FIVE LARGEST BANKS (RIGHT)





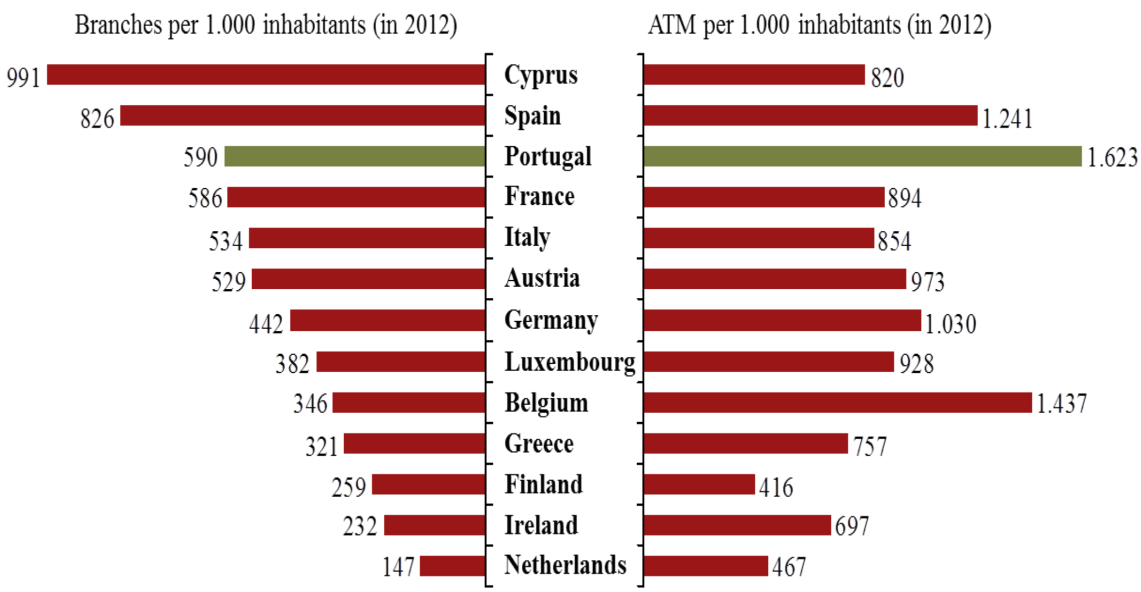
SOURCE: BANCO DE PORTUGAL

FIGURE 3 –LOANS GRANTED TO NON-FINANCIAL CORPORATIONS AND EXPORTING COMPANIES



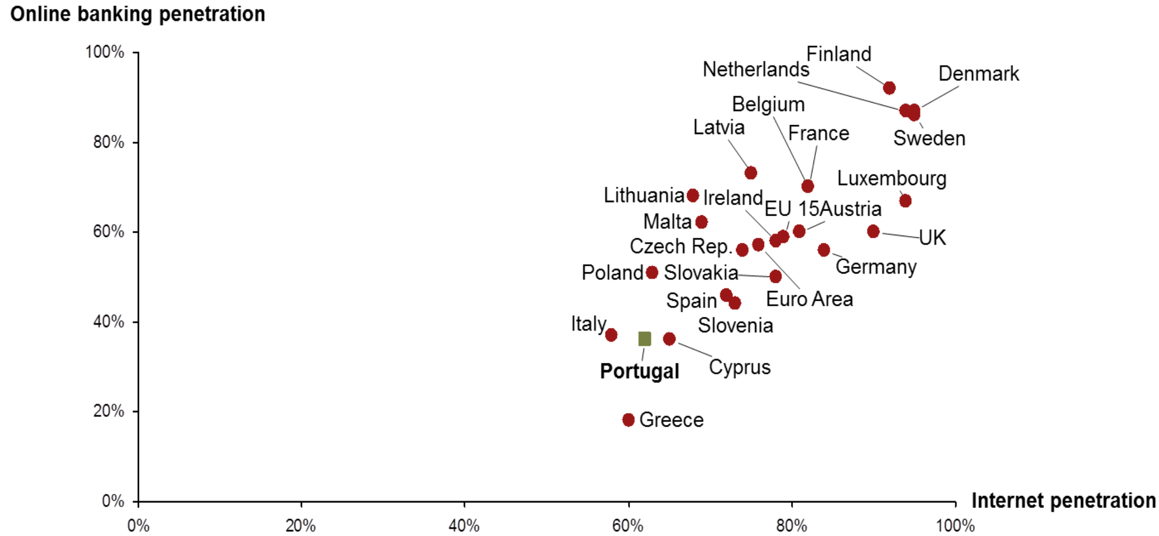
SOURCE: BANCO DE PORTUGAL

FIGURE 4 –BRANCH AND ATM DENSITIES FOR SELECTED COUNTRIES IN THE EURO AREA



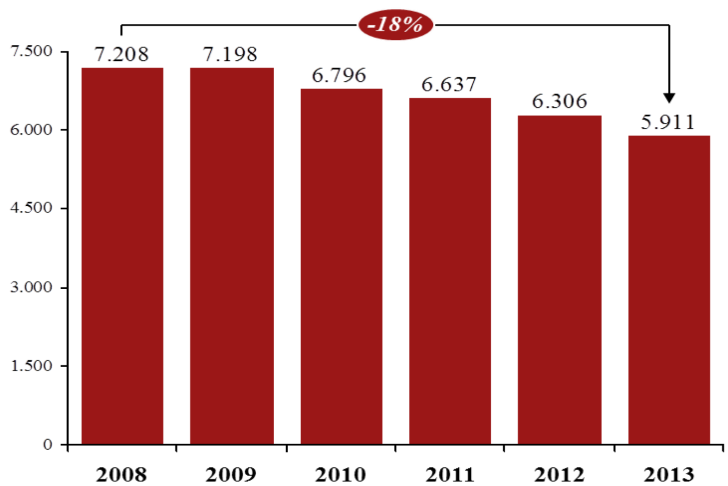
NOTE: DATA FROM 2012
SOURCE: ECB

FIGURE 5 – ONLINE BANKING AND INTERNET PENETRATION FOR SELECTED EU COUNTRIES



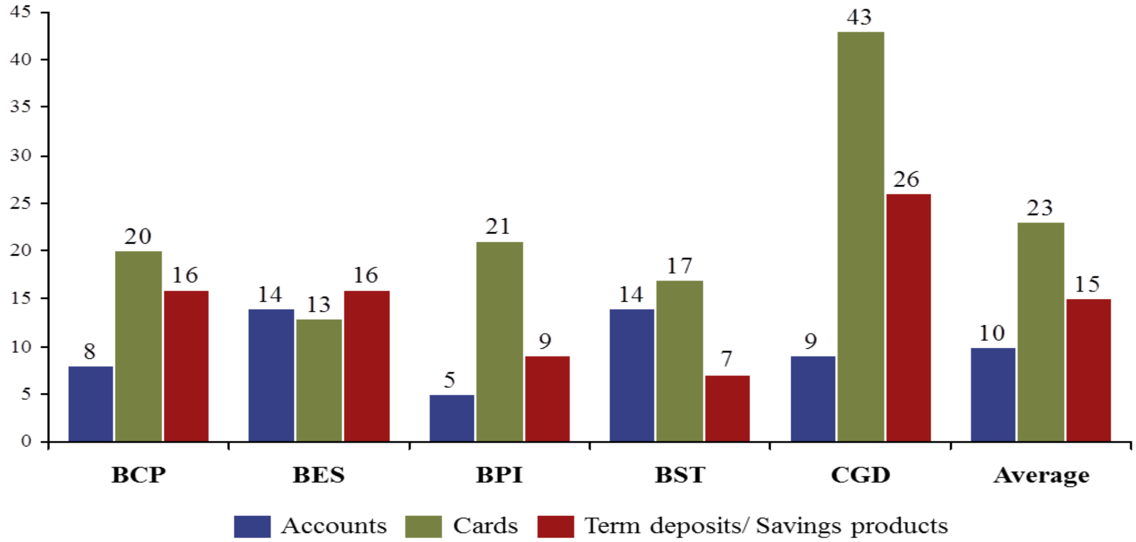
NOTE: ONLINE BANKING PENETRATION REFERS TO THE PERCENTAGE OF INDIVIDUALS WHO USED INTERNET BANKING IN THE LAST 3 MONTHS; INTERNET PENETRATION REFERS TO THE PERCENTAGE OF INDIVIDUALS WHO USED INTERNET IN THE LAST MONTHS. DATA AS OF DEC. 2013
SOURCE: EUROSTAT

FIGURE 6 – NUMBER OF BRANCHES OF CREDIT INSTITUTIONS IN PORTUGAL



SOURCE: ECB

FIGURE 7 – THE CURRENT OFFER OF ACCOUNTS, CARDS AND TERM DEPOSITS-SAVINGS BY THE FIVE LARGEST PORTUGUESE BANKS



NOTE: DATA COLLECTED FOR ALL CUSTOMERS SEGMENTS AVAILABLE. CARDS INCLUDE DEBIT AND CREDIT CARDS
SOURCE: BANKS' WEBSITE

FIGURE 8 – G&A PER TOTAL ASSETS AND TOTAL ASSETS PER EMPLOYES FOR SELECTED EU COUNTRIES

SOURCE: ECB