



BANCO DE PORTUGAL
EUROSISTEMA

Notice of the Banco de Portugal No 3/2020¹

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Notice Annex
to the Notice**

Text of the Notice

Exercising a financial activity inevitably involves the taking of risks of a different nature. These risks, if not properly managed, can impair the viability and sustainability of an institution, with negative consequences for the preservation of financial stability. Thus, this type of activity is subject to a set of prudential regulatory requirements, specifically designed to promote behaviours consistent with the preservation of financial stability and the protection of the interests of depositors and other customers. In this context, it is particularly important to regulate the conduct, culture, governance and internal organisation of the financial entities. This matter is addressed by the European Union law on the regulation of credit institutions which has been transposed into Portuguese law through the Legal Framework of Credit Institutions and Financial Companies. In addition, as early as 2008, the Banco de Portugal issued Notice of the Banco de Portugal No 5/2008, which regulates the internal control systems of the supervised entities, and Notice of the Banco de Portugal No 10/2011, which regulates the remuneration policies and practices of these entities.

Over ten years since the entry into force of Notice of the Banco de Portugal No 5/2008, a revision of the solutions contained therein has proven to be necessary, in light of the developments in European and Portuguese legislation, the guidelines of the European Banking Authority (EBA), international best practice, the long-standing reflection and practical supervisory experience of the Banco de Portugal, as well as for reasons of legal certainty. This revision is an opportunity to incorporate into this Notice the provisions of Notice of the Banco de Portugal No 10/2011, with a view to comprehensively addressing the various matters of organisational culture and governance and internal control, in order to foster an integrated and holistic view of those matters.

The provisions of this Notice are to be construed and applied taking into account the framework laid down by European and Portuguese legislation, regulations and guidelines on the subject. Unless otherwise stated, the concepts used in the Notice should be read in consideration of the definitions laid down in the Legal Framework of Credit Institutions and Financial Companies.

Without prejudice to the requirements set out in this Notice, each entity is responsible for deciding on and implementing the internal organisation model it considers most appropriate, taking into account the principle of proportionality and its idiosyncratic characteristics and circumstances. This Notice, in conjunction with the law and in accordance with the relevant EBA guidelines, serves as a framework for such decision and implementation, by lending it structure and highlighting the essential prudential objectives that cannot be overlooked by the supervised entities.

¹ In the event of inconsistency or discrepancy between the English and the Portuguese language versions, the Portuguese language version shall prevail.

Thus, this Notice considers (i) conduct and organisational culture, (ii) internal governance, organisational structure and strategic planning, (iii) internal control and risk management system, (iv) related parties and conflicts of interest, (v) reporting of irregularities, (vi) outsourcing of operational tasks of internal control functions and of the IT system for supporting the reporting of irregularities, (vii) policies for the selection and appointment of external auditors, (viii) remuneration policies and practices, (ix) financial groups, (x) self-assessment by the regulated entities of the matters provided for herein, and (xi) documentation, systematisation of information and public disclosure of information. Each of these matters is of particular relevance for sound and prudent management of the activity by the supervised entities, and the regime applicable to each of them is provided for in a separate chapter. In this Notice, the particular emphasis given to the subject of organisational conduct and culture is due to its decisive influence on the way the supervised entities manage their activity. In this regard, the “Banking Conduct and Culture – A Permanent Mindset Change” report, prepared by the G30 and published in November 2018, is noteworthy. This report refers to how organisational conduct and culture result from the internal mechanisms that generate the prevailing values and behaviours in the institution which regulate its staff members’ conduct, thus contributing to the creation of confidence in the institutions in general and to their positive reputation among the different internal and external interest groups.

In accordance with the EBA Guidelines on internal governance (EBA/GL/2017/11), disseminated by the Banco de Portugal through Circular Letter No CC/2018/00000016, the concept of internal governance includes all the criteria and principles related to how (i) an institution’s objectives, strategies and risk management system are established, (ii) its business is organised, (iii) its responsibilities and authority lines are established and assigned, (iv) its reporting lines are configured, and (v) its internal control system is organised and implemented, including the accounting procedures and remuneration policies. It also covers production information systems, outsourcing and business continuity management.

In this context, the selection and suitability assessment of the members of the management and supervisory bodies (individually and collectively) and key function holders should be initiated in a timely manner and rely on sustained identification of the precise needs of the supervised entity, given its specific characteristics and circumstances. These needs should underlie the decision on the number of members of the management and supervisory bodies and the establishment of committees to support these bodies, thus fostering sound and prudent management and effective internal supervision in each institution.

As regards the heads of the risk management, compliance and internal audit functions, in line with the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12), disseminated by the Banco de Portugal through Circular Letter No CC/2018/00000018, this Notice lays down that, for credit institutions identified by the Banco de Portugal as other systemically important institutions (O-SII), under Article 138-Q of the Legal Framework of Credit Institutions and Financial Companies, suitability for the performance of functions is subject to assessment and authorisation by the competent supervisory authority prior to any member taking up the post.

In order to consolidate the conditions for external auditors to carry out their work independently, impartially and objectively, supervised entities are obliged to adopt policies, in line with the minimum content laid down in the Notice, for the selection and appointment of statutory auditors or audit firms. In this respect, the institutions must also comply with any recommendations issued by the Committee of European Auditing Oversight Bodies (CEAOB) on the subject. This Notice addresses that subject to the extent that the policies adopted by the supervised entities in this field fall within the scope of their internal governance, evidently without prejudice to any supervisory powers of the audit activity conferred on the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários* – CMVM).

As regards internal control, and in accordance with prior Notice of the Banco de Portugal No 5/2008, it is important to consider that the institutions' control environment reflects their behaviour and measures towards internal control which are a result of (i) beliefs, preferences and value judgements expressed by their management body and the remaining staff members relative to the internal control system, and (ii) a focus on internal control, measures taken, approved policies and procedures and the design and implementation of the organisational structure. The control environment is influenced, namely, by (i) the standard of ethical values followed by the institution, (ii) the existence of sufficient and appropriate material, technical and human resources, (iii) the degree of transparency of the organisational structure and of its adequacy given the complexity, size and nature of the institution's activity, (iv) the clearness of the reporting lines and of the responsibilities and powers assigned to each function, (v) the quality of strategic planning and (vi) the degree of involvement of the management body in the activities carried out.

In order to ensure sound and prudent management, the analysis and decision-making process within the supervised entities should be risk-sensitive and rely on credible, complete and the most up-to-date information as possible.

This Notice, in line with the EBA Guidelines on internal governance (EBA/GL/2017/11), is based on the 'three lines of defence approach' of the Institute of Internal Auditors, recently referred to by the European Systemic Risk Board in the report entitled "Macroprudential approaches to non-performing loans", published in January 2019, and by the G30 in the report entitled "Banking Conduct and Culture – A Permanent Mindset Change", published in November 2018. In general terms, the 'three lines of defence approach' is based on the division of different responsibilities in the field of governance and risk management across the various functions which are part of each of the lines and which may be briefly characterised as follows:

- First line: business units and related areas, which generate risk to the institution and which are primarily responsible for the identification, assessment, monitoring and control of the risks they incur, in accordance with Article 26 of this Notice;
- Second line: support and control functions that include the risk management and compliance functions, which interact with the functions of the first line to ensure appropriate identification, assessment, monitoring and control of the risks inherent in the activity developed by the functions of the first line, in accordance with Articles 27 and 28 of this Notice;

- Third line: the internal audit function, which carries out independent and risk-oriented analyses, in accordance with Article 32 of this Notice.

Bearing in mind these three lines of defence, the supervised entities should take their specific features into account when developing their internal control systems, for example, by being able to break down the lines of defence into various functions within the supervised entity.

Notwithstanding, two fundamental premises must always be safeguarded: the first is that all risk-taking units are responsible for their primary management, so it is essential to ensure that they set out the necessary and appropriate mechanisms for this purpose and that they effectively interact with the second line of defence to that end. The second is that it should always be ensured that the risk management function has an aggregate and holistic view of all the risks inherent in the institution's activity, regardless of the risk management model adopted.

For the purposes of this Notice, only the risk management, compliance and internal audit functions and the function of monitoring compliance with the regulatory framework (where separated from the compliance function) provided for in Article 7 of Notice of the Banco de Portugal No 2/2018 correspond to internal control functions. The Notice lays down the requirements which are necessary to ensure the organisational independence of these functions. A special rule – containing exceptions – lays down that these functions should be established in business units other than the units carrying out activities intended for monitoring and control and in business units that are autonomous and independent of each other. However, while supervised entities should promote the independence of internal control functions taking into account the business objectives, they should not prevent virtuous interactions among the various lines of defence. The ultimate objective must always be the smooth and efficient functioning of the internal control system, based on an appropriate control environment involving all staff, where each member is aware of their role in the system concerned.

As regards the internal control functions, this Notice establishes the obligation to enable direct access to the management and supervisory bodies and their supporting committees, where applicable. This rule seeks, on the one hand, to ensure that those functions are capable of transmitting, directly and immediately, any information to those bodies without any prior intervention of third parties and, on the other hand, that the latter may request that information directly from the internal control functions.

In view of ensuing developments, the risk categories provided for in Notice of the Banco de Portugal No 5/2008 have been suppressed, and this Notice now refers to the provisions of the applicable legislation, regulations and guidelines. However, the principle prevails that supervised entities must adopt risk categories that, as a whole, cover all factors associated with the risk events to which they are or might be exposed.

With regard to the process of production, processing and reporting of information by the institutions, the opportunity was taken to update Article 19 of Notice of the Banco de Portugal No 5/2008, in light of the recommendations published in this field by the Basel Committee on Banking Supervision.

Given its importance, and in line with the existing EBA Guidelines (EBA/GL/2019/02) disseminated by the Banco de Portugal through Circular Letter No CC/2019/00000065, this Notice also addresses the possibility of occasional outsourcing of operational tasks of internal control functions, laying down a specific scheme to be adhered to by the supervised entities when they resort to that type of outsourcing.

In parallel, and in line with provisions already established in Notice of the Banco de Portugal No 5/2008, this Notice lays down the possibility for institutions, where part of a financial group, to be able to establish common services for the development of responsibilities assigned to the risk management, compliance and internal audit functions. The specific scheme to be observed is laid down in the chapter on financial groups, where it is expressly determined that the provider of the common service may not be established in a jurisdiction with a legal system which prevents or limits either the institutions from complying with the legal and regulatory rules governing their activity (including the provision and circulation of information) or the exercise of supervision by the competent supervisory authority.

One of the most relevant sources of risk for supervised entities and the financial system is conflicts of interest, with a particular focus on transactions with related parties and the acceptance of donations. The relevance of these matters has led to their inclusion in this Notice, by laying down the obligation for supervised entities to adopt policies on these matters, as well as the related specific schemes to be observed.

As regards remuneration policies and practices, and also in line with the EBA Guidelines on sound remuneration policies (EBA/GL/2015/22) disseminated by the Banco de Portugal through Circular Letter No CC/2016/00000036, this Notice contains supplementary rules to those laid down in the Legal Framework of Credit Institutions and Financial Companies, which are important for their practical implementation by the supervised entities. Some of these rules were included in Notice of the Banco de Portugal No 10/2011, which is hereby repealed.

The grouped organisation of the supervised entities raises a specific set of prudential concerns that justify its enhanced treatment in this Notice. In addition to the possibility of establishing common services for the development of the risk management, compliance and internal audit functions, it is also expressly stated that the parent undertakings should have the information necessary to carry out a full assessment of the group's risk profile. Furthermore, they should be aware of its structure, which must be transparent, to allow not only the parent undertaking but also third parties, particularly the supervisor, to fully understand how it is organised. This Notice also enshrines the principle of transparency in financial groups' organisation and the principle of consistency of financial groups' internal control systems.

Under this Notice, the supervised entities are obliged to carry out a self-assessment of the adequacy and effectiveness of their organisational culture and internal control and governance systems. This self-assessment is described in an annual report which is prepared with the reference date of 30 November of each year. This report shall now include, at least, assessments made by the management and supervisory bodies of the supervised entities and reports prepared by the internal control functions containing an assessment of the independence of these functions and information on any related deficiencies.

The Notice lays down the minimum content for these assessments, clarifies their need to be comprehensive, conclusive and substantiated and identifies the sources of internal and external information that should be used to support the assessments made. The goal is to promote regular reflection by the institutions on the degree of compliance with the matters addressed in the Notice, in order to consider the adoption of appropriate measures to overcome any identified deficiencies.

With regard to the content of these assessments, the requirements on this matter imposed on the supervisory body have been revised and clarified, and these assessments now cover the organisational culture and the internal control and governance systems, in line with their responsibilities under domestic and European legislation. Thus, the assessment of the supervisory body covers, *inter alia*, the entire internal control system.

In this context, the role of the statutory auditor or audit firm in this matter has also been revised and clarified. Contrary to the provisions of Notice of the Banco de Portugal No 5/2008, this Notice no longer requires an independent opinion from the statutory auditor or audit firm on the part of the internal control system relating to the process of preparing and releasing financial information. However, the work carried out by those entities should continue to serve as a basis for the assessments of the management and supervisory bodies, either through work already provided for in legislation on auditing or through additional work that is specifically outsourced by the institution to assist in the assessment of the organisational culture and the internal control and governance systems.

The same rationale is adopted for financial groups, although the self-assessment reports for groups are less comprehensive, focusing on internal control.

Finally, experience gained also revealed the need for rules on document management. In this regard, this Notice lays down the obligation for supervised entities to keep, for example, adequate document records, ensuring that the documentation contained therein enables, *inter alia*, a clear understanding of the reasoning behind the decisions taken and the parties involved.

The supervised entities are also required to systematise, in an integrated and up-to-date manner, the information concerning the matters set out in the Annex to this Notice. This information includes the descriptive part of the previous internal and control report, which is immediately made available to the competent supervisory authority upon request.

The draft proposal of this Notice was submitted to public consultation, and the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM), the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões) and the Portuguese Data Protection Authority (Comissão Nacional de Proteção de Dados) were heard.

Thus, in the exercise of the powers conferred upon it by Article 17 of its Statute, approved by Law No 5/98 of 31 January 1998, and by the provisions of Article 30-B(12), Article 99(2), Article 115(3), Article 115-G(3), Article 115-I(2), Article 116(1)(f), Article 116-AA(8) and Article 133(c) of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, the Banco de Portugal hereby decrees as follows:

Chapter I
General provisions

Article 1
Subject matter

1 – This Notice regulates the internal control and governance systems and sets the minimum standards upon which the organisational culture of the following entities (hereinafter referred to as “institutions”) should be based, without prejudice to other applicable legal and regulatory provisions:

- (a) credit institutions and financial companies having their head office in Portugal;
- (b) branches of credit institutions, financial institutions and investment firms having their head office in countries other than the Member States of the European Union;
- (c) holding companies subject to the supervision of the Banco de Portugal under Article 117 of the Legal Framework of Credit Institutions and Financial Companies, where they are considered parent undertakings under Article 2-A(q) of that Legal Framework.

2 – The institutions are responsible for complying with all obligations laid down in this Notice, regardless of whether they are especially imposed on a body or agent within the organisation.

3 – The Central Mutual Agricultural Credit Bank shall issue the guidelines required to ensure consistent and sound application of this Notice by the Integrated Mutual Agricultural Credit Scheme.

Chapter II
Conduct and organisational culture

Article 2
Organisational culture

1 – Within the scope of their powers, the management and supervisory bodies are responsible for promoting an organisational culture within the institution, which is based on high ethical standards and which, cumulatively:

- (a) promotes an integrated risk culture that covers every activity area of the institution and ensures the identification, assessment, monitoring and control of the risks to which the institution is or might be exposed;
- (b) promotes responsible and prudent professional conduct, to be observed by all staff and members of the management and supervisory bodies in the performance of their functions, based on high ethical standards enshrined in the institution's code of conduct;
- (c) contributes to bolstering the institution's levels of confidence and reputation both internally and in the relationships with customers, investors, supervisory authorities and other third parties.

2 – In the exercise of their powers, the members of the management and supervisory bodies, the other members of the senior management and the key function holders shall contribute to the sound and prudent management of the institution and to an organisational culture with the characteristics referred to in the foregoing paragraph.

3 – The management body shall ensure that the service providers with which the institution establishes relations, in the context of any activity or function that it outsources, promote an organisational culture based on ethical standards similar to those of the institution.

4 – Where the nature of the outsourced functions so warrants, the institutions shall contractually require that service providers ensure that staff members assigned to the performance of functions in the institution sign a confirmation of knowledge and consent form to be bound by the institution's code of conduct.

Article 3

Obligations of the management body

1 – The management body shall:

- (a) promote the establishment, approve, upon prior opinion of the supervisory body, and monitor the implementation of a code of conduct with the characteristics referred to in the following Article;
- (b) regularly discuss matters relating to conduct and organisational culture in its meetings and in any meetings with other senior management members, and ensure that their findings are recorded;
- (c) adopt measures that value behaviours in line with an organisational culture with the characteristics described in Article 2(1), including appropriate and proportionate disciplinary action where situations of non-compliance with rules of conduct are detected;
- (d) promote a control system that values internal control as essential for the institution's long-term resilience and good performance;
- (e) inform the different business units, through regular communication, on the institution's risk tolerance level, and take specific steps to promote strong awareness among all the institution's staff of the risk aversion levels that exceed the set limits and ensure that all staff members are aware of their risk-taking and control responsibilities;
- (f) promote an organisational environment that encourages staff members to share their opinion freely and openly and to report any problems upwards without fear of reprisals, and not to adopt or tolerate aggressive management practices;
- (g) promote training courses, mandatorily carried out at the taking-up of the post and renewed every two years or whenever there are significant changes in content, to raise awareness among all the staff, including the members of the management and supervisory bodies, of the values of the institution and the rules of conduct in force, particularly by ensuring that the staff of the institution is aware of the legal and disciplinary consequences which may result from improper conduct;

- (h) in addition to the provisions of the foregoing subparagraph, promote the communication and disclosure of the rules of conduct in force in the institution throughout the year, in order to make them part of day-to-day management and the decision-making process;
- (i) ensure that in the process of recruiting and selecting new staff, including members of the social bodies, the candidates' compliance with the institution's ethical standards is assessed;
- (j) act with diligence, loyalty and impartiality in any relationships with third parties, and ensure that free, transparent and auditable internal procedures are adopted, notably for the outsourcing of services and the acquisition and disposal of assets by the institution.

2 – The management body shall promote periodic and independent assessments, to be carried out by an entity outside the institution, of the institution's conduct and values, which shall also cover the conduct and values of the management body itself and its committees.

3 – On its own initiative, the institution's supervisory body shall also promote periodic and independent assessments, to be carried out by an entity outside the institution, of the conduct and values of the body itself, which may be developed in conjunction with the assessments referred to in the foregoing paragraph.

Article 4

Code of conduct

1 – The institution's code of conduct shall be clear, understandable and consistent with other internal rules in force in the institution.

2 – The institution's code of conduct shall provide for the following at least :

- (a) performance of the activity in compliance with applicable legislation, regulations and guidelines and the internal standards adopted by the institution;
- (b) obligation to adopt a behaviour that is consistent with the risk tolerance levels set by the institution;
- (c) establishment of acceptable and unacceptable behaviour and respective prevention and control measures and procedures, namely as regards the duty of secrecy, the prohibition of unlawful use of inside information, duty of loyalty, prevention of conflicts of interest and business with related parties, activities carried out in conjunction with the functions performed in the institution, donations, offers and benefits, and contacts with the media and other external entities;
- (d) guiding principles and internal rules governing the various aspects of relationships with customers, including the internal mechanisms and procedures adopted for assessing complaints, in accordance with the Legal Framework of Credit Institutions and Financial Companies;

(e) legal and disciplinary consequences of any failure to comply with the code of conduct.

3 – The management body shall, upon prior opinion of the supervisory body, approve the code of conduct and the internal policies and regulations for its development and materialisation, laying down, inter alia, the responsibilities of the internal control functions, the procedures for regular monitoring of its observance, the measures for the prevention, identification, management and mitigation of conflicts of interest and associated reporting obligations.

4 – The management body shall ensure that the code of conduct referred to in the foregoing paragraph is subject to periodic reviews, to be carried out at least every two years and whenever any changes in the legislation and regulations so require.

5 – The management body is responsible for guaranteeing that the institution ensures that every staff member expressly confirms their knowledge of the code of conduct in force.

6 – The management body is responsible for ensuring that the code of conduct is disclosed internally in the institution and externally through the institution's website.

Chapter III

Internal governance, organisational structure and strategic planning

Section I

Management and supervisory bodies

Article 5

Organisation and composition

1 – The management and supervisory bodies of the institution shall identify and assess their needs in terms of composition and organisation.

2 – In addition to the provisions of the foregoing paragraph, and where the management body so decides, the management body shall identify and assess which tasks shall be distributed by each member with executive functions, taking into account the specific needs of the institution.

3 – As a result of the identification and assessment under paragraph 1, the nomination committee provided for in Article 115-B of the Legal Framework of Credit Institutions and Financial Companies, where applicable, or the management and supervisory bodies shall prepare a detailed description of the responsibilities and functions to be carried out by each of their members and of the professional skills and experience required for such purpose.

4 – In order to comply with the provisions of the foregoing paragraphs, the management body, in conjunction with the supervisory body, shall ensure that the institution has properly documented and approved the internal policies and procedures that enable:

(a) the identification and assessment of the needs referred to in paragraph 1 and the preparation of the description referred to in paragraph 3;

(b) the identification, selection and assessment of potential candidates for their management and supervisory bodies in order to meet the needs referred to in paragraph 1, taking into account the description referred to in paragraph 3.

5 – The internal procedures referred to in the foregoing paragraph shall include an appropriate confirmation of the information provided by candidates for the management and supervisory bodies in the selection and assessment process.

6 – Bearing in mind paragraphs 1 and 3, the institution shall have a succession policy which takes into account the policy for selecting and assessing the members of the management and supervisory bodies and the key function holders and which shall include the identification and description of detailed function profiles, including the organisational role of the position, its main responsibilities and interactions, as well as any required academic training, professional experience and management skills or specific skills.

7 – The succession policy referred to in the foregoing paragraph shall additionally specify the internal and/or external process supporting the selection and assessment of potential successors, the bodies involved and respective schedule, as well as support the preparation of a permanently updated list of possible candidates for the management and supervisory bodies which may be submitted to the shareholders' meeting for consideration.

8 – For the purposes of paragraphs 6 and 7, the institution shall only collect and retain the personal data required for the accomplishment of the objectives of these provisions, namely, the name, contact details, academic qualifications and professional background.

Article 6

Effective internal supervision

1 – The management body shall regularly and effectively interact with the supervisory body and ensure that it has all the information necessary for the full exercise of the powers conferred upon it by law.

2 – The supervisory body shall lay down and formalise the procedures enabling it to receive the information necessary for the proper exercise of its functions.

3 – At any time, the supervisory body may request any document or information, written or oral, deemed important for the performance of its functions directly from the various business units or any staff member of the institution, particularly the internal control functions, without the need for any prior request or communication to the management body, and without the latter being able to prevent the supervisory body from accessing the relevant information or document.

4 – On their own initiative, the internal control functions may transfer any information or submit any document deemed important directly to the supervisory body, without the need for prior request or communication to the management body, and without the latter being able to prevent the supervisory body from accessing the relevant information or document.

5 – Any restriction, even a temporary restriction, on the access to any information, documentation or staff members of the institution, as provided for in paragraph 3, or on the access of the internal control functions to the supervisory body, as provided for in paragraph 4, shall be immediately reported to the competent supervisory authority, discussed in a meeting of the supervisory body and recorded in minutes.

6 – This Article shall apply to non-executive members of the institution's management body, where applicable.

Article 7

Committees

1 – The management and supervisory bodies shall establish any supporting committees required for the most efficient pursuit of their responsibilities.

2 – The management and supervisory bodies shall adopt specific regulations for each committee, laying down its functioning and containing, namely, the identification of its chairman and its secretary, where appointed, its members, their powers and the frequency of meetings, as well as the procedures established for preparing and scheduling the meetings, such as minimum supporting documentation, mechanisms and deadlines for submission.

3 – For the purposes of the foregoing paragraph, the institution shall only collect and retain the personal data required for the accomplishment of the objectives of this provision, namely, the name, contact details and position held in the institution.

4 – The setting-up of a remuneration committee, as provided for in Article 115-H of the Legal Framework of Credit Institutions and Financial Companies, is mandatory for the following institutions:

- (a) credit institutions identified as other systematically important institutions (O-SIIs) in accordance with Article 138-Q of that Legal Framework;
- (b) institutions which, having not been identified as other systematically important institutions (O-SIIs), have staff members, including members of the management and supervisory bodies, who receive a particularly high income, resulting in an annual income of €1,000,000 or above per financial year.

5 – The setting-up of a risk committee, as provided for in Article 115-L of the Legal Framework of Credit Institutions and Financial Companies, is mandatory for institutions identified as other systematically important institutions (O-SIIs) in accordance with Article 138-Q of the Legal Framework of Credit Institutions and Financial Companies.

6 – Except in duly substantiated circumstances that have been accepted by the competent supervisory authority, the chairman of the risk committee may not serve as chairman of any other committee of the institution.

7 – Where the entity identified as O-SII, in accordance with Article 138-Q of the Legal Framework of Credit Institutions and Financial Companies, is not a credit institution, this Article shall apply to any credit institutions for which the O-SII is a parent undertaking.

Article 8

Record of meetings of collegiate bodies

1 – Within the scope of their powers, all the collegiate bodies of the institution, including the committees, are responsible for ensuring that minutes are drawn up in a timely manner for all meetings held, allowing for an adequate understanding of the matters addressed therein and containing at least:

- (a) the name, capacity and signature of all meeting attendees, as well as an explicit list of the absent members;
- (b) the identification of the supporting documentation for each of the agenda items;
- (c) the reasons for each decision taken, including the voting behaviour, identification of the voting members and an explicit reference to any different views;
- (d) the description of any recommendations made;
- (e) the identification of issues to be followed up in future meetings.

2 – The collegiate bodies and committees of the institution are responsible for ensuring that the supporting documentation is properly archived for each item of the agenda of the meetings.

3 – For the purposes of this Article, the management body shall ensure that the institution has an IT system for the management of documents of the meetings of its collegiate bodies and committees.

Section II

Organisational structure and strategic planning

Article 9

Organisational structure

1 – The management body shall set, approve and implement the organisational structure of the institution, which includes the institution's corporate bodies and its committees, ensuring that:

- (a) it is laid down, in an integrated, objective, transparent and intelligible manner, in a manual of the organisational structure or an equivalent internal document;
- (b) it supports the institution's activity and the implementation of an adequate and efficient internal control system, in order to ensure that the management and control of operations are conducted prudently;
- (c) it relies on a coherent, clear and objective setting of the reporting and authority lines, the powers and responsibilities of each body, the business and function unit, as well as the degree and scope of inter-cooperation among them;
- (d) it considers an appropriate segregation of potentially conflicting functions, without undermining interactions among these functions with potential added value for the regular functioning of the institution, ensuring that any situations of potential conflicts of interest are identified in advance, minimised and subject to careful and independent monitoring;

(e) it is based on a sufficient number of senior and intermediate management members, as well as other staff members, to develop the specified responsibilities and functions.

2 – The organisational structure, including the powers and responsibilities of each body, business or function unit, reporting and authority lines, information flows and the degree and scope of cooperation and interaction among the various bodies, business or function units shall be:

(a) communicated by the management body to every staff member of the institution, including the members of the supervisory body, in a timely and suitably detailed manner;

(b) regularly analysed and reviewed, at least every two years and whenever necessary, by the management body, in order to ensure their timeliness and permanent adequacy to the institution's specific circumstances.

3 – For institutions with a low level of activity and associated risks and where, due to limited available resources, total segregation of potentially conflicting functions is unfeasible, the institutions shall identify, document, keep on record and implement alternative control procedures in order to avoid or minimise the risk of conflicts of interests.

4 – The management body shall ensure that the institution's internal control system includes procedures that ensure that each institution's business unit, including the management and supervisory bodies, complies with the duties to act arising from this Notice in a timely manner.

5 – The supervisory body shall issue a binding prior opinion on all matters referred to in this Article relating to its own organisation.

Article 10

Strategic planning

1 – The management body shall set a long-term sustainable strategy for the institution's activity, its risk profile and internal control, through a formal planning process, conducted at an appropriate frequency.

2 – The strategy referred to in the foregoing paragraph shall be prepared on the basis of duly substantiated assumptions, which are the subject of sensitivity analyses, and reliable and understandable information, particularly with a view to:

(a) enabling its timely adaptation in the event of significant changes in the underlying assumptions, based on a prior assessment of the impact of any materialisation of deviations;

(b) laying down precise, clear and sustainable objectives for the overall activity and each business area, covering the institution's main products, activities, systems and processes;

(c) determining a risk policy that allows for the projected levels of profitability to be supported taking into account the risks involved;

(d) establishing guidelines that serve as the basis for the development of the institution's internal control system.

3 – The institution's strategy shall be communicated by the management body to every staff member of the institution, including the members of the supervisory body, at an appropriate frequency, in an appropriate and suitably detailed manner.

Article 11

Material, technical and human resources

1 – The management body shall ensure that the material resources, including capital and liquidity, and technical and human resources are adequate for sound and prudent pursuit of the institution's long-term strategy and that the various business units of the institution have the necessary material, technical and human resources to perform their functions efficiently and continuously.

2 – The management body is responsible for ensuring that the institution sets, approves, implements and reviews specific human resources policies, notably those related to recruitment and selection, performance assessment, promotion and career management, remuneration, training and skills development, which permanently promote:

- (a) responsible and prudent professional conduct, in accordance with Article 2(1)(b);
- (b) a level of knowledge, experience and skills appropriate to the responsibilities and functions assigned to each staff member;
- (c) appropriate knowledge of each staff member of the respective function and responsibilities within the institution and of the relationship between that function and other functions, particularly in the context of the internal control system.

Chapter IV

Internal control and risk management system

Section I

General provisions

Article 12

Establishment of the internal control system

1 – The institution's management body shall establish and maintain an internal control system, reflecting a set of strategies, policies, processes, systems and procedures to ensure the institution's sustainability in the medium and long term and the prudent exercise of its activity by:

- (a) complying with the objectives established in the strategic planning, based on an efficient implementation of operations, efficient use of the institution's resources and safeguarding of its assets;
- (b) properly identifying, assessing, monitoring and controlling the risks to which the institution is or might be exposed;

- (c) having complete, reliable, relevant and timely financial and non-financial information;
- (d) adopting sound accounting procedures;
- (e) complying with the legislation, regulations and guidelines applicable to the institution's activities and issued by the competent authorities, complying with the institution's internal rules, as well as the professional and ethical standards and practices and rules of conduct and rules governing the relationship with customers.

2 – The internal control system shall cover the whole institution, including the management and supervisory bodies' responsibilities and tasks, and the activities of all business lines, business units, namely internal control functions, outsourced activities and distribution channels.

Article 13

Organisation of the internal control system

1 – The management body shall ensure that the internal control system established in accordance with the foregoing Article is set taking into account the principle of proportionality and the degree of centralisation and delegation of powers established in the institution.

2 – The management body shall ensure that the internal control system:

- (a) includes permanent and effective internal control functions with a stature, authority and independence within the organisational structure in accordance with the provisions of this Notice, which are designed to check in their areas of competence if the set strategies, policies, processes, systems and procedures are appropriate, duly updated, correctly implemented and effectively complied with;
- (b) relies on a risk management system to identify, assess, monitor and control all the risks that might influence the strategy and objectives established for the institution, and which ensures its effective enforcement, enabling measures to be taken to respond to unwanted or unexpected deviations in a suitable and timely manner;
- (c) relies on an efficient information and communication management system that ensures the collection, processing, filing and exchange of important, comprehensive and consistent data, within a timeline and in such a way that it allows for efficient and timely management and control of the activity and risks to which the institution is or might be exposed;
- (d) relies on a continuous monitoring process that ensures the adequacy and effectiveness of the internal control system over time and timely identification and correction of any deficiencies.

3 – For the purposes of the provisions of this Notice, 'deficiencies' means a series of potential or actual inadequacies or of opportunities to introduce improvements to strengthen the organisational culture and the risk management, governance and internal control systems in respect of all matters covered by this Notice, including remuneration policies and practices.

4 – The management body of the parent undertaking shall ensure that the internal control system is consistently implemented in all subsidiaries and branches of the institution, in Portugal and abroad, without prejudice to any necessary adjustments imposed by the legislation and regulations in force in the host country.

Section II

Internal control functions

Article 14

Business units that perform internal control functions

1 – The management body shall set the business units which carry out the functions of risk management, compliance and internal audit, in accordance with the model it deems most appropriate, taking into account the institution's specific characteristics, which may include the breakdown of each of these functions into more than one business unit.

2 – The requirements laid down in this Notice relating to the compliance function only apply to the function of monitoring compliance with the regulatory framework, as referred to in Article 7 of Notice of the Banco de Portugal No 2/2018, where this function is separate from that internal control function.

3 – Without prejudice to the provisions of the foregoing paragraphs, the management body shall ensure that the risk management function has an overall view of all the risks to which the institution is or might be exposed.

4 – The management body shall establish and maintain internal control functions that:

- (a) have sufficient stature and authority to carry out their responsibilities objectively and independently, and have its own regulations approved by the management body, upon prior opinion of the supervisory body;
- (b) have activity plans approved by the management body, upon prior opinion of the supervisory body;
- (c) fulfil their responsibilities independently, and the results of the assessments they carry out may not be conditioned or limited, for example, by internal provisions or guidelines on the maximum number of identified deficiencies or by the establishment of any implicit or explicit relationship between the identified deficiencies and the performance assessment of staff members assigned to the control functions;
- (d) have a person who is responsible for the function to which Article 17 applies and a sufficient number of permanently qualified staff, as well as suitable material and technical resources for the effective performance of their responsibilities;
- (e) have appropriate information systems with access to the internal and external information required to fulfil their responsibilities, including information on the subsidiaries and branches of the institution;

- (f) have full, free and unconditioned access to all functions, activities, including outsourced functions, processes and activities, to the institution's own or its service providers' premises, goods and staff members, information, accounting records, systems, computer files and data.

5 – The internal control functions shall have direct access to the management and supervisory bodies and to their supporting committees, where applicable, on their own initiative or on the initiative of any member of these bodies.

6 – Any restriction on an independent performance of the internal control functions shall be immediately reported by the head of the internal control function concerned to the management and supervisory bodies to be reviewed and recorded in the minutes, and to the competent supervisory authority.

7 – The supervisory body shall participate in the process for assessing the performance of the internal control functions and their heads mentioned in Article 17.

Article 15

Segregation of the internal control functions

1 – The internal control functions shall be established in organisationally separated business units of the activities they monitor and control, without prejudice to Article 16(1).

2 – The risk management, compliance and internal audit functions shall be established in autonomous and independent business units, without prejudice to Article 16(2).

Article 16

Exceptions to segregation of the internal control functions

1 – Where the institution is not authorised to receive deposits, and to the extent that it adopts the mechanisms required to prevent or mitigate the risk of conflicts of interest:

- (a) the requirement provided for in Article 15(1) shall not apply to the risk management function where the number of staff members, excluding members of the management body, is below thirty and the operating income in the preceding financial year is below €20,000,000;
- (b) the requirement provided for in Article 15(2) shall not apply to the compliance function where the number of staff members, excluding members of the management body, is below six and the operating income in the preceding financial year is below €1,000,000.

2 – Where the institution is not authorised to receive deposits, and to the extent that it adopts the mechanisms required to prevent or mitigate the risk of conflicts of interest, the management body may decide, on a reasoned basis and recorded in minutes, to combine in a single business unit the responsibilities of the risk management function with the responsibilities of the compliance function set forth in this Notice.

3 – Where the institution is not authorised to receive deposits, the internal audit function:

- (a) shall not be mandatory if the number of staff members, excluding members of the management body, is below thirty and the operating income in the preceding financial year is below €20,000,000, in which case the institution shall adopt additional monitoring procedures to mitigate the absence of the function;
- (b) may be fully outsourced, provided the provisions of Article 36 are observed and without prejudice to the appointment of a head for the function, who is a staff member of the institution and who, together with the management and supervisory bodies, remains responsible for the fulfilment of the requirements applicable to the function.

4 – The outsourcing provided for in subparagraph (b) of the foregoing paragraph shall be subject to a prior opinion of the supervisory body and shall not preclude compliance with Article 32. It shall be at all times ensured that the service provider has the technical and human capacity to carry out, in an effective, independent, reliable and professional manner, the responsibilities allocated to the outsourced function.

5 – The provisions of this Article shall not undermine the possibility, under the Legal Framework of Credit Institutions and Financial Companies, for the competent supervisory authority to require that the institutions establish the risk management function and the compliance function in organically separated business units or establish a permanent internal audit function within the institution, whose scope of tasks that may be outsourced is limited to that permitted by Article 36.

Article 17

Heads of the internal control functions

1 – Without prejudice to Article 16, the heads of the internal control functions are part of the institution's senior management, take up no other duties within the institution and perform their functions independently.

2 – Notwithstanding the general responsibility of the members of the management body, in the performance of their duties the heads of the internal control functions may not be subordinates of the executive member of the management body that is responsible for managing the activities which are monitored and controlled by each internal control function.

3 – Where the institution is not authorised to receive deposits and where the size, nature, scope and complexity of the institution's activity, and its risk appetite, are no reason for the head of the risk management function or the head of the compliance function to be part of the senior management, the management body may decide, on a reasoned basis and recorded in minutes, that the position shall be carried out by a senior person within the institution who performs other functions, as long as the absence of conflicts of interest is safeguarded and all measures required to mitigate them are implemented.

4 – The decision to replace the heads of the internal control functions shall be taken by the management body of the institution and:

- (a) the reasons therefor shall be duly substantiated;
- (b) it shall depend on a binding prior opinion of the supervisory body;

- (c) a report on the suitability assessment of the substitute shall be prepared under Article 30-A of the Legal Framework of Credit Institutions and Financial Companies;
- (d) it shall be immediately communicated to the competent supervisory authority, with its underlying reasoning.

Article 18

Authorisation for the performance of the functions by the heads of the internal control functions

- 1 – In addition to Article 33-A(3) and (4) of the Legal Framework of Credit Institutions and Financial Companies, for credit institutions classified as other systemically important institutions (O-SIIs) under Article 138-Q of that Legal Framework and prior to the taking-up of the post, the suitability of the heads of the risk management, compliance and internal audit functions shall be subject to authorisation for the performance of functions by the competent supervisory authority.
- 2 – For the purposes of this Article, Articles 30-B, 30-C, 30-D and 31 of the Legal Framework of Credit Institutions and Financial Companies shall apply *mutatis mutandis*.
- 3 – For groups subject to supervision on the basis of their consolidated financial situation, where the parent undertaking corresponds to an O-SII, the foregoing paragraph shall apply only to the parent undertaking.
- 4 – Where the entity identified as O-SII is not a credit institution, this Article shall apply to any credit institutions for which the O-SII is the parent undertaking.
- 5 – For the purposes of this Article, the institution shall only collect and retain the personal data required for the assessment of the suitability of the heads of the risk management, compliance and internal audit functions by the institution itself and by the competent supervisory authority, under the terms of Instruction of the Banco de Portugal No 23/2018.

Section III

Risk management system

Article 19

Implementation of the risk management system

- 1 – The management body shall implement a risk management system, reflecting a set of strategies, policies, processes, systems and procedures to identify, assess, monitor and control all risks to which the institution is or might be exposed, both internally and externally, to ensure that they remain at the level previously set by the management body and that they do not significantly affect the financial situation of the institution.
- 2 – The management body shall ensure that the risk management system:
 - (a) is effectively and consistently incorporated into the process for setting the institution's strategy;

(b) actively influences the decision-making process of the management body, the executive committee, where applicable, and the senior and intermediate management;

(c) effectively contributes to the proper exercise of powers by the supervisory body.

3 – The establishment and implementation of an internal control system that is appropriate to manage the risk of money laundering and terrorist financing shall be subject to the applicable legal and regulatory rules on the matter.

4 – The management body shall bear the overall responsibility for proper management of all risks to which the institution is or might be exposed.

Article 20

Organisation of the risk management system

1 – The risk management system shall be organised in such a way as to:

- (a) be sound, effective and consistent;
- (b) cover all products, activities, processes and systems, including those outsourced, as well as all subsidiaries, branches and other establishment forms or provision of services;
- (c) be based on procedures for identifying, assessing, monitoring and controlling risks, in accordance with Articles 22 to 25, supported by appropriate, clearly established and approved risk tolerance policies, procedures and limits which are periodically reviewed;
- (d) integrate the provisions of recovery plans, by incorporating policies and procedures designed to ensure the timely re-establishment of financial imbalance situations in the institution, as well as with the institution's other processes and policies related to risk management.

2 – For the organisation of the risk management system, the management body shall:

- (a) regularly lay down, approve and review the institution's overall risk policy, which is prepared in accordance with Article 25(1)(a), while ensuring its disclosure across all the institution's business units and its proper implementation and fulfilment;
- (b) adopt other risk management policies and procedures in accordance with Article 25(1)(b), while ensuring their proper implementation and fulfilment;
- (c) approve, prior to their introduction, risk management policies applicable to new products and activities of the institution, while ensuring their proper implementation and fulfilment;
- (d) in accordance with the procedures set for such purpose, regularly check compliance with risk tolerance levels, as well as with the risk management policies and procedures in force at the institution, while assessing their effectiveness and suitability to the activities carried out by the institution, in order to enable a timely detection and remedy of any deficiencies;

- (e) approve, while ensuring their proper implementation and fulfilment, the policies and procedures required to guarantee the preparation of periodic, accurate and timely reports on the material risks to which the institution is or might be exposed, in which the control mechanisms implemented to manage those risks are identified, and to ensure that these reports are submitted for consideration in due time;
- (f) approve, while ensuring their proper implementation and fulfilment, the procedures required to ensure effective implementation of its guidelines and recommendations for the introduction of corrections and/or improvements in the risk management system;
- (g) issue a timely opinion on the reports prepared by the internal control function, particularly on recommendations for the adoption of measures aimed at remedying deficiencies.

Article 21

Establishment of risk categories

- 1 – The management body shall ensure that the institution, taking into account the applicable legislation, regulations and guidelines, adopts risk categories that, as a whole, cover all factors associated with the risk events to which the institution is or might be exposed.
- 2 – The decision to exclude certain risk categories identified in the applicable legislation, regulations and guidelines, based on the fact that the underlying risk factors are not reflected in the activity developed by the institution, shall be duly justified by the risk management function and approved by the management body and be subject to appraisal by the supervisory body.

Article 22

Risk identification process

The management body is responsible for ensuring the development, implementation and maintenance of a process to identify the internal and external factors which, relative to each risk category to which the institution is or might be exposed, may affect their ability to implement or achieve the set strategic objectives. Such process shall, inter alia:

- (a) be based on clearly defined methods and techniques and cover all activities, products, processes and systems of the institution, in order to allow for effective identification of all risk events with material impact;
- (b) be carried out at least annually in order to ensure timely identification of new risk events and a review of existing ones;
- (c) enable the prioritisation of risks, as well as the identification and mapping of products, activities, processes, systems, and the types of operations associated with these risks, with the level of detail deemed appropriate to the nature of each risk.

Article 23

Risk assessment process

1 – The management body is responsible for ensuring the development, implementation and maintenance of a process for assessing the likelihood of loss and its magnitude for each category of risk. Such process shall, inter alia:

- (a) rely on qualitative and/or quantitative analyses based on methodologies with a degree of reliability and sophistication appropriate to the nature and magnitude of the risk and to the nature, scope and complexity of the activities carried out by the institution, as well as their risk appetite;
- (b) be carried out at least annually to ensure an appropriate update of the results of the assessment process, for timely detection of deviations and decision-making by the management body, by the executive committee, where applicable, and by the senior and intermediate management in good time;
- (c) be based on appropriate and reliable assumptions, parameters and sources of information;
- (d) enable the preparation of reports supporting a reasoned judgment on the relevance and potential negative impact on results, the capital or liquidity position, including risks which, by their nature, are not easily measurable

2 – The quantitative analyses provided for in paragraph 1(a) take into account potential future changes in economic conditions and include the carrying out of stress tests.

Article 24

Risk monitoring process

1 – The management body is responsible for ensuring:

- (a) the development, implementation and maintenance of a systematised process to monitor exposure to each risk category to which the institution is or might be exposed;
- (b) that each risk category is duly accompanied by an internal control function within the second line of defence, without prejudice to the need for constant assurance that the risk management function has a holistic view of all the risk categories to which the institution is or might be exposed.

2 – The monitoring process referred to in the foregoing paragraph shall include at least the preparation of periodic and timely reports, with clear, reliable and substantive information on the risks to which the institution is or might be exposed.

Article 25

Risk control process

1 – To ensure that the set objectives are met and that the necessary measures are taken to adequately address the previously identified risks, the management body shall, upon prior opinion of the risk management and compliance functions:

- (a) approve and review a policy that adequately sets the overall objectives of the institution and the specific objectives for each business unit, with regard to their risk profile and risk tolerance level, which should be reviewed at least annually;
- (b) establish appropriate policies and procedures for the identification, assessment, monitoring and control of the risks to which the institution is or might be exposed while ensuring their proper implementation and fulfilment, and which aim to achieve the set objectives and systematise, clearly and objectively, what the tasks to be performed by each function are and how they should be carried out;
- (c) ensure that, in the setting and review of the policies and procedures provided for in this Notice, all recommendations previously issued by the internal audit function on the subject are taken into account.

2 – The policies and procedures referred to in paragraph 1(b) shall ensure the prevention of unexpected, unwanted or non-authorised situations in a timely manner, as well as their detection, in such a way as to allow for a prompt adoption of corrective measures when these situations occur, notwithstanding any prevention procedures already in place.

3 – For the purposes of the foregoing paragraph, the management body shall ensure that the following measures, inter alia, are adopted continuously and as an integral part of the institution's daily activities:

- (a) the collection and retention of documents that objectively support all the decisions taken and operations carried out, allowing for their chronological reconstitution and in a format that is easily accessible and understandable by third parties;
- (b) the design and implementation of standardised templates and a clear and objective classification of all the elements required for processing the operations;
- (c) the establishment and implementation of requirements previously designed for the approval, renewal or modification of the terms and conditions of operations, duly adjusted to the existing risk, with a clear identification of the conditions that should be checked in advance and the assignment of unequivocal powers for their approval and renewal;
- (d) a prior, autonomous and independent analysis carried out by the risk management and compliance functions of all operations that are important to the institution, in light of the potential impact on the institution's risk profile, with appropriate consideration of these analyses by the decision-making body and identification of the reasons for any decisions taken in a totally or partially opposed direction;
- (e) segregation of functions involving conflicting responsibilities, in particular in credit and market operations, with regard to the proposal submitted by business generating or risk-taking units, to the analysis, authorisation, execution, registration, custody and other documentation and their control;

- (f) security restrictions on access to assets, resources and information, through physical or IT barriers, in order to ensure protection against unauthorised use, whether intentional or negligent;
- (g) reporting, analysis and decision obligations, where deviations, errors, fraud, breaches and other exceptional situations arise relative to policies and procedures, particularly with regard to the set limits;
- (h) implementation and maintenance of alert indicators, including early warning indicators for identifying exceptional situations that may have a material impact, namely that may generate a possible financial imbalance;
- (i) the setting of objective and prudent limits for each of the risks incurred in the activity carried out, to the extent appropriate and possible;
- (j) the carrying out of duly substantiated periodic checks and reconciliations to the accuracy, completeness, authenticity and validity of the transactions recorded;
- (k) the implementation of appropriate methods of valuation of assets, liabilities and off-balance sheet items to be applied at an appropriate frequency;
- (l) the establishment, implementation and periodic review of contingency and business continuity plans, including outsourced functions, which include scenarios of severe disruption to the respective business.

Article 26

Risk management by business generating units

The management body, assisted by the institution's internal control functions, shall ensure that the business generating units and other risk-taking units to the institution:

- (a) take risk-weighted decisions within the limits of the risk tolerance set in the institution's risk policy;
- (b) implement the control processes and mechanisms required to ensure that all risks taken are appropriately and timely identified, assessed, monitored and controlled, in order to ensure that they remain within the risk tolerance limits set in the institution's risk policies;
- (c) implement the processes and mechanisms required to ensure that all risks taken are reported to the relevant internal control functions in a timely manner.

Article 27

Risk management function

1 – The institution's management body shall establish and maintain a risk management function which complies with Article 115-M of the Legal Framework of Credit Institutions and Financial Companies and is responsible for, namely:

- (a) ensuring that all risks to which the institution is or might be exposed are properly identified, assessed, monitored and controlled and duly reported to this function by all business units;

- (b) ensuring the development, and submitting to the approval of the management body, upon prior opinion of the supervisory body, of policies and procedures to support the risk management system and their effective implementation in the institution;
- (c) participating in the establishment of the institution's risk strategy and in risk management decisions, providing an overall view of all the risks to which the institution is or might be exposed;
- (d) promoting the implementation and maintenance of a solid risk management framework across the institution;
- (e) ensuring the enforcement and monitoring of compliance with the risk tolerance limits approved by the institution's management body;
- (f) identifying the risks inherent in the activity developed by the institution, in an individual, aggregated, current and forward-looking manner, evaluating these risks and measuring exposure to them by means of appropriate methodologies;
- (g) monitoring, in an appropriate, timely and permanent manner, risk-generating activities and related exposures, assessing their framework within the approved risk tolerance, ensuring a forward-looking planning of corresponding capital and liquidity needs in normal and adverse circumstances;
- (h) collaborating in the implementation of the risk management measures to be adopted by the different business units of the institution that are risk-taking units, including business generating units, and monitoring their application, in order to ensure that the processes and mechanisms implemented for risk control and management are adequate and effective;
- (i) developing, implementing and monitoring the internal capital adequacy assessment process and the internal liquidity adequacy assessment process, as well as coordinating the preparation of their reports;
- (j) participating in the process of approving new products and services, through prior assessment of the risks associated with their launch and the institution's ability to manage these risks;
- (k) pre-examining operations with related parties, identifying and adequately assessing the inherent actual or potential risks to the institution;
- (l) pre-examining and advising the management and supervisory bodies prior to the making of decisions involving the taking of significant risks, particularly those related to high-value transactions for the institution, as well as acquisitions, disposals, mergers or the launch of new activities, products or services, in order to ensure a timely and appropriate assessment of their impact on the overall risk of the institution and, where applicable, the group;
- (m) developing and implementing timely alert mechanisms for situations of deviation or non-compliance with the risk tolerance limits;

- (n) issuing recommendations based on the results of the evaluations carried out and developing a continuous follow-up of the identified situations, at a frequency appropriate to the associated risk;
- (o) providing relevant and independent information, analyses and expert assessments of risk positions, and issuing an opinion on the compatibility of risk-related proposals and decisions with the risk tolerance limits set by the institution;
- (p) immediately reporting significant breaches of the policies and procedures to the management and supervisory bodies, which were laid down to support the risk management system in compliance with the set risk tolerance limits, while recommending possible corrective measures;
- (q) immediately reporting any situation of actual or prospective non-compliance with the set risk tolerance limits to the management and supervisory bodies, including their causes and the legal and economic analysis of the actual cost of eliminating, reducing or setting-off the exposure against the possible cost of its maintenance, and informing the areas concerned and recommending possible solutions;
- (r) preparing reports on risk management at an appropriate frequency, including:
 - (i) an assessment of the overall institution's risk profile, detailing the individual exposure to each of the risk categories to which the institution is or might be exposed;
 - (ii) a summary of the deficiencies detected by any business unit within the processes and controls implemented, which are classified as F3 (High) or F4 (Severe) deficiencies, taking into account the classification methodology set out in the Annex to Instruction of the Banco de Portugal No 18/2020;
 - (iii) a summary of the other deficiencies detected, by any business unit, under the control measures implemented, including deficiencies that are not significant on their own but which, taken as a whole, may indicate a deterioration in the institution's organisational culture and internal control and governance systems;
 - (iv) identification of the recommendations issued and the measures proposed concerning the deficiencies referred to in the foregoing paragraphs, with an indication of whether or not they have been adopted.
- (s) preparing an annual report with the reference date of 30 November of each year to be endorsed by the head of the risk management function, which shall include:
 - (i) an assessment of the independence of the function, stating whether there are any current or potential undermining situations or constraints;
 - (ii) a description of all the deficiencies identified by any internal or external entity of the institution which are still pending, regarding the risk management function itself, as well as of the degree of implementation of the corrective measures and a time frame for their definitive solution.

2 – The reports referred to in subparagraphs *(r)* and *(s)* of the foregoing paragraph shall be made available directly by the head of the risk management function to the management and supervisory bodies and to the risk committee, where applicable, as well as to the heads of the compliance and internal audit functions.

3 – Without prejudice to paragraph 1(*s*)(*i*), any situations or constraints which materially undermine or might materially undermine the independence of the risk management function shall be immediately reported to the management and supervisory bodies of the institution, which should analyse and record in minutes their findings and the measures decided upon to overcome the identified situations.

4 – Following the opinion issued by the supervisory body, the management body shall issue a timely and explicit opinion on each of the reports referred to in paragraph 1(*r*) and *(s)*, particularly on the recommendations for the adoption of measures to remedy any detected deficiencies and situations or constraints affecting the independence of the risk management function.

5 – The management body shall ensure effective implementation of measures to remedy any deficiencies detected or aimed at improving the organisational culture and the institution's internal control and governance systems, as well as measures aimed to correct any situations or constraints that affect or might significantly affect the independence of the risk management function.

6 – The risk management function shall have its own regulation which, in addition to a description of the responsibilities assigned to the function, shall materialise and detail all the activities and operations of the institution requiring analysis by the risk management function prior to their approval by the competent decision-making body.

Article 28

Compliance function

1 – The management body of the institution shall establish and maintain a compliance function which is particularly responsible for:

- (a) regularly monitoring and assessing the adequacy and effectiveness of the measures and procedures adopted to detect any risk of non-compliance with the legal, regulatory and other obligations to which the institution is subject, as well as the measures taken to remedy any detected deficiencies;
- (b) providing advice to the management and supervisory bodies, for the purposes of complying with legal, regulatory and other obligations to which the institution is or shall be subject;
- (c) promoting the preparation, approval, implementation, verification of compliance with and regular updating of the code of conduct provided for in Article 4;
- (d) participating in the setting of policies and procedures appropriate to the implementation of the rules contained in the code of conduct;
- (e) pre-examining and advising the management and supervisory bodies prior to the making of decisions involving the taking of significant compliance risks;

- (f) pre-examining operations with related parties, identifying and adequately assessing the inherent actual or potential compliance risks to the institution;
- (g) where it carries out duties for the prevention of money laundering and terrorist financing, participating in the setting of its internal control procedures, both through their monitoring and assessment, by centralising information in every business area of the institution and the reporting to the competent authorities as provided by law;
- (h) immediately providing the management and supervisory bodies with all the information it holds on any indication of a breach of legal and regulatory obligations to which the institution is subject, as well as on rules of conduct and relationships with customers or other duties, which may result in the institution or its staff members possibly incurring in an administrative offence or causing a negative reputational impact;
- (i) following the provision of information under the foregoing subparagraph, keeping a record of the breaches and the measures proposed and adopted to remedy them, which is formalised in the database referred to in Article 31(14);
- (j) keeping a permanently up-to-date and complete record, and managing customer complaints by preparing and submitting to the management and supervisory bodies, at an appropriate frequency, detailed reports on the type and content of the complaints submitted, the measures taken to manage them, as well as any deficiencies identified in the internal control system;
- (k) participating in the setting of the institution's internal policies, procedures and regulations, including those on conflicts of interest and transactions with related parties, and monitoring their implementation and effective enforcement;
- (l) participating in the process of approving new products and services, whether prior to their approval or upon their introduction, to ensure that they comply with the legislation and regulations in force;
- (m) following-up and monitoring the implementation of governance procedures on the offering of products, by developing periodic reviews of these procedures and preparing proposals to the management body and other senior management members with a view to changing the established procedures, in the event of current or potential risks of legal or regulatory breaches;
- (n) carrying out tests for checking compliance with the legal and regulatory provisions, using a dedicated and structured programme for a compliance check, which is regularly reviewed and adapted to processes with greater compliance risk;
- (o) preparing an annual compliance report that includes:
 - (i) an assessment of the overall institution's compliance risk profile, detailing the exposure to which the institution is or might be exposed;
 - (ii) a summary of the deficiencies detected by any business unit within the processes and controls implemented, which are classified as F3 (High) or F4 (Severe) deficiencies, taking into account the classification methodology set out in the Annex to Instruction of the Banco de Portugal No 18/2020;

- (iii) a summary of other deficiencies detected, by any business unit, under the control measures implemented, including deficiencies that are not significant on their own but which, taken as a whole, may indicate a deterioration in the institution's organisational culture and internal control and governance systems;
- (iv) a summary of the breaches referred to in subparagraph (i) of this paragraph;
- (v) identification of the recommendations issued and the measures proposed to remedy the deficiencies and breaches referred to in the foregoing paragraphs, with an indication of whether or not they have been adopted.

(p) preparing an annual report with the reference date of 30 November of each year to be endorsed by the head of the compliance function, which shall include the elements indicated in Article 27(1)(s) as regards the compliance function.

2 – The reports referred to in subparagraphs (o) and (p) of the foregoing paragraph shall be made available directly by the head of the compliance function to the management and supervisory bodies and to the risk committee, where applicable, as well as to the heads of the risk management and internal audit functions.

3 – Any situations or constraints which materially undermine or might materially undermine the independence of the compliance function shall be immediately reported to the management and supervisory bodies of the institution which should analyse and record in minutes their findings and the measures decided upon to overcome the identified situations.

4 – Following the opinion issued by the supervisory body, the management body shall issue a timely and explicit opinion on each of the reports referred to in paragraph 1(o) and (p), particularly on recommendations for the adoption of measures to remedy any detected deficiencies and situations or constraints affecting the independence of the compliance function.

5 – The management body shall ensure effective implementation of measures to remedy any deficiencies detected or aimed at improving the organisational culture and the institution's internal control and governance systems, as well as measures aimed at remedying situations or constraints that affect or might significantly affect the independence of the compliance function.

6 – The compliance and risk management functions shall interact with each other to ensure that they have all necessary, complete and timely information for an effective performance of their functions.

7 – The compliance function shall have its own regulation which, in addition to a description of the responsibilities assigned to the function, shall materialise and detail all the activities and operations of the institution requiring analysis by the compliance function prior to their approval by the competent decision-making body.

Section IV

Processes for producing and processing information and information flows

Article 29

Processes for obtaining, producing and processing information

1 – The management body shall ensure that the institution has adequate processes for obtaining, producing and processing information which support decision-making by the management body and other members of the senior management, as well as the exercise of supervisory body functions, enabling the institution to fulfil its obligations to third parties, including reporting obligations to supervisory authorities, and ensuring a full and faithful view of:

- (a) the financial situation of the institution;
- (b) the development of its activities;
- (c) the implementation of the strategy and the fulfilment of the set objectives;
- (d) the overall risk profile of the institution, in aggregate terms and broken down by risk;
- (e) the behaviour, developments and risk profile of the market(s) of which the institution is part.

2 – The management body is responsible for the development, implementation and maintenance of formal processes for obtaining, producing and processing substantive information, which are appropriate to the size, nature, scope and complexity of the activities carried out, as well as to the institution's risk appetite, and which guarantee their reliability, faithfulness, consistency, completeness, validity, timeliness, accessibility and granularity.

3 – Taking into account the legal and regulatory provisions applicable to the institution's activities, those processes shall include the production and processing of financial and accounting information, but also risk information and, where applicable, non-financial information.

4 – The information process shall rely on appropriate data architecture and information system infrastructure that records, classifies, associates and files, in a timely, systematised, reliable, complete and consistent manner all the operations carried out by the institution, allowing information to be validated by cross-checking related databases.

5 – Within the scope of its powers, the management body shall implement control mechanisms that include the intervention of internal control functions, in order to ensure that all the information produced by the institution is reliable, faithful, consistent, complete, current, timely, accessible and granular.

6 – Within the scope of their powers, the management and supervisory bodies are responsible for ensuring the reliability, faithfulness, consistency, completeness, validity, timeliness, accessibility and granularity of all the information produced by the institution, both as regards the information intended for its exclusive use and the information for external disclosure, including that contained in the reports to the respective supervisory authorities.

7 – The management body shall ensure that the adequacy of the processes for obtaining, producing and processing information implemented within the institution, as well as the control mechanisms referred to in paragraph 5, are subject to periodic and independent assessments to be carried out by an entity outside the institution.

8 – For the purposes of this Article, the institution shall only collect and retain the personal data required for the accomplishment of its objectives.

Article 30

Information flows

1 – The management body shall ensure that the institution has formal, transparent and significant procedures tailored to the needs of the institution and which:

- (a) ensure effective communication across the organisation;
- (b) ensure a timely and appropriate transfer of information to the appropriate stakeholders and recipients, including the supervisory authorities;
- (c) are comprehensive and understandable;
- (d) facilitate the decision-making process through the existence of information flows which comply with paragraph 2.

2 – The management body shall ensure that the institution's organisational structure:

- (a) promotes the necessary flow of information between the relevant parties in a process;
- (b) includes an appropriate description of the obligations and responsibilities of staff members, including members of the management and supervisory bodies, in terms of information flows;
- (c) ensures the required confidentiality of information flows.

3 – The management body shall ensure that the information flows between the internal control functions and the management and supervisory bodies are appropriate and ensure that the decision-making process benefits from the input of the internal control functions.

4 – The management body shall ensure that compliance of the established information flows within the institution with this Article is subject to periodic and independent assessments to be carried out by an entity outside the institution.

Section V

Monitoring of the organisational culture and the internal control and governance systems

Article 31

Monitoring process

1 – The management body shall approve and is responsible for implementing a monitoring process comprising all measures and control assessments developed by the institution to ensure the adequacy and effectiveness of the institution's organisational culture and internal control and governance systems, particularly by identifying deficiencies in the design of controls, including those related to the lack of controls and their implementation.

2 – The responsibilities assigned to the risk management and compliance functions under Articles 27 and 28 correspond to control measures and assessments carried out by the institution.

3 – The management body is responsible for ensuring that the measures and control assessments referred to in the foregoing paragraphs are carried out continuously and as an integral part of the institution's daily activities. They shall be complemented by autonomous, specific, periodic or extraordinary assessments, both effective and complete, to be carried out by the internal audit function.

4 – The frequency of the assessments referred to in the foregoing paragraph shall depend on the nature and magnitude of the risks inherent in the activity carried out and the effectiveness of the associated specific controls.

5 – The institutions in which the establishment of an internal audit function is not mandatory under Article 16(3)(a) are exempt from carrying out the autonomous assessments referred to in paragraph 3.

6 – The institution's staff shall participate in control measures, namely by conducting procedures to review the tasks carried out prior to their formalisation or transfer to third parties, and by hierarchically reporting all deficiencies they detect or become aware of.

7 – Intermediate management shall develop control measures on the areas of its responsibility, checking whether staff members are adequately performing their tasks, analysing possible deviations from the set objectives, maintaining appropriate and sufficient control environment and communication channels, and ensuring that risks are duly identified and managed.

8 – Control measures shall also be carried out by the management body and other senior management members, although focusing only on the organisational culture, the internal governance structure, the main business and support areas, and developments in the institution's overall objectives, as well as on internal and external changes that may undermine the implementation of the set strategy and objectives.

9 – The supervisory body shall carry out control measures within its legal and regulatory powers and maintains an updated and approved multi-year plan of activities, which shall be immediately made available to the competent supervisory authority upon request.

10 – The plan of activities referred to in the foregoing paragraph shall include a description of the material, technical and human resources necessary to assist the members of the supervisory body in the exercise of their functions and which are made available by the management body.

11 – Any deficiencies detected under the control measures referred to in the foregoing paragraphs which, individually considered or in aggregate terms or given their predictable continued occurrence, have one of the impacts set forth in the classification methodology for deficiencies set out in the Annex to Instruction of the Banco de Portugal No 18/2020, shall be immediately reported to the risk management function, compliance function or internal audit function, as appropriate, which shall become responsible for monitoring the implementation of any corrective measures.

12 – The management body shall be responsible for ensuring that all identified deficiencies are duly recorded and reported to the appropriate management levels, to enable a timely adoption of appropriate corrective measures.

13 – For the purposes of the foregoing paragraph, the management body shall ensure that the institution has a database of all deficiencies, including deficiencies detected by third parties, inclusive by supervisory authorities, which covers the group where a parent undertaking is concerned and comprises at least:

- (a) a description of each deficiency, with identification of the business unit to which it relates;
- (b) the classification of each deficiency, taking into account the classification methodology for deficiencies set out in the Annex to Instruction of the Banco de Portugal No 18/2020;
- (c) the date on which the deficiency was identified and the function, body of the institution or external entity responsible for such identification. Where identified by the statutory auditor or audit firm, a reference shall be included in the report or opinion in which such deficiency has been identified;
- (d) a description of the corrective measures, their implementation progress and an estimated date for the deficiency to be definitively solved;
- (e) the identification of the staff member of the business unit to which the deficiency is related who is responsible for ensuring the implementation of corrective measures and the identification of the internal control function responsible for monitoring the implementation of those measures;
- (f) the date on which each deficiency was solved.

14 – The management body shall ensure that the institution has a database with all breaches detected, to which the provisions of the foregoing paragraph apply *mutatis mutandis*, with the exception of subparagraph (b).

15 – At any time, within the scope of its supervisory powers, the competent supervisory authority may consult the databases referred to in the foregoing paragraphs and request information on their content.

16 – Should any third parties, including supervisory authorities, detect and report deficiencies in the organisational culture and internal control and governance systems to the institution, the appropriate management levels and, where appropriate, the management body, shall timely adopt any appropriate corrective measures deemed necessary.

17 – The effectiveness and adequacy of the measures implemented to remedy any detected deficiencies shall be validated by the internal control function responsible for monitoring their implementation, in conjunction with the business unit(s) to which the deficiencies are related.

18 – To ensure compliance with this Article, the management body shall approve specific, effective and appropriate policies and procedures for the monitoring of the organisational culture and the internal control and governance systems, ensuring their implementation and fulfilment.

Article 32

Internal audit function

1 – The management body of the institution shall establish and maintain an internal audit function which is particularly responsible for:

- (a) preparing and maintaining an updated multi-year audit plan to review and assess the adequacy and effectiveness of the institution's organisational culture and internal control and governance systems, as well as its individual components, including corporate bodies and their supporting committees, ensuring its implementation in accordance with the schedule proposed by the head of the function and approved by the management body;
- (b) issuing recommendations based on the results of the evaluations carried out and promoting a continuous follow-up of the identified deficiencies, with a frequency appropriate to the associated risk, in order to ensure that the corrective measures are appropriate and implemented in a timely manner;
- (c) preparing and submitting a report to the management and the supervisory bodies, at least annually, containing an overall assessment of:
 - (i) the adequacy and effectiveness, as a whole, of the institution's organisational culture and internal control and governance systems, including the various components of both systems;
 - (ii) the operation of the management and supervisory bodies and their supporting committees, where applicable, within the scope referred to in the foregoing subparagraph;
 - (iii) the deficiencies detected under control measures classified as F3 (High) or F4 (Severe), in accordance with the classification methodology set out in the Annex to Instruction of the Banco de Portugal No 18/2020, and other deficiencies that are not significant on their own but which, taken as a whole, may indicate a deterioration in the institution's organisational culture and internal control and governance systems;
 - (iv) the recommendations issued and the measures proposed to remedy the deficiencies referred to in the foregoing subparagraph, with an indication of whether or not they have been adopted.
- (d) preparing an annual report with the reference date of 30 November of each year to be endorsed by the head of the internal audit function, which shall include:
 - (i) an assessment of the independence of the function, stating any situations or constraints which undermine or might undermine it;
 - (ii) a description of all the deficiencies identified by any internal or external entity of the institution and which are still pending, regarding the internal audit function itself, as well as of the degree of implementation of the corrective measures and a time frame for their definitive solution;

(iii) where applicable, the main results of external assessments made of the internal audit function.

2 – The multi-year audit plan referred to in paragraph 1(a) shall include a description of the material, technical and human means necessary to ensure a comprehensive and risk-oriented examination of all the institution's activities, systems and processes, in order to assess the overall adequacy and effectiveness of the institution's organisational culture, internal governance structures and internal control system within an appropriate timeframe.

3 – The reports referred to in subparagraphs (c) and (d) of paragraph 1 shall be made available directly by the head of the internal audit function to the management and supervisory bodies and to the risk committee, where applicable.

4 – Without prejudice to paragraph 1(d)(i), any situations or constraints which materially undermine or might materially undermine the independence of the internal audit function shall be immediately reported to the management and supervisory bodies of the institution which should analyse and record in minutes their conclusions and the measures they decided upon to overcome the identified situations.

5 – Following the opinion issued by the supervisory body, the management body shall issue a timely and explicit opinion on each of the reports referred to in paragraph 1(c) and (d).

6 – The management body shall ensure effective implementation of measures to remedy any deficiencies detected or aimed at improving the organisational culture and the institution's internal control and governance systems, as well as measures aimed at remedying situations or constraints that affect the independence of the internal audit function.

7 – For the purpose of an appropriate performance of the internal audit function, the management and supervisory bodies shall:

(a) ensure that the internal audit function carries out its activity in compliance with internationally accepted and recognised internal audit principles;

(b) annually approve the audit plan for the coming year, as well as appraise the adequacy of the multi-year plan to ensure compliance with the provisions of paragraph 2;

(c) ensure that for each assessment carried out by the internal audit function:

(i) a programme is designed laying down the objectives of the audit, identifying the internal control activities and procedures to be reviewed and setting the resources required for their implementation;

(ii) the criteria for assessing the adequacy of specific policies, procedures and controls implemented by the institution are clearly defined;

(iii) a report is prepared with the results of the assessment.

(d) ensure that deficiencies identified by the internal audit, as well as the resulting recommendations issued, are recorded and reported directly to the management body and, when these deficiencies are classified as F3 (High) or F4 (Severe), in accordance with the classification methodology set out in the Annex to Instruction of the Banco de Portugal No 18/2020, also to the supervisory body, in order to guarantee an unbiased assessment and that any identified issues are promptly taken into account;

- (e) ensure that the identified deficiencies are continuously monitored by the internal audit function and that the corrective measures are adopted by the business unit to which they relate in a timely and effective manner.

8 – The adequacy and effectiveness of the internal audit function are subject to independent assessments to be periodically carried out by an entity outside the institution, at least every five years.

Chapter V

Related parties and conflicts of interest

Article 33

Related parties

1 – The management body is responsible for ensuring that the institution identifies its related parties on a complete list that is updated at least quarterly and shall be made available to the competent supervisory authority upon request.

2 – The list referred to in the foregoing paragraph shall include the name or corporate name of the related party, the tax identification number or the identification number of the legal person or equivalent person, and the share of all direct and indirect holdings, where applicable. The list shall be approved by the institution's management body and subject to confirmation of knowledge by the supervisory body.

3 – For the purposes of this Notice, the following correspond to related parties of the institution:

- (a) qualifying shareholders of the institution and other persons or entities covered by the regime provided for in Article 109 of the Legal Framework of Credit Institutions and Financial Companies;
- (b) members of the management and supervisory bodies;
- (c) spouse, civil partner or relative by blood, by marriage/civil partnership or by adoption within the first degree of the members of the management and supervisory bodies;
- (d) a company in which a member of the management body or supervisory body or their spouse, civil partner or relative by blood, by marriage/civil partnership or by adoption within the first degree is a qualifying shareholder holding 10% or more of the capital or voting rights, or in which those persons exert significant influence or hold senior management positions or management or supervisory functions;
- (e) entities with which there is a relationship of economic interdependence, particularly as they are part of correlated holdings with various other entities or, as they are so closely linked to the institution, the latter is likely to experience financial problems should one of those entities experience financial problems;
- (f) persons or entities, including depositors, creditors, debtors, entities where the institution has a holding, staff members of the institution or staff members of other entities within the same group, whose relationship with the institution potentially allows them to influence their management in order to achieve a commercial relationship that is not at arm's length.

4 – Without prejudice to the provisions of the Legal Framework of Credit Institutions and Financial Companies and other applicable legislation, the management body shall ensure that transactions in which the institution participates and involving related parties are conducted at arm's length, are approved by at least two-thirds of its members, upon prior opinions of the risk management and compliance functions and the supervisory body.

5 – In exceptional cases where the institution, on a reasoned basis, considers that it is impossible to determine the market conditions applicable to a given operation, an internal procedure shall be established to enable the institution to set a benchmark for the operation concerned compared to other similar operations, in order to avoid benefiting the related party against another entity without that type of relationship with the institution.

6 – Upon prior opinion of the supervisory body and for the purposes of this Article, the management body shall adopt an internal policy, notably detailing the involvement and responsibilities of the internal control functions both in the identification process and in the process of reviewing a transaction with an institution's related party.

7 – The management body shall ensure that the policy referred to in the foregoing paragraph is properly implemented within the institution, is subject to periodic reviews, disclosed to all staff members internally and also published on the institution's website.

Article 34

Conflicts of interest

1 – Upon prior opinion of the supervisory body, the management body shall adopt a policy to prevent, report and remedy conflicts of interest applying to members of the management and supervisory bodies, other members of the senior management, key function holders and other staff members of the institution.

2 – The policy to prevent, report and remedy conflicts of interest shall apply to current or potential conflicts of interest and cover institutional conflicts of interest and conflicts of interest relating to staff members, including, in this case, financial, professional, personal and political conflicts of interests.

3 – The management body shall ensure that the institution's policy to prevent, report and remedy conflicts of interest shall include at least the following:

- (a) the obligation on the staff members concerned to avoid situations which may create conflicts of interest;
- (b) the obligation to immediately report to the institution any situation of conflict of interest covered by the policy, as well as the procedure the staff must adhere to for this purpose, including the minimum content of information to be reported to the institution in order to assess the existence of current or potential situations of conflicts of interest and to consider their significance;

- (c) the procedure to be followed prior to the acceptance of a post or function to be exercised in conjunction with the post held in the institution;
- (d) an illustrative list of measures to mitigate institutional conflicts of interest or conflicts of interest relating to staff members;
- (e) the obligation on the institution to record the conflicts of interest relating to staff members covered by the policy, as well as the measures implemented or to be implemented to manage them, in order to enable their monitoring and continuous assessment;
- (f) the procedure to be followed by the institution relative to the assessment of reported situations of conflicts of interest, particularly in cases where the conflict of interest is accepted, including the need to properly document that assessment and the functions involved in each stage of that procedure;
- (g) the rules below, to be followed by all staff members of the institution, including members of the management and supervisory bodies, relative to donations:
 - (i) the prohibition on accepting, for personal or third parties' gain, offers and other benefits or rewards in any way related to the functions performed, which should be refused and returned, except as provided for in the following paragraph;
 - (ii) the possibility of accepting offers and other benefits or rewards of mere hospitality and compliant with social norms to the extent that they do not constitute a significant advantage of any type;
 - (iii) the need for immediate reporting of any and every offer and other types of benefits or rewards to the compliance function, for its review, for a decision to be taken on how to act upon it, and for its record.
- (h) the consequences of any breach.

4 – The conflicts of interest covered by the policy to prevent, report and remedy conflicts of interest shall include any conflicts of interest that may result from past posts and past personal and professional relationships, and the policy concerned should state the time period to be taken into account for this purpose.

5 – The management body shall ensure that the policy referred to in this Article is properly implemented within the institution, is subject to periodic reviews, disclosed to all staff members internally and also published on the institution's website.

Chapter VI

Reporting of irregularities

Article 35

Reporting of irregularities

1 – The management body shall ensure that the institution has a policy to report irregularities which complies with Article 116-AA of the Legal Framework of Credit Institutions and Financial Companies.

2 – The policy to report irregularities mentioned in the foregoing paragraph shall at least:

- (a) lay down an autonomous internal procedure for reporting irregularities which is designed and implemented in such a way as to ensure the confidentiality of the identity of the reporting person, of those involved in the reported irregularity and of third parties mentioned in the report, as well as to prevent any unauthorised access;
- (b) determine that any reporting may be presented in writing, orally or in a meeting held at the earliest date possible, taking into account the seriousness of the reported irregularities;
- (c) set the business unit or body of the institution which, in conjunction with the supervisory body, is responsible for monitoring the implementation of the autonomous procedure for reporting irregularities, as well as for ensuring that the procedure referred to in subparagraph (f) is properly implemented and that the measures deemed appropriate are effectively adopted;
- (d) expressly lay down the admissibility of anonymous reports;
- (e) provide that, in the event of a written report, the reporting person shall be sent an acknowledgement of receipt of the report within seven days of the date of receipt of the report, except where the report is anonymous;
- (f) establish a process to ensure that all reports submitted are recorded in a dedicated database and subject to review and that a reasoned report on them is prepared, containing the measures to be taken or the reason for not adopting any measures;
- (g) provide that the information contained in the report must be transmitted anonymously to all the parties involved in the proceeding upon request for such purpose by the reporting person;
- (h) where the report is not anonymous, set a reasonable time limit to reply to the reporting person, not exceeding three months after the sending of the acknowledgement of receipt referred to in subparagraph (e);
- (i) determine that the reported irregularities are duly escalated in accordance with the persons involved in the report, where such escalation does not undermine the purposes of the procedure for reporting irregularities, and to the competent supervisory authority, where appropriate;
- (j) lay down that staff members of the institution who report irregularities are not subject to any retaliatory, discriminatory or other unfair treatment.

3 – The competent supervisory authority may require submission of the report referred to in paragraph (f) of the foregoing paragraph during its retention period.

4 – The minimum content of the annual report provided for in Article 116-AA(7) of the Legal Framework of Credit Institutions and Financial Companies is set out in Instruction of the Banco de Portugal No 18/2020.

5 – The management body shall ensure that the policy referred to in this Article is properly implemented within the institution, is subject to periodic reviews, disclosed to all staff members internally and also published on the institution's website.

6 – In addition to the provisions of paragraph 2, the policy to report irregularities of the institutions which are part of the Integrated Mutual Agricultural Credit Scheme shall provide that the report referred to in paragraph 2(f) shall be sent to the Central Mutual Agricultural Credit Bank within 5 days of its completion.

7 – The Central Mutual Agricultural Credit Bank may request any explanation of the institutions referred to in the foregoing paragraph and carry out any additional measures it deems necessary for the full clarification of the irregularity concerned and for the assessment of the adequacy of any measures adopted or to be adopted.

Chapter VII

Outsourcing

Article 36

Outsourcing of operational tasks of internal control functions

1 – The institutions may outsource specific operational tasks of the internal control functions where this outsourcing has no negative impact on the efficiency of the internal control system and provided that prior consent from the management and supervisory bodies is obtained.

2 – The outsourcing referred to in the foregoing paragraph shall be occasional only, except in exceptional and duly substantiated circumstances.

3 – The management body of institutions that outsource tasks under the foregoing paragraph shall ensure that:

- (a) the outsourcing of specific operational tasks of the internal control functions is covered by the institution's outsourcing policy, which provides that outsourced tasks are subject to continuous assessment and monitoring, notably to allow for the identification, assessment, monitoring and control of all risks arising from the outsourcing of such tasks;
- (b) the service provider is not established in a jurisdiction with a legal system with prohibitions or restrictions that prevent or limit the institution from complying with the legal and regulatory rules governing its activity, including the provision and circulation of information;
- (c) the service provider has the technical and human capacity to carry out the outsourced operational tasks in an effective, independent, reliable and professional manner, and in compliance with all applicable legal and regulatory provisions;
- (d) the head of the internal control function concerned particularly ensures that the service provider has all the information and elements necessary to carry out the outsourced operational tasks, monitors their implementation and assesses the performance of the service provider.

4 – The operational tasks of the internal control functions may be outsourced to the parent undertaking or other group entity in accordance with the foregoing paragraphs, upon prior consent from the management and supervisory bodies of all the entities involved.

5 – Where the outsourcing of operational tasks of internal control functions takes place within the group, the institutions shall ensure that all potential conflicts of interest are identified in advance and that appropriate measures are implemented to manage and mitigate them.

6 – The outsourcing of operational tasks provided for in this Article shall be formalised in a written agreement.

7 – The management body remains responsible for all outsourced tasks and compliance with their legal and regulatory obligations.

8 – The outsourcing of tasks may not create, either to the contracting institution or the competent supervisory authority, any constraints on access to all information relating to it, including unrestricted access to facilities where services are provided or audits or inspections are to be conducted during or following completion of the tasks.

9 – The management body shall ensure that there is a permanently updated record with the identification and summary description of all outsourced tasks under this Article and of the service providers.

Article 37

Outsourcing of the IT system to support the reporting of irregularities

1 – Should the nature, level and complexity of the activities pursued by the institution not justify the implementation of an IT system to support the reporting of irregularities, as provided for in Article 116-AA of the Legal Framework of Credit Institutions and Financial Companies, this may be outsourced by the institution in accordance with the provisions of this Article.

2 – The outsourcing of the IT system to support the reporting of irregularities mentioned in the foregoing paragraph shall at least comply with the following:

- (a) the institution shall appoint a person responsible for the outsourcing of that IT system to support the reporting of irregularities who, together with the management and supervisory bodies, shall remain responsible for compliance with the applicable requirements;
- (b) the outsourcing of the IT system to support the reporting of irregularities shall not preclude compliance with Article 116-AA of the Legal Framework of Credit Institutions and Financial Companies, particularly the monitoring and analysis, by the supervisory body, of any report submitted and compliance with Article 35;
- (c) it enables the institution itself to prepare the annual report provided for in Article 116-AA(7) of the Legal Framework of Credit Institutions and Financial Companies and its timely submission to the competent supervisory authority under Instruction of the Banco de Portugal No 18/2020.

3 – Article 36 shall apply to the outsourcing of the system to report irregularities.

4 – The management body shall ensure that the quality of the outsourced IT system is regularly assessed by the institution's internal audit function.

5 – The assessment to be carried out in accordance with the foregoing paragraph shall include quality control, the review of general information technology controls and compliance of the IT system with the applicable legislation and regulations and with the internal regulations in force in the institution.

Chapter VIII

Selection and appointment of the statutory auditor or audit firm and contracting of non-audit services Article 38

Selection and appointment policy

1 – Upon prior opinion of the supervisory body, the institution's shareholders' meeting shall approve a selection and appointment policy of the statutory auditor or audit firm and for the contracting of non-audit services under the legislation in force.

2 – The supervisory body shall ensure that the policy referred to in this Article is properly implemented in the institution and is subject to periodic reviews.

3 – Within the scope of their legal powers, the management and supervisory bodies shall be responsible for ensuring that the policy is disclosed to all staff members internally and also published on the institution's website.

Article 39

Content of the selection and appointment policy

Without prejudice to the provisions of the applicable legislation, the supervisory body shall ensure that the policy referred to in the foregoing Article includes at least the following:

- (a) the procedures applicable for the selection and appointment of the statutory auditor or audit firm that will provide the audit services;
- (b) the selection criteria, and corresponding weighting, which will be used by the institution to assess the proposals submitted. No significant weight should be given to the price criterion;
- (c) the obligation of the selection and appointment process of the statutory auditor or audit firm to be initiated by the institution sufficiently in advance to ensure compliance with the provisions of the applicable legislation and regulations and that there is no disruption of activity resulting from the appointment of a new statutory auditor or audit firm;
- (d) the applicable procedure for the renewal of the mandate of the statutory auditor or audit firm, including an assessment of the matters referred to in Article 3(3)(d) and (e) of Law No 148/2015 of 9 September 2015;

- (e) the procedures implemented in the institution for the monitoring and checking, by the supervisory body, of the services provided by the statutory auditor or audit firm;
- (f) the procedures implemented in the institution for the supervision, by the supervisory body, of the independence of the statutory auditor or audit firm, particularly with regard to the provision of non-prohibited non-audit services;
- (g) the procedures applicable for the contracting of non-prohibited non-audit services, including their assessment and underlying reasoning by the supervisory body;
- (h) the obligation of all those involved in the selection and appointment of the statutory auditor or audit firm and in the contracting of non-prohibited services to regularly attend training on the subject and on the responsibilities conferred on them by law and the policy.

Chapter IX

Remuneration policies and practices and performance assessment

Section I

General considerations

Article 40

General rules

- 1 – The management body shall ensure that the institution appropriately sets, implements and assesses its remuneration policy and formalises its procedures and all other elements necessary to its setting, implementation, assessment and periodic review in specific documents.
- 2 – The remuneration policy shall be transparent and accessible to all staff members, including members of the institution's management and supervisory bodies.

Article 41

Staff identification process

- 1 – The institutions' management body, to which the regulatory technical standards apply with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on the institution's risk profile, shall:
 - (a) lay down and approve an identification process of all staff who have a material impact on the institution's risk profile, which complies with the provisions of those regulatory technical standards;
 - (b) ensure that the identification of all staff who have a material impact on the institution's risk profile is reviewed at least annually;
 - (c) ensure that the staff population that have a material impact on the institution's risk profile is reported to the supervisory authority as set out in Instruction of the Banco de Portugal No 18/2020.

2 – For the purposes of this Article, the institution shall collect and retain only the personal data required for the accomplishment of its objectives, particularly the data referred to in Article 10 of Instruction of the Banco de Portugal No 18/2020.

Article 42

Performance assessment process

The management body shall be responsible for ensuring that the individual performance assessment process, including the financial and non-financial, quantitative and qualitative criteria used and their weighting for determining the variable component of remuneration, is transparent and communicated to all staff prior to the start of the period to which the assessment relates.

Article 43

Remuneration of non-executive members of the management body and the members of the supervisory body

Remuneration of the non-executive members of the management body and the members of the supervisory body shall consist only of a fixed component and may not include any variable component or whose value depends on their performance or on the performance of the institution itself.

Article 44

Assessment of the remuneration policy

1 – The results of the centralised and independent annual assessment provided for in Article 115-C(6) of the Legal Framework of Credit Institutions and Financial Companies shall be included in a dedicated report that:

(a) includes the measures necessary to remedy any detected deficiencies;

(b) is submitted to the institution's shareholders' meeting, the supervisory body and the management body, which shall ensure the implementation of such measures by the responsible bodies or other business units.

2 – The report provided for in this Article shall immediately be made available to the competent supervisory authority upon request.

Section II

Remuneration committee

Article 45

Composition of the remuneration committee

1 – The remuneration committee provided for in Article 115-H of the Legal Framework of Credit Institutions and Financial Companies shall be composed of a majority of independent members, in accordance with Article 414(5) of Portuguese Company Law.

2 – Collectively, the members of the remuneration committee shall have qualifications and professional experience specific to the performance of their functions, particularly appropriate qualifications and professional experience in remuneration policies and practices, as well as in risk management and other internal control functions, in order to ensure that the committee has the appropriate qualifications to ensure effective alignment between the institution's remuneration structures, its risk profile and the capital base.

Section III

Public disclosure of information on the remuneration policy

Article 46

Public disclosure of the remuneration policy

1 – The remuneration policy of the members of the institution's management and supervisory bodies, as approved by the shareholders' meeting under Article 115(4) of the Legal Framework of Credit Institutions and Financial Companies, shall be disclosed on the institution's website.

2 – The remuneration policy for staff referred to in Article 115(2)(b) to (e) of the Legal Framework of Credit Institutions and Financial Companies and which has been approved by the institution's management body, in accordance with paragraph 5 of that Article, shall be published on the institution's website.

Article 47

Public disclosure of quantitative information

In their annual accounting statements, the institutions shall disclose quantitative information on the remuneration paid by the institution, with a breakdown of the various categories of staff provided for in Article 115-C(2) of the Legal Framework of Credit Institutions and Financial Companies, including at least the information provided for in Article 450(g) to (j) of Regulation (EC) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

Chapter X

Financial groups

Article 48

Definition of group

1 – For the purposes of this Notice, 'group' has the same meaning as provided for in Article 2-A(jj) of the Legal Framework of Credit Institutions and Financial Companies.

2 – For the purposes of this Chapter and under the Integrated Mutual Agricultural Credit Scheme, 'parent undertaking' means the Central Mutual Agricultural Credit Bank and 'subsidiaries' means the integrated Mutual Agricultural Credit Banks.

Article 49

Principle of transparency

1 – The management and supervisory bodies of the parent undertaking shall be fully aware of the structure of the group and shall be responsible for ensuring that it is organised in accordance with the terms laid down in the following paragraphs.

2 – The financial groups shall be organised transparently, avoiding complex and opaque structures, making it possible for the management and supervisory bodies of the parent undertaking and other entities of the group and a third party to be fully aware of and understand the structure of the group, including the significance, purpose and risks associated with each of its integrating entities, as well as any holding relationship with non-financial entities or entities that are established outside Portugal.

3 – Should a subsidiary be established, the parent undertaking's management body shall carry out a risk analysis with regard to the establishment of that subsidiary, involving its internal control functions so it can assess all the risks that this subsidiary may generate to the group.

Article 50

The principle of coherence of the group's internal control

1 – With a view to ensuring effective management of the risks associated with the group's activity, the parent undertaking's management body shall ensure that all subsidiaries of the group, including subsidiaries in third countries and offshore establishments, implement internal control systems that are consistent with each other and comply with the requirements set out in this Notice.

2 – 'Offshore establishment' means an entity (subsidiary or branch) established in any territory, including the national territory, whose purpose is to attract a significant volume of activity with non-residents, namely, due to the existence of more relaxed regimes governing supervision and the authorisation for the taking-up and pursuit of the business of credit institutions, a special regime applicable to banking secrecy, tax benefits, differentiated legislation for residents and non-residents, less stringent requirements for the creation of special purpose vehicles.

3 – The institutions within the same financial group may establish common services for carrying out the responsibilities assigned to the risk management, compliance and internal audit functions, where the common service provider is not established in a jurisdiction with a legal system with prohibitions or restrictions that prevent or limit the institution from complying with the legal and regulatory rules governing its activity, including the provision and circulation of information.

4 – Should the foregoing paragraph apply:

- (a) the institutions' management bodies shall ensure that these services are provided with the appropriate material, technical and human resources for effective performance of their responsibilities while safeguarding the requirements of independence and access to information for each of the institutions;
- (b) the management and supervisory bodies of the institution which make use of the common services shall maintain their responsibilities relative to the internal control functions concerned and remain responsible for the fulfilment and exercise of all legal and regulatory obligations imposed on them, particularly by virtue of this Notice;
- (c) the management and supervisory bodies of the institution which make use of the common services shall ensure that those services comply fully with the provisions of this Notice. They shall also be responsible for assessing the reports prepared by these common services on matters relating to the institution and for meeting regularly with the heads of these common services;
- (d) the management body of the institution which makes use of the common services shall appoint a staff member, who is a key function holder under the terms and for the purposes of Article 33-A of the Legal Framework of Credit Institutions and Financial Companies, to whom the following responsibilities shall be assigned:

- (i) to ensure that the service provider has all the information and elements necessary to carry out the functions under the common services regime;
- (ii) to promote the incorporation or adaptation of the legislation and regulations applicable to the control function concerned into the internal regulations of the institution benefiting from the common services;
- (iii) to monitor the implementation of measures to remedy any detected deficiencies;
- (iv) to communicate to the head of the common services any deficiencies the staff member has detected;
- (v) to follow up and monitor tasks performed under the common services regime;
- (vi) to prepare reports, at least every six months, on the suitability of the services common to the needs of the institution and the fulfilment of the provisions of this Notice, which shall be submitted to the management and supervisory bodies for consideration.

5 – Where no conflicting responsibilities are involved, the staff member referred to in paragraph (d) of the foregoing paragraph may carry out other functions within the institution.

6 – For the purposes of the foregoing paragraph, the staff member may accumulate the powers referred to in paragraph 4(d) with respect to both the risk management and compliance functions, but may not accumulate such responsibilities with any responsibilities inherent in the internal audit function.

7 – The performance of such responsibilities under the common services regime may not create any access constraints to any information relating to those responsibilities, either by the institution or, for the exercise of its supervisory functions, by the competent supervisory authority.

8 – The common services referred to in the paragraphs shall be formalised in a written agreement endorsed by the management bodies of the institutions concerned.

9 – Where applicable to the internal audit function, the agreements referred to in the foregoing paragraph shall be described in a shared services audit charter, endorsed by the management body of the institutions concerned upon prior opinion of the supervisory body.

10 – Should the common services provided for in this Article fail to be efficient, particularly resulting from failure to meet the objectives set out in this Notice, the competent supervisory authority may, at any time and within the scope of its supervisory powers, require the institutions to establish their own internal control functions.

11 – For institutions which are part of the Integrated Mutual Agricultural Credit Scheme, the staff member referred to in paragraph 4(d) shall have the responsibilities referred to in paragraph 4(d)(iv) only, and the appointment or reassessment shall be preceded by an opinion of the Central Mutual Agricultural Credit Bank.

Article 51

Obligations of the management body of the parent undertaking

The management body of the parent undertaking shall ensure that it has an internal control system that, namely:

- (a) establishes procedures appropriate to the objective of compliance with the provisions of this Notice at all times;
- (b) allows the management of the subsidiaries and ensures effective control of the risks associated with their activity, including the implementation of processes aimed at collecting any information deemed essential for this purpose;
- (c) implements the procedures and controls necessary to obtain any significant information for the consolidation process, including accounting and other information;
- (d) clearly sets the data content and format to be reported by the entities included in the consolidation perimeter and ensures that these entities are equipped with all necessary means for the above provision of information;
- (e) lays down information procedures to efficiently identify, assess, monitor and control intra-group operations, their nature and characteristics, as well as risk concentration;
- (f) provides for appropriate procedures to ensure that management information is consistent among the different entities, so that the parent undertaking may identify, assess, monitor and control the risks incurred by the group;
- (g) controls at any given moment compliance with prudential ratios and limits on a consolidated basis, their reporting to the competent supervisory authority and consolidation-oriented procedures.

Article 52

Internal control function of the parent undertaking

1 – The parent undertaking's management body shall ensure that its internal control functions are appropriate to the size and nature of the group's activities, supervising the efficiency and adequacy of internal controls and ensuring the reliability and timeliness of information reported by subsidiaries and compliance with the set internal standards and procedures, including with regard to the risk tolerance levels laid down for the group.

2 – For compliance with the responsibilities provided for in the foregoing subparagraph, the parent undertaking's internal control functions may rely on the work carried out by the internal control functions of its subsidiaries, if the quality of that work has been assessed in advance by the internal control functions of the parent undertaking and is deemed appropriate by them.

3 – The internal control functions of the parent undertaking and the subsidiaries shall interact with each other to ensure that the internal control functions of the parent undertaking have all the information necessary for the full performance of their responsibilities.

4 – For the purposes of the foregoing paragraph, the parent undertaking's management body shall particularly ensure the existence of direct reporting lines between the internal control functions of subsidiaries and the internal control functions of the parent undertaking.

5 – The parent undertaking's management body shall ensure that the procedures referred to in paragraphs 3 and 4 allow the risk management, compliance and internal audit functions of the parent undertaking to monitor the appropriate and timely fulfilment of the responsibilities of the risk management, compliance and internal audit functions of the subsidiaries of the group.

6 – The taking of significant risks by a subsidiary of the group is subject to prior communication to the risk management function of the parent undertaking and, where the taking of compliance risks is concerned, also to the compliance function, in which the actual or potential risks of the relevant subsidiary and the group are identified and adequately assessed.

7 – The activity plans of the internal control functions of a subsidiary shall be subject to prior communication to the respective internal control functions of the parent undertaking, and the same shall apply to the multi-year audit plan of the internal audit function of a subsidiary.

8 – Where the parent undertaking is a credit institution, in addition to the provisions of Article 17(4), the replacement of the heads of the internal control functions of the subsidiaries shall be subject to prior communication to the head of the respective internal control function of the parent undertaking, who shall also be provided with the information referred to in Article 17(4)(a) to (c).

Article 53

Remuneration policies in financial groups

1 – In accordance with Article 115-C(1) of the Legal Framework of Credit Institutions and Financial Companies, the parent undertaking of a financial group subject to supervision on a consolidated basis shall ensure that all its subsidiaries, including subsidiaries abroad and offshore establishments, implement consistent remuneration policies.

2 – Compliance with the provisions of this Notice shall be ensured for the total remuneration paid to the staff categories provided for in Article 115-C(2) of the Legal Framework of Credit Institutions and Financial Companies, by all institutions, whether financial or otherwise, integrated into the supervision perimeter on a consolidated basis.

3 – The risk management and compliance functions and the remuneration committee or, where this has not been established, the non-executive members of the parent undertaking's management body shall coordinate among themselves an assessment, at least annually, of the impact of the remuneration practices of subsidiaries abroad and offshore establishments, especially on risk management and with particular emphasis on the capital and liquidity risks of the institution.

4 – The report with the results of the assessment referred to in the foregoing paragraph shall be submitted to the shareholders' meeting, the management body and the supervisory body of the parent undertaking, which shall, inter alia, identify measures to remedy any detected deficiencies.

Chapter XI
Self-assessment

Article 54

Obligation of self-assessment and annual reports

1 – Within the scope of their powers, the management and supervisory bodies are responsible for ensuring that the institution's organisational culture and internal control and governance systems, including remuneration practices and policies and other matters addressed in this Notice, are adequate and effective and promote sound and prudent management.

2 – For the purposes of the foregoing paragraph and within the scope of their powers, the management and supervisory bodies shall ensure that the institution assesses the adequacy and effectiveness of the organisational culture in force in the institution and its internal control and governance systems and prepares an annual report containing the results of this assessment with the reference date of 30 November of each year.

3 – Within the scope of their powers, the management and supervisory bodies of the parent undertaking of a financial group shall ensure that an annual self-assessment report for the group is prepared with the reference date of 30 November of each year, as well as an individual report for each entity subject to supervision on a consolidated or sub-consolidated basis, including the parent undertaking and all subsidiaries, subsidiaries in third countries and offshore establishments, which effectively perform any of the activities listed in Article 4(1)(a) to (i), (p) and (q) of the Legal Framework of Credit Institutions and Financial Companies, regardless of their formal denomination and classification.

4 – The reports referred to in the foregoing paragraphs shall be reported to the competent supervisory authority in accordance with Instruction of the Banco de Portugal No 18/2020.

5 – Information on the management of the risk of money laundering and terrorist financing is reported separately, in accordance with Notice of the Banco de Portugal No 2/2018 of 26 September 2018 and Instruction of the Banco de Portugal No 5/2019.

Article 55

Minimum content of the annual self-assessment report

The annual self-assessment report referred to in Article 54(2) shall be at least composed of the following information, without prejudice to the inclusion of any other information considered of relevance by the management and supervisory bodies:

- (a) an assessment of the supervisory body of the institution under Article 56;
- (b) an assessment of the management body under Article 57;
- (c) reports from the heads of the risk management, compliance and internal audit functions, as referred to in Article 27(1)(s), Article 28(1)(p) and Article 32(1)(d).

Article 56

Assessment of the supervisory body

1 – The assessment referred to in Article 55(a) on the adequacy and effectiveness of the organisational culture in force in the institution and its internal control and governance systems, covering all matters addressed in this Notice, shall include:

- (a) the reference period;
- (b) a clear, comprehensive, reasoned and positively expressed opinion on the adequacy and effectiveness of the organisational culture and internal control and governance systems of the institution, within the scope of the responsibilities conferred by law on the supervisory body, and which, at the reference date, considers the current or potential impacts of any still pending deficiencies;
- (c) a summary of the activity carried out by the supervisory body during the reference period regarding the organisational culture and internal control and governance systems, including that developed in conjunction with internal control functions and, where applicable, explicit mention of any additional work requested from the statutory auditor or audit firm of the institution and other external consultants;
- (d) an assessment of the state of implementation of the measures set in the reference period to remedy the detected deficiencies, including any deficiencies in the internal financial control system and the accounting system reported by the statutory auditor under Article 11(2)(j) of Regulation (EC) No 537/2014, or other activities carried out by the latter or which have been identified by other entities outside the institution, including supervisory authorities;
- (e) an opinion on the quality of performance and adequate independence of the internal control functions, including the operational tasks that are outsourced under Article 36;
- (f) a statement on the reliability of the procedures for preparing prudential and financial reports, including those prepared under the Commission Implementing Regulation (EC) No 680/2014 of 16 April 2014, for the reference period;
- (g) a statement on the reliability of the procedures for preparing the information disclosed to the public by the institution under the applicable law and regulations, including financial and prudential information;
- (h) a statement on the proper fulfilment by the institution, for the reference period, of all public disclosure obligations resulting from the applicable law and regulations and on the matters set out in this Notice.

2 – The assessment carried out by the supervisory body provided for in this Article shall be based on the activity plan provided for in Article 31(9) and consider any information of which it is aware and arising from the monitoring activities carried out by the institution's own structures or by external entities.

3 – For the purposes of this Article and within the scope legally permitted by the Statutory Auditors' Statute and other applicable legislation, the supervisory body may make use of the services of its statutory auditor or audit firm, as well as other external auditors or consultants, in duly justified situations.

4 – The reports of the services engaged under the foregoing paragraph, as well as their supporting documentation, shall be made available to the competent supervisory authority upon request.

5 – Where services are provided by a statutory auditor or audit firm under paragraph 3, the work carried out shall comply with the provisions of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

6 – The supervisory body shall be responsible for setting the extent and scope of work engaged under paragraph 3 and, irrespective of the engaged level of assurance, the supervisory body shall use these works to positively conclude on the reviewed matters.

7 – Where the entity adopts a supervisory structure with a single auditor, the assessment of the supervisory body shall:

(a) include the elements provided for in paragraph 1(a) to (h);

(b) be prepared in accordance with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements while, taking into account the principle of proportionality, it may be prepared in accordance with a limited assurance level unless a reasonable assurance level is required on the institution's initiative or at the request of the competent supervisory authority.

Article 57

Assessment of the management body

The assessment referred to in Article 55(b) shall include:

(a) the reference period;

(b) a duly reasoned and overall opinion assessment on the adequacy and effectiveness of the institution's organisational culture and internal control and governance systems, and on remuneration practices and policies and other matters addressed in this Notice;

(c) a summary of measures taken and implemented to remedy deficiencies detected in the reference period and, where they are still pending, to remedy deficiencies detected in previous periods;

(d) where applicable, the results of the assessments made under Articles 29(7);

(e) where applicable, explicit confirmation that, in the opinion of the management body, the outsourcing of operational tasks of the internal control functions complies with Article 36, with the reasoning for such understanding.

Article 58

Minimum content of the annual self-assessment reports of groups

1 – The annual self-assessment report of the group referred to in Article 54(3) shall be at least composed of the following information, without prejudice to the inclusion of any other information deemed relevant by the management and supervisory bodies:

- (a) an overall assessment made by the parent undertaking's management body, carried out under Article 57, of the adequacy and effectiveness of the group's internal control system, weighting any detected deficiencies against the provisions of Article 51;
- (b) a detailed assessment made by the parent undertaking's supervisory body, carried out under Article 56 within the scope of the responsibilities conferred upon it by law, of the adequacy and effectiveness of the group's internal control system to ensure compliance with the requirements set out in Article 51;
- (c) an assessment made by the parent undertaking's supervisory body of the consistency between the internal control systems of subsidiaries, including subsidiaries abroad and offshore establishments, and the internal control system of the parent undertaking. This assessment may be based on the assessments carried out by the supervisory bodies of each of the subsidiaries for this purpose;
- (d) an opinion of the parent undertaking's supervisory body or the remuneration committee, where applicable, on the overall consistency of the remuneration policy of its subsidiaries abroad and offshore establishments against the provisions of the Legal Framework of Credit Institutions and Financial Companies and this Notice, indicating any existing deficiencies, including those detected by the internal control functions of the parent undertaking;
- (e) individual reports prepared in accordance with Article 55 and issued by the entities referred to in Article 54(3). Upon prior opinion of the supervisory body, the management body may exclude from this obligation any subsidiaries abroad without significant activity and which do not influence the group's risk profile, as well as any subsidiaries abroad whose activity is limited to being a representative office under the same terms as those laid down in Article 63 of the Legal Framework of Credit Institutions and Financial Companies, and all exclusions shall be duly justified;
- (f) an individual assessment of the supervisory body as provided for in Article 56, which may be carried out by the supervisory body of the parent undertaking for subsidiaries abroad, and also by the supervisory body of the parent undertaking for domestic subsidiaries. In the latter case, only when observed and duly proved that the body also performs the supervisory function over those subsidiaries in terms of internal control.

2 – For the purposes of paragraph 1(e), the management body of a parent undertaking of a group shall issue the necessary guidelines for the entities referred to in Article 54(3) to annually prepare their individual reports consistently with each other and in accordance with this Notice.

3 – For institutions which are part of the Integrated Mutual Agricultural Credit Scheme, in addition to the provisions of paragraph 1 and based on the supervisory work carried out and evidence gathered therein, the Central Mutual Agricultural Credit Bank shall issue an opinion on the self-assessments carried out by the integrated institutions under Article 56.

Article 59

Approval of annual reports

- 1 – The annual self-assessment reports referred to in the foregoing articles shall be discussed and approved by the management body.
- 2 – The approval referred to in the foregoing paragraph shall not include the assessment made by the supervisory body, but this shall be taken into account by the management body.

Article 60

Disclosure of self-assessment results

- 1 – The supervisory body shall prepare a summary of the self-assessment report provided for in Article 55, which shall be disclosed in the Annex to the institution's annual accounting statements.
- 2 – For financial groups, the provisions of the foregoing paragraphs shall also apply to the group's self-assessment report.

Article 61

Integrated Mutual Agricultural Credit Scheme

The Central Mutual Agricultural Credit Bank shall create a template for the self-assessment report on the adequacy and effectiveness of organisational culture and of the internal control and governance systems to be prepared by the mutual agricultural credit banks which are part of the Integrated Mutual Agricultural Credit Scheme and by the Central Mutual Agricultural Credit Bank itself.

Chapter XII

Documentation, systematisation and public disclosure of information

Article 62

Documentation

The institution's management body shall be responsible for:

- (a) ensuring that the institution complies with the provisions of this Notice in a duly documented manner;
- (b) ensuring that the documentation produced is understandable, clear and consistent in itself;
- (c) keeping the relevant documentation duly updated by ensuring that changes over time are duly identified, dated and justified;
- (d) ensuring that all documentation contains the identification of the business unit responsible for its preparation and review;
- (e) keeping adequate document records, ensuring that the documentation contained therein enables, inter alia, clear awareness of the reasoning of the decisions taken and the parties involved.

Article 63

Information systematisation

- 1 – The management body shall ensure that the institution systematises, in an integrated and up-to-date manner and in a format accessible to all staff, the information concerning the matters set out in the Annex to this Notice.
- 2 – The management body shall assign responsibility to a business unit to ensure the systematisation of the information referred to in the foregoing paragraph and its continuous updating.
- 3 – The information systematised under this Article shall immediately be made available to the competent supervisory authority upon request.

Article 64

Obligation of public disclosure of information

- 1 – Any information which should be disclosed to the public under this Notice shall be published in its entirety on the institution's website within 30 days of approval by the competent corporate body.
- 2 – This publication of information on the institution's website shall meet the following cumulative conditions:
 - (a) without prejudice to the 30-day period referred to in paragraph 1, the information available for consultation shall be that in force in the institution;
 - (b) any necessary measures shall be taken to ensure that the main search engines available on the Internet enable easy and immediate access to the institution's websites where the information is published, based on a search that includes only the name of the corresponding documents and the name of the institution;
 - (c) access to the information made available on the institution's website shall be easy and intuitive.

Chapter XIII

Personal data

Article 65

Processing of personal data

The institutions shall process any personal data arising from the application of this Notice in accordance with the applicable law.

Chapter XIV

Transitional and final provisions

Article 66

Transitional provisions

- 1 – The institutions shall adapt to the provisions of this Notice within 6 months of its entry into force.

2 – Institutions which do not have internal control functions established in accordance with Article 15, or in accordance with Article 50(3) and (4), have a period of 18 months after the entry into force of this Notice to establish internal control functions that comply with the requirements set out in this Notice.

3 – Article 18 shall apply only to the heads of the internal control functions who take up the post after the entry into force of this Notice.

Article 67

Repeal

1 – Notices of the Banco de Portugal No 5/2008 and No 10/2011 and Instruction of the Banco de Portugal No 20/2008, are hereby repealed, without prejudice to the provisions of the following paragraph.

2 – For 2020, the internal control report referred to in Article 25(1) of Notice of the Banco de Portugal No 5/2008 shall be submitted by 30 September 2020.

Article 68

Entry into force

This Notice shall enter into force on the day following that of its publication.

29 June 2020 - The Governor, *Carlos da Silva Costa*.

Annex to the Notice

Information referred to in Article 63 of the Notice

1 – Under Article 63 of this Notice, the institutions consider the following matters for the purposes of systematisation of information:

- (a) shareholder structure of the institution;
- (b) organisational structure of the group, where applicable;
- (c) composition and functioning of the management and supervisory bodies of the institution;
- (d) governance structure, organisational structure and main activities of the institution, taking into account the group if the institution is the parent undertaking;
- (e) key function holders of the institution;
- (f) internal control system of the institution, taking into account the group if the institution is the parent undertaking;
- (g) code of conduct of the institution, taking into account the group if the institution is the parent undertaking;
- (h) remuneration practices and policies, taking into account the group if the institution is the parent undertaking;
- (i) outsourced activities, criticality level, identification of the respective service provider and location where the service is being provided.

2 – For the purposes of paragraph 1(c), the following is taken into account:

- (a) the policy for selecting and assessing the members of the institution's management and supervisory bodies and the key function holders, established under Article 30-A(2) of the Legal Framework of Credit Institutions and Financial Companies;
- (b) the number of members of the management or supervisory bodies;
- (c) the duration of mandate of the members of the management or supervisory bodies;
- (d) the gender, date of birth, nationality, academic qualifications and professional career of the members of the management and supervisory bodies;
- (e) identification of the executive and non-executive members of the management body;
- (f) allocation of tasks among executive members of the management body, where applicable;
- (g) the members of the supervisory body considered independent under Article 414(5) of the Portuguese Company Law;
- (h) the non-executive members of the management body considered independent;
- (i) composition and rules for the functioning of the established committees and specialised committees of the management and supervisory bodies;
- (j) composition and rules for the functioning of the executive committee, where applicable.

3 – For the purposes of paragraph 1(d), the following is taken into account:

- (a) the organisational chart indicating all the business units of the institution and for each of them a brief description of their powers, information on the number of persons it consists of and the identification of the respective head;
- (b) the policy for selecting and appointing the statutory auditor or audit firm and the contracting of non-prohibited non-audit services;
- (c) the business areas and group functions, specifying the associated business units, with the assignment of powers and responsibilities;
- (d) where applicable, the activities and functions carried out under the common services regime and indicating the entity performing them, the entities benefiting from such activities and functions, and explicitly referring to the activities carried out through holding companies and ancillary services companies, as well as outsourced activities;
- (e) products and services provided by the institution;
- (f) geographies where the institution carries out the activity;
- (g) branches;
- (h) subsidiaries;
- (i) branches established in European Union countries and in third countries;
- (j) the activity carried out under the freedom to provide services and representative offices;
- (k) joint ventures;
- (l) a description of the activity in offshore jurisdictions.

4 – For the purposes of paragraph 1(e), the following is taken into account:

- (a) identification of the head of the risk management function;
- (b) identification of the head of the compliance function;
- (c) identification of head of the internal audit function;
- (d) identification of other key function holders.

5 – For the purposes of paragraph 1(f), the following is taken into account:

- (a) a description of each internal control function, including its organisation, resources, status and authority;
- (b) a description of the risk management system, including the risk strategy.

6 – For the purposes of paragraph 1(g), the following is taken into account:

- (a) the set strategic objectives and future developments prospects;
- (b) the corporate values;
- (c) the internal codes, policies and regulations on ethics;
- (d) the policy for the prevention, reporting and remedying conflicts of interest;

(e) the policy on transactions with related parties;

(f) the policy for the reporting of irregularities and other internal rules on the matter.

7 – For the purposes of paragraph 1(h), the institution's remuneration policies are taken into account.

8 – For the purposes of paragraph 1(i), all outsourced activities and functions, including in respect of the operational tasks of the internal control functions, are taken into account.