THE NON-FOR-PROFIT BANKS IN PORTUGAL: SPECIFICITIES, SOCIAL ROLE AND EVOLUTION

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Abstract

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THE NON-FOR-PROFIT BANKS IN PORTUGAL: SPECIFICITIES, SOCIAL ROLE AND EVOLUTION.[1]

Abstract

This paper establishes the main differences between standard commercial banks and the two non-for-profit banks operating in Portugal (*Caixa Agrícola* – CA - and *Caixa Económica Montepio Geral* – CE-MG). In particular, we find differences in the way funds are raised, governance criteria, tax regime, application of profits and attitude towards profit. However, CA is more similar to a typical co-operative/mutual bank than CE-MG. Both banks have modernized and transformed into modern financial groups offering a wide variety of financial products similar to any commercial bank. However, this was not enough to avoid an erosion of their market position in terms of credit and deposits. The 2008 financial crisis' impact on the profitability of CA was similar to the impact on the industry average, whereas on CE-MG the impact was milder.

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INTRODUCTION

Co-operative banking is an important reality in the EU 15, representing around 14% of the loans and deposits of the banking industry. Its importance comes not only from the numbers but also from its specific business model, which has proved to be resilient to crises. Indeed, in the financial crisis that began in 2008, co-operative banks in Europe had a better performance than standard commercial banks (EACB, 2010). They had lower losses and write-downs and no co-operative bank has been included in nationalisation programs or has been declared bankrupt. Such behaviour has increased the interest on co-operative banks.

This article´s main purpose is to improve our understanding of the two non-for-profit banks operating in Portugal, *Caixa Económica Montepio Geral* (CE-MG) and *Crédito Agrícola* (CA), and the particular role they play in the Portuguese banking sector.

Our study indicates that, in recent years, CA and CE-MG have modernized and transformed themselves into modern financial groups, offering a wide variety of financial products similar to any commercial bank. However, this was not enough to avoid some erosion of their market position in terms of credit and deposits.

We were also able to identify that CA and CE-MG share some important characteristics that distinguish them from commercial banks: they are customer owned entities with a democratic control by members; they maximize members/customer value and not exclusively profits; they look for contributing to the economic and social development of the regions where they operate; they retain a larger share of their profits to reinforce capital; they use a larger share of profits to promote social development; and they are also more business conservative. In general, CA is more similar to a typical co-operative/mutual bank than CE-MG, and has also better profitability, efficiency and capital indicators. On the other hand, in terms of credit growth CE-MG has had a better performance than CA. Also, the 2008 financial crisis' impact on the profitability of CA was similar to the impact on the industry's average, whereas the impact was milder on CE-MG.

The paper is structured as follows. In Section 1 the Portuguese non-for-profit banks are described. Section 2 describes the distinctive characteristics of co-operative and mutual banks in Europe. In Section 3, we look at the differences between non-for-profit banks and profit-oriented commercial banks in the Portuguese banking system. In Section 4, we describe the recent evolution of non-for-profit banks against the background of the Portuguese banking sector and the European co-operative banking sector. Finally, Section 5 concludes.

1. BRIEF DESCRIPTION OF THE PORTUGUESE NON-FOR-PROFIT BANKS

As we have just seen, there are two non-for-profit banks operating in Portugal: *Crédito Agrícola* (CA) and *Montepio Geral* (MG). Both banks are in the top ten of Portuguese banks: MG is the 6th bank in terms of assets and CA is the 9th. [2] These two banks are non-for-profit in the sense that their prime goal is not to maximize profits with the aim of distributing them to their owners (like is the case with all other banks operating in Portugal, including *Caixa Geral de Depósitos* whose owner is the State). In the case of CA, when it does generate profits these are mostly used to increase its capital base. On the other hand, MG gives most of its profits to the Association who owns it and the remainder is likewise used to increase its capital base. The proprietor of MG uses the received profits to support a range of socially oriented activities such as nursing homes for the elderly and health facilities.

CA is a co-operative bank originally oriented for credit to the primary sector. Co-operative banks are financial entities that belong to people who are at the same time the owners and the customers of their bank. These people are named “members”.

MG is a bank owned by a mutual association – MG *Associação Mutualista* (MG-AM). Mutual associations assist and protect their members against several risks, upon payment of a regular contribution. In particular, they manage funds set up by “quotas” and contributions of their associates, using them to protect their future - and that of their family members - through assistance or monetary compensations.

We next summarize the main features of these two banks.

Crédito Agrícola

The *Crédito Agrícola* group, or in short CA, is a medium sized Portuguese financial group composed by a centralized coordinating body (*Caixa Central*), several local small banks (*Caixas*) and specialized firms. [3] The largest *Caixa* comprises only ten local administrative departments (*municípios*). Both the *Caixa Central* and the local *Caixas* have the legal form of co-operatives. During the past two decades, *Crédito Agrícola* underwent a process of reorganization whereby a network of autonomous local *Caixas* concentrated on receiving deposits and making loans preferentially to the primary sector was transformed into a medium sized financial group offering a wide variety of financial products and services, including

[2] Throughout this paper the off shore activities of banks are not considered and the analysis is done is consolidated terms, including the domestic and international markets.

[3] CA includes also the FENACAM (National Federation of Co-operative Agricultural Credit), who represents the co-operatives and offers specialized services (Auditory and administrative services) to the group.

insurance, mutual funds and consulting services. The CA group includes companies specialized in supplying services needed by the *Caixas*, allowing for considerable savings for the group. To potentiate this, in 1998, a unified computer network was created linking the whole group, *Caixa Central* and local *Caixas*. The existence of the *Caixa Central* also permits exploring scale economies in terms of marketing, creating a unified image at the national level.

Caixa Central is 100% owned by the local *Caixas*. Its role is to work as their guide, to monitor and control their supply of loans and to represent them in negotiations with regulators. There is a system of mutual responsibility between the *Caixa Central* and the local *Caixas* which makes possible that the same capital and liquidity legal requirements be subject to regulatory control in consolidated terms (*Caixa Central* plus *Caixas*). This means that some local *Caixas* may not fulfil the legal requirements as long as the group as a whole does. [4] The *Caixa Central* also manages the branches network in the two largest cities, Lisbon and Oporto. In 2009, the *Caixa Central* represented around 15% of the financial margin of the overall group (*Caixa Central* plus local *Caixas*).

The CA system, composed by *Caixa Central* and local *Caixas*, has a deposits guarantee fund, for which local *Caixas* have to make larger contributions than a commercial bank has to make to the similar fund managed by the Central Bank. This ensures that the *Crédito Agrícola* Guarantee fund has a better coverage than the general fund for commercial banks.

The *Crédito Agrícola* deposit guarantee fund also has the role of offering loans for the financial recovery of local *Caixas*. This occurred specially between 1991 and 2002, a period characterized by the restructuring of many local *Caixas* in financial difficulties, which implied the merger of many of them. In recent years, the mergers of neighbouring local *Caixas* have been driven more by the search of scale economies allowing, for example, saving resources in the fulfilment of supervision requirements.

Originally, the *Caixas* were created to make loans to the agricultural sector and rural communities. To obtain a loan, one had to be an Associate of the local *Caixa*. To become an Associate, one had to pay a very small - symbolic – amount, named “quota”, and to develop activities related to the primary sector, including agriculture, forestry, cattle raising, hunting, fishing, aquaculture, agro-tourism, handicraft, extractive industries, as well as service activities linked to the primary sector such as the commercialization of agricultural goods and agricultural inputs. Nowadays, the criteria to become an Associate of a local *Caixa* are less stringent, allowing almost everybody to become an Associate.

[4] Local *Caixas* who choose not to belong to the integrated system of CA (associated local *Caixas* and *Caixa Central*) are subject to the legal requirements individually. In practice, only four local *Caixas* are not integrated in the CA system.

Since 2009, the local *Caixas* are allowed to supply to their Associates most of the financial services that a standard bank is allowed to supply. [5] The local *Caixas* can also supply credit to non-members up to 35% of their assets (or up to 50% upon authorization of the *Caixa* Central). So, although credit to the primary sector is their main vocation, the local *Caixas* can supply any type of loan or other financial product to almost any type of customer.

Crédito Agrícola's main strength is its deep knowledge of local rural communities and the fact that decision-making is faster, because it is made at the local level too. In the banking sector, more than in any other sector, knowledge and trust are key factors. Banks need to *know and trust* their customers in order to decide whether or not to make loans to them. Individuals and organizations, for their part, need to *know and trust* their bank before deciding whether or not to make deposits in it. Therefore, just as big European banks find it difficult to gain share in the Portuguese banking market – because of matters of knowledge and trust – so do the big Portuguese banks find it hard to compete with CA at the local, rural, level.

In recent years, CA has been trying to apply the same knowledge and proximity-based strategy to companies and households in urban centres. Local families, local trade and small companies are the main target. Success in this is difficult to measure, but we hypothesise that this strategy has been more successful in small urban centres.

Montepio Geral

Montepio Geral – Associação Mutualista (MG-AM) is a mutual association established in Portugal since 1840. It is a private non-for-profit entity that seeks the development of social protections schemes and health and social facilities in order to improve the quality of life of its members - mutual associates – which have to make a regular contribution to the association. In 1974, it was recognized by the Portuguese government as a Private Social Solidarity Institution (PSSI) and, as such, it pursues mutual aid in the interest of its members, developing an effective response at the level of solidarity and complementarity with the public systems of health and social security. MG-AM owns the bank *Caixa Económica – Montepio Geral* (CE-MG).

The associates of MG-AM have a set of advantages. At the level of social protection schemes, the MG-AM offers, with special conditions in relation to non-associates, mutual products, which are essentially saving and retirement products, health and life insurance. These products offered through CE-MG and other group' firms may receive an additional return, depending on the results of MG-AM, as decided by the annual General Assembly of associates. Associates also have access to loans given by MG-AM itself as long as they are supported by the capital and mathematical reserves of their own saving and insurance products. Besides, the

[5] In fact, the Central *Caixa* has this ability since 1995. The local *Caixas* also have this ability since 1995, but until 2009 it was only possible through a contract with the Central *Caixa*.

associates benefit from special conditions, namely better interest rates in credit for home purchase and personal credit given by the CE-MG.

Simultaneously, there is a common Solidarity Fund, constituted through small voluntary individual contributions, which protects the members and their families in the event of death or disease. The association also owns nursery homes for the elderly and provides home support to elderly associates. There is also the promotion of initiatives contributing to the cultural and social development of employees and mutual associates, such as the organization of trips, courses, conferences, and competitions.

MG-AM also has an important role towards non-associates. Regarding health and social facilities, examples of social aid given by the Association are the donations in areas like health, social solidarity, education and training in cases where a substantial degree of exclusion and social vulnerability are identified.

Simultaneously, MG-AM has been participating increasingly in community programmes and lines agreed upon with different government bodies (such as the ADENE, IAPMEI, BEI, IEFP, REAPN, and others), under which it has supported investments in industry, services, tourism, energy and infrastructures. This aims to create the right conditions for the country's sectorial and regional economic development, for job creation and, on a smaller scale, stimulates entrepreneurship and the creation of self-employment for the jobless.

MG-AM's stake in partnerships and agreements focused on Small and Medium Enterprises and social economy institutions is a proof of the importance that it lends to initiatives promoting citizenship, social inclusion, innovation and entrepreneurship as tools for fostering sustainability and integrated development. The values promoted by MG-AM are altruism, humanism, protectionism, sharing, solidarity and fraternity.

MG-AM is part of *União das Mutualidades Portuguesas*, an association that aggregates about eighty private mutual associations, representing about 44% of the mutual associations and over 90% of the total Assets of the mutual associations in Portugal. MG-AM is also affiliated with the *Association International de la Mutualité* (AIM), which represents most mutual associations of the world, including some mutual banks, like *Credit Mutuel* (in France) or *Banca Monte dei Paschi* di Siena (in Italy).

MG-AM is the largest mutual association in the Iberian Peninsula and one of the largest in Europe, with over 489.000 Associates and €2.8 billion in Assets in the end of the first semester of 2011.

In 1844, to help further its activities, MG-AM created the bank *Caixa Económica de Lisboa*, which became the first and unique financial institution to operate on a strict mutual basis in Portugal. In 1991, *Caixa Económica de Lisboa* was renamed to *Caixa Económica Montepio Geral* (CE-MG), which is fully owned by MG-AM. CE-MG serves the banking needs of the MG-AM members and generates funds which are used by MG-AM to develop its activities. CE-MG was created essentiality to serve mutualism aims, offering mutual banking products, attracting retail savings, granting credit facilities and offering banking services to MG-AM's members. The mutual products offered by CE-MG are essentially saving products, namely for retirement, and health and life insurances.

Under Portuguese law, CE-MG is a "*Caixa Económica*", which makes it different from other commercial banks. [6] Originally, this type of bank had a limited range of activities, focusing in attracting deposits and making housing mortgage loans. This justifies why at the end of the twentieth century, CE-MG already had a remarkable position in the housing and construction credit market. Nevertheless, over the last decade, CE- MG, together with its subsidiaries, evolved from a pure and specialized mortgage credit institution, into a diversified financial group, providing full scale banking products and services to its clients. [7] In parallel, CE-MG started a portfolio diversification strategy, aligned with a better focused risk management, benefiting from the growth of its branch network, the launch of an IT modernization program and the enlargement of the *Montepio* Group. The acquisition of *Finibanco* Financial Group in 2010 may give an important contribution to develop the differentiation, the diversification and the competitive ability of CE-MG.

CE-MG is a universal retail bank that holds the sixth place in the Portuguese banking market and, as financial arm of the MG-AM, is absolutely essential in the proliferation of mutualism, in several ways. Firstly, the CE-MG is the fundamental piece of MG-AM, since it allows the association to offer to associates a large range of financial products for the protection of savings, social and family risks, and credit for the acquisition of homes and further education.

Secondly, MG-AM tries to recruit CE-MG banking customers as mutual associates. To persuade them, it offers not only its social and health facilities, but also special pricing on CE-MG products. Note that anybody can be a CE-MG customer without being a member of MG-AM, but the reverse is not allowed. In fact, anyone who wants to become a mutual associate of MG-AM must meet all the following requirements: pay the initial registration; pay a monthly fee; open a bank account at CE-MG; and subscribe at least one mutual banking product.

The CE-MG preferential positioning in the Social Economy is also important for the promotion of the values of solidarity that characterize mutualism. Among the bank's priorities is the support of projects that promote a better quality of life for children, youth, elderly and disabled citizens. A good example of that is the provision of microcredit, which aims to promote self-employment and social and economic inclusion. CE-MG has also a natural understanding with social economy institutions. This is translated in the offering of a variety of products and special agreements designed for the specific needs of Private Social Solidarity

[6] Historically, there were other banks with the legal status of *Caixa Económica*, but they have all disappeared mainly due to financial problems.
[7] For consolidation purposes CE-MG also includes the insurance company Lusitania owned by MG-AM. Notice that the recently acquired Bank *Finibanco* does not consolidate with the CE-MG.

Institutions - with specific prices and conditions. These tailor-made products include, for instance, products for the management of short-term funding needs or insurance contracts. Despite this specialized offer, the credit to non-for-profit organizations was in 2007 only 0.1% of the total credit of CE-MG and 0.25% of the credit to firms. [8]

In the context of fierce competition in the banking sector, one reason why CE-MG manages to remain attractive is the above mentioned facilities and special conditions that MG-AM provides to its associates.

Some differences between *Caixa Económica*-MG and *Crédito Agrícola*

From what was said, it is clear that CE-MG and CA share some characteristics – which we will describe in more detail in the next Section -, but they have also some differences, which we describe next. Firstly, MG-AM, using the CE-MG, aims to provide to their associates assistance and support in a broad sense: human, social, financial, among others. Instead, CA is more focused on providing a wide range of financial services and products.

Secondly, CE-MG is not directly owned by MG-AM individual associates, but instead by MG-AM itself. In the case of *Crédito Agrícola*, members are both owners and customers of the bank.

Thirdly, while CE-MG is a bank with a centralized structure, CA has a pyramidal structure, with local autonomous *Caixas* that are headed by the *Caixa Central*.

Finally, when we look at the loans portfolio, we find that MG is more specialized in credit to families, while CA is more specialized in credit to firms. Indeed, in 2009 credit to families represented 67.4% of total credit in the case of MG and 50.1% in the case of CA (53.9% for the sector, on average). In contrast, the credit to firms represented 32.6%, 50.1% and 46.1% of total credit for MG, CA and the sector, respectively (Table 1).

Table 1 – Composition of credit portfolio in 2009 (%)

	CA	CE-MG	Sector
Firms	49.9	32.6	46.1
Families	50.1	67.4	53.9
Mortgages	26.4	58.3	42.9

Source: *Associação Portuguesa de Bancos* and Banks' Annual Reports.

[8] Source: Bank's Annual Report.

2. BRIEF CHARACTERIZATION OF MUTUAL AND CO-OPERATIVE BANKS IN EUROPE

In this section, we look at the experience of mutual banks and Co-operative banks in Europe. Before entering in the description of co-operative and mutual banking, we describe in general the differences between a co-operative and a mutual association, following Demers (2008). Both type of organizations share many characteristics and seek the mutual aid of its members, with the differences being essentially on details.

A co-operative is an organization owned and democratically-controlled by its members that looks for meeting specified common needs. A mutual organization manages democratically voluntary insurances for members. They make a regular contribution to the mutual fund and in exchange receive agreed benefits.

Co-operatives and mutual organizations share the same values: mutual self-help, democracy, equality, equity and solidarity. In terms of principles, both organizations are based on voluntary and open membership, democratic control by members and share a concern for the community. A distinctive principle of co-operatives is the members' economic participation in organization's activities.

In relation to objectives, mutual organizations are more focused on collectively managing risks, while co-operatives are more concentrated in meeting specific members' needs. Another difference is that co-operatives may distribute a patronage dividend, while in mutual organizations that does not occur.

There are other differences between those organizations, namely regarding the applicable legislation, regulatory authorities, members' representation and decision-making process. With respect to the latter, in co-operatives the Annual General Meeting (AGM) can take decisions on the future of the organization, which must be followed by the board of directors. In contrast, in mutual associations the decision power is concentrated in the board of directors, competing to the AGM to elect the board and define internal statutes and laws.

After comparing co-operatives and mutual organizations in general, next we characterize co-operative and mutual banks. When the first of such organizations appeared in the XIX century in Germany the purpose was to create an alternative both to those with lack of access to financial services and to those who were being exploited by usurers charging unbearably high interest rates. Regarding their origins, these banks can be grouped in two broad groups. On the one hand, some banks have been created to provide credit to people of limited income, in which case tend to be more specialized in mortgage credit. On the other hand, some of those banks have been created to provide credit to a particular field of activity, with the goal of developing it. Deposits were received mainly from members of the profession and credit was given mainly to small businesses and firms on that activity.

In the first group are included mainly mutual banks. Their original goal was to stimulate savings by individuals, through the protection of deposits and the provision of an attractive interest rate for depositors. Additionally, they also made mortgage loans at affordable rates and other secure investments.

Mutual banks were built from the start to target a broad range of the population, with an emphasis on the protection of social risks. On this regard they differ from co-operative banks, in which case historically members shared some interests and characteristics like trade, profession or belonging to the same local community. But nowadays, co-operative banks have evolved from serving a restrict community of members with common characteristics, and sometimes specialized in some types of credits, to large universal banks. In the present co-operative banks have a strong presence in France, Germany, Italy and the Netherlands. In opposition, mutual banks have declined in number and market share in the late 20th century, becoming globally less significant than co-operative banks.

From what was said, the historical origins of co-operative and mutual banks are slightly different. Nowadays, despite some small differences, both type of banks share many characteristics, which we describe below (EACB, 2010; Fonteyne, 2007).

Firstly, they are customer owned entities. Co-operative and mutual bank members are both owners and customers of the bank, with customers having influence over the management. As a consequence, the first aim of a co-operative bank is not to maximise profit, but to provide the best possible products and services to its members. [9] They focus on their members' needs with a long-term perspective. While commercial banks maximize profits, co-operative banks maximize members/customers welfare. Profit is a necessary condition to guarantee an institutions' stability, but it is not the main goal (Groeneveld and Sjauw, 2009). In the case of non-for-profit banks, the goal is to offer their members high quality services at the lowest possible cost. This helps explain why co-operative banks usually show a smaller profitability than commercial banks. However, in Western European countries co-operative banks operate more cost efficiently than commercial banks (EACB, 2010).

Secondly, co-operative and mutual banks have democratic control by members. Co-operative and mutual banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of "one person, one vote". They are characterized by a democratic governance scheme, with an involvement of their members in decision-making in matters

[9] Some co-operative banks only operate with their members but most of them also admit that non-member clients benefit from their banking and financial services.

defined by the statutes of each bank. A consequence of the specific ownership structure and governance of co-operatives and mutual associations is that they are basically immune to a hostile takeover by another bank.

Thirdly, both mutual and co-operative banks tend to have a pyramidal structure. [10] At the local level, the local banks control the various branches; at the national level, there is an organization that acts as a bank of the local organizations, offering clearing facilities, pooling funds to lend to local banks, sharing back-office functions, like a payment system. In some countries, like France, there is an intermediary regional level.

Fourthly, co-operative banks usually have internal deposit guarantees schemes. They have institutional protection schemes that amount to solidarity between local independent banks. This guarantees the deposits of members in case of failure of one local bank. Some local co-operative banks have a small dimension, which may inspire in clients less confidence on their financial stability, especially in times of crisis. However, this is mitigated by the solidarity network between local co-operatives. [11]

Fifthly, profit allocation is different from commercial banks. In a co-operative bank, a significant part of the yearly profit is usually allocated to constitute reserves. This helps explain why they are well capitalized in general. A part of their profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through the use of the co-operative's products and services, or through an interest or a dividend, which is related to the number of shares subscribed by each member.

Sixthly, co-operative and mutual banks are predominantly domestically and retail oriented and they are strongly attached to the local economies. Their clients are typically individuals, households and Small and Medium Enterprises. They have dense branch networks that allow them to be close to customers. The decision centre is closer to the clients, allowing a better knowledge of the local economy and a faster decision process. This together with the democratic process inside the co-operative or mutual association contributes for a better satisfaction and trust of clients. Non-for-profit banks have a strong traditional position in attracting local deposits. Sometimes what attracts customers is vicinity or the financial stability of those institutions that are seen as safer than market-oriented banks. But there are also emotional factors associated with different business principles more focused on non-financial performance indicators. Proximity to customers – including physical branches in remote regions –, intervention at the local level and ability to work with small profit margins are key features of the European co-operative and mutual banking model.

Finally, co-operative and mutual banks tend to be more conservative than other banks. They mainly follow the traditional approach to intermediation characterized by originate to hold,

[10] In the specific case of CE-MG this does not occur.
[11] Notice that this characteristic is much more common in co-operative than in mutual banks.

in detriment of the business model based on selling commoditized credits. Another aspect of their conservatism is that they tend to have a stronger capital base than commercial banks. There are several reasons for this: (i) they add a larger portion of profits to reserves because of their low pay-out ratio; (ii) they have more limited options to quickly raise capital; (iii) and in some European countries they are subject to tighter legal requirements. It can thus be argued that, despite their lower profitability, financial co-operatives make a positive contribution to the stability of the national financial sectors, because of their strong capitalization, more prudent risk management and lower returns volatility (Hesse and Cihák, 2007).

3. CRÉDITO AGRÍCOLA AND CAIXA ECONÓMICA - MONTEPIO GERAL COMPARED TO COMMERCIAL BANKS: MAIN CHARACTERISTICS AND ECONOMIC PERFORMANCE

In this section we look at the main dimensions where CA and CE-MG differ from standard banks and their implications on the banks' economic performance. We start by looking at the way capital and funds are raised. Then, we look at the banks' governance and tax regime. Afterwards, we examine how profits are allocated. Finally, the attitude towards profit and social development is also highlighted.

The way funds are raised

In standard, non-financial companies, the sources of funds available are the following: (1) money injected by the owners of the company; (2) retained profits; (3) loans from suppliers; (4) loans obtained by issuing bonds (securitized loans); (5) loans obtained from commercial banks (bank loans). The money raised using the first two of these sources is called the "capital base" of the firm, because it corresponds to the money that was put in by the owners of the company plus the money generated by the activities of the company itself.

In the case of standard commercial banks, along with the previous five [12], there are two additional sources of funding available: loans obtained from the central bank and deposits made by customers, irrespective of whether it is in current accounts or savings accounts. In this regard, CE-MG and CA are not different from other banks. It is only relevant to highlight that in CA, its pyramidal structure assigns a special role to the Central *Caixa* in the financing of local *Caixas*. The Central *Caixa* accepts deposits from the local *Caixas* and deposits from clients. On the

[12] Note that commercial banks can also obtain loans from (other) banks, via the so-called interbank money market.

other hand, the Central *Caixa* has access to interbank markets and financial markets in general (which are not accessible to the local *Caixas*). The money raised in this way and received from local Caixas with surplus, can be used to finance local *Caixas* with a deficit of money.

Comparing with standard commercial banks, the two non-for-profit banks under study present a ratio deposits-to-liabilities considerably larger than the sector's average, showing their strong position in raising funds through deposits (Table 2). This is one reason why CE-MG and CA on average between 2004 and 2010, had a lower cost of obtaining funds (an average financing rate 1.4 p.p. lower than the sector's average - Table 2).

In the turbulent conditions of the market in 2010/11, the strong deposits base was a strategic asset, since banks were facing difficulties in obtaining funds in the interbank and other financial markets. Note that CA's deposits have been under attack by other banks, as shown by the fact that in 2010 the deposits of CA have decreased 1.3% against an increase in the sector of 3.9% (Table 2).

Next, let us focus on the way the non-for-profit banks raise capital. Since they do not issue shares in the stock market, they only raise funds through the injection of money by their owners and by retaining profits.

Regarding CE-MG, profits are used to increase the capital base of the bank and to finance the acquisition of other financial companies. The MG-AM individual members do not contribute directly with capital for the bank. They only have an indirect impact on capital through quotas paid to MG-AM and subscription of mutual products at CE-MG.

Turning now to CA, the *Caixas* can raise capital through the admission of new members (which have to subscribe at least €500 of capital shares), the subscription of additional capital shares by existing members and by incorporating reserves (obtained essentially from past profits).

Table 2 – Average interest rates and deposits (%)

	2004-07	2008-10	2004-10
Deposits /Liabilities			
Sector's average	45.1	41.6	43.6
CA	93.9	86.1	90.6
CE-MG	56.5	55.5	56.1
Average loans rate			
Sector's average	5.3	5.1	5.2
CA	5.4	4.7	5.1
CE-MG	4.5	5.0	4.7
Average financing rate			

Sector's average	3.9	3.9	3.8
CA	2.0	1.9	1.9
CE-MG	2.7	3.4	3.0
Deposits growth rate	**2005-07**	**2008-10**	**2005-10**
Sector's average	8.6	5.3	6.9
CA	6.5	2.8	4.6
CE-MG	3.7	6.1	4.9

Note: Average loans rate = Interests received / Financial Assets, Average financing rate = Interests paid / Financial liabilities. Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

Regarding the numbers, CA has a much stronger capital ratio than the sector's average: in 2007, the Tier 1-Capital ratio was 11.6% for CA and 7% for the sector. [13] By contrast, CE-MG does not have a stronger capital base than other banks: its Tier 1 Capital ratio was 6.92% in 2007. One reason why CE-MG's capital ratio was smaller than CA is related with its stronger credit growth.

Governance criteria

We just saw how funds are raised in CA and CE-MG. The way the management applies these funds is closely controlled by the associates, namely in the *Caixas*, due to their small dimension and local presence. Transparency is required by the associates who follow closely and with interest all activities the bank is involved in. In this, these banks differ from standard banks where shareholders are more distant from the everyday management decisions. Also, in CE-MG and CA the ownership of the bank is dispersed through many small owners, whereas in commercial bank sometimes there is a more concentrated ownership structure. In co-operative banks the moral hazard problems between owners and depositors, and owners and borrowers are mitigated since sometimes they are the same person, according with Coco and Ferri (2009). The same authors suggest that the asymmetry of information in the lending process is also reduced by the network of linkages between members/borrowers.

Tax regime

After raising and applying funds, profits are generated and taxes have to be paid. Tax regimes applied to CA and CE-MG are different. On the one hand, CA lost most of the fiscal benefits and tax exemptions it benefited from in the past. This occurred in parallel with the process of

[13] The capital ratio is the ratio of capital-to-assets weighted by risk. The sources of Tier 1 capital ratio are: Banks' annual report and *Banco de Portugal* (2010)

being allowed to develop a growing range of activities and supply an increasing number of financial products. Nowadays, CA fiscal framework is almost similar to standard commercial banks.

In contrast, CE-MG's social role in the development and the consolidation of the Social Economy and the Third Sector is recognized by the Portuguese government, who grants to it a regime of tax exemption. As a result, CE-MG has benefited from an exceptional regime of exemption in the payment of some taxes, included the Income Tax, according to the Portuguese law (article 8 of the Decree-Law 119/83, dated February 25th; article 1 of the Law 151/99, dated September 14th; and article 10 of the Corporate Income Tax Code). This situation has intensified the tensions between CE-MG and the other Portuguese banks, who claim this creates unfair competition. In the current context of fiscal consolidation, imposed by the international organizations (IMF, UE and ECB), there are some risks that these benefits could end soon.

The way profits are allocated

In accordance with their co-operative and mutual principles, CE-MG and CA use profits predominantly to increase their capital base and promote social activities (the latter is more typical of MG than of CA). Only very recently, did CA start to use a (small) part of its profits to remunerate members' capital shares.

The Statutes of *Montepio Geral* clearly state – in article 36 - that at least 25% of net earnings must be used to increase the capital base of the bank (at least 20% in the form of so called "legal reserves" and at least 5% in the form of "special reserves" [14]). The remainder – i.e., an amount which will tend to be close to 75% of net earnings - is transferred to the Association that is the sole owner of the bank.

Specific proposals regarding the allocation of profits are made each year by the Executive Board of the bank and must be approved by the MG-AM General Assembly of members. This assembly includes all who have been active members of the Association for at least the previous two years (each member has one vote).

As already mentioned, the Association uses the money received from its bank to promote several activities which are socially oriented in nature and benefit members and sometimes non-members of the Association.

We can thus say that the end goal of CE-MG is to generate profits that are partly used to strengthen the bank itself but also used to support and promote social activities.

Turning now to CA, after the legislative change of 1995, the *Caixas*' statutes allow the distribution of profits to members, but only after compensating eventual negative past results

[14] According to the Statutes, the bank can also build reserves for other purposes, but this tends to be in negligible amounts.

and the constitution of compulsory reserves. The distribution of profits is done by increasing the value of members' capital shares or increasing their deposits. Notice that only in the latter case does money get out from the *Caixas*. Profits not distributed to members are used to reinforce the bank's capital.

Since 2007, in order to attract more members and because the minimum capital share of each member was raised to €500, a large number of *Caixas* has distributed profits to remunerate capital shares. Sometimes the capital remuneration assumes the form of interest, since some *Caixas* have raised capital selling capital shares paying interest. Between 2007 and 2009, on average, 3.9% of the profits were distributed to members, and before 2007 there was not the practice of remunerating the members' capital. [15]

Regarding the *Caixa Central*, even though it is legally possible, it never distributed profits to its capital owners, the local *Caixas*, because all profits have been used to cover past losses linked to capital injections in some problematic local *Caixas*.

After strengthening their capital base, CA also uses a part of its profits to help social institutions and the development of the local economy. For example, CA group has distributed around €12.5 million (3.2% of total profits) to social institutions, between 2006 and 2009. We may summarize by saying that, in CA around 93% of profits have in the past been used to reinforce the capital base. [16] Due to this, CA is a very well capitalized bank, having currently a "core tier 1" capital ratio of around 12%, well above the legal requirement.

Attitude towards profit and social development

We have seen above that CA and CE-MG apply profits in a different way from commercial banks. But the differences between them are even deeper, since the two non-for-profit banks, unlike commercial banks, do not have as prime objective to maximize profit. Instead, fulfillment comes from strengthening the bank itself; securing the jobs of the people who work in it; and contributing to the economic and social development of the regions where they operate. They work for the community - for their own employees and for the consumers and small trade and businesses - not for the markets. Therefore, they do not need to pursue speculative and risky approaches to the banking business. The only profits they need are those to increase their capital base (whenever necessary or advisable). This allows them to work with small profit margins.

The fact that CA and CE-MG follow a less risky business model can be seen in the fact that the two financial institutions are more specialized in retail banking, especially CE-MG.

[15] Own calculations based on CA's Annual Reports.

[16] The number 93% comes from the fact that, between 2007 and 2009, 3.9% of profits was distributed to members and 3.2% to social institutions.

Indeed, they have a ratio credit-to-assets larger than the sector's average, implying that credit activity is relatively more important for them (Table 3). In other words, the assets associated to trading activities and the financial assets own until maturity are less important in their balance sheets than in standard commercial banks.

Table 3 – Credit-to-assets (%)

	2004-07	2008-10	2004-10
Credit / Assets			
Sector's average	62.5	60.8	61.1
CA	71.7	67.6	70.0
CE-MG	87.2	86.4	86.9

Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

Incidentally, a less aggressive attitude towards profit gives CE-MG and CA an advantage over competitors – because it allows them to charge lower prices for the services they provide. Indeed, when we look at the average loans rate of the non-for-profit banks in the last years it has been slightly smaller than the sector's average: 4.7% for MG, 5.1% for CA and 5.2% for the sector (Table 2). Please note that this is a rough comparison since it does not take into account differences in credit composition across banks.

Despite the fact that both banks tend to work closely with local communities, the two have differences in their regional presence. Compared with CE-MG or other commercial banks, CA has an advantage in serving local economies, because it is a decentralized group, where local *Caixas* have autonomy of decision. Regarding the geographic coverage of the branch network, CA has a branch share around two times its deposit share: in 2010 it was 11.1% and 5.1% respectively (Graph 1 and Table 4). By contrast, CE-MG has a branch share similar to its deposit share: in 2010 it was 5.3% and 5.1% respectively. It can then be concluded that CA's branch network is much wider, i.e., much closer to the customers than CE-MG's network. The fact that CA has a much larger branch network than CE-MG does not imply a smaller operational efficiency, as we will see below.

In addition, CA tends to locate its branches more in inland regions (*Beja*, *Bragança*, *Castelo Branco*, *Évora*, *Guarda*, *Portalegre*, *Vila Real* and *Viseu*) than the other banks (Table 5). When we look at the distribution of banks' branches across regions, CA tends to have a proportion of branches in inland regions larger than the sector's average (on average 2.4 percentage points (p.p.) larger), while CE-MG has slightly less representation on those regions than the average (on average minus 0.5 p.p.). In 250 small villages, a CA branch is the only contact that populations have with the financial system.[17] Naturally, the over-representation of CA in inland regions is also related with its deep genetic connection with primary sector activities. Finally, the fact that CA is over-represented in inland regions, which have higher saving rates than the average, facilitates the attraction of deposits.

Table 4 – Banks' Branches

	2004	2007	2009	2010
Number of branches				
Sector's average	5312	5977	6186	6240
CA	616	644	682	691
CE-MG	297	300	326	329
Branches market share (%)				
CA	11.6	10.8	11.0	11.1
CE-MG	5.6	5.0	5.3	5.3

Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

It may be asked if the close connection and knowledge of the local economy possessed by CA does translate into a better capacity to manage credit risk. It might be argued that co-operative banks like CA have an advantage in dealing with asymmetric information that arises from the fact that borrowers are often also members and there is a network of linkages between members/borrowers, which facilitates the cross monitoring and creates a stigma in case of default. In order to confirm if these theoretical arguments do effectively translate into an advantage, we looked at the ratio of non-performing loans to total loans and observed that the non-for-profit banks have a ratio higher than the sector's average, with CA having the worse performance on this respect (Table 6). But while from 2006 to 2009 the average ratio of the sector has increased 1.5 p.p. and CE-MG's ratio increased 1.4 p.p., CA's ratio registered a slight decrease of 0.2 p.p. This shows that structurally CA has a worse position regarding credit quality, but has been able to manage credit risk in a more efficient way during the last years of economic crisis. Overall, the closer connection of CA to local economies does not seem to translate into better credit risk's indicators, probably due to other factors such as the characteristic of the local economies in which CA is located (more economically depressed regions), or the composition of its credit portfolio (credit to more risky firms). It is interesting to notice that in CE-MG, Social Institutions were in 2007 the group of clients with lower ratio of non-performing loans: 0.9% that compares with 2.7% for private firms (*Montepio Geral*, 2007).

[17] Source: CA's web site.

Table 5 – Regional distribution of branches in 2009

	Regional distribution of branches (%)			Difference towards the sector (p.p.)	
***Inland* Regions**	**CA**	**CE-MG**	**Sector**	**CA**	**MG**
Braga	4.3	0.3	1.5	2.8	1.2
Bragança	3.7	0.9	1.4	2.2	0.5
Castelo Branco	3.1	2.8	1.9	1.2	0.9
Évora	5.1	2.1	1.9	3.2	0.2
Guarda	3.8	1.2	1.6	2.2	-0.4
Portalegre	4.0	0.6	1.3	2.7	-0.7
Vila Real	3.8	0.6	2.0	1.8	-1.4
Viseu	6.5	2.1	3.3	3.2	-1.1
Average	-	-	-	2.4	-0.5

Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

Table 6 – Ratio of non-performing loans (in %)

	2006	2007	2008	2009	2006/09	2008/09
Sector's average	1.7	1.6	2.2	3.2	+1.5 p.p.	+1.0 p.p.
CA	4.7	3.9	4.3	4.6	-0.2	+0.3
CE-MG	2.3	2.3	2.8	3.8	+1.4	+1.1

Note: it includes the credit to firms and families. Source: Banks' annual reports and *Boletim Estatístico* of the *Banco de Portugal*.

Apart from been more connected to the local economies, they are also more domestic market oriented, having an international presence smaller than other Portuguese banks. This makes them more vulnerable to a negative evolution of the Portuguese economy.

Economic and financial performance

When the financial position of CA and CE-MG for the period 2004-2010 is analyzed, many of the above assertions are confirmed, but there is some specificity in each bank. Firstly, as expected, the non-for-profit banks have a ROE (Return-on-Equity) [18] smaller than the average of the sector. But while the profitability of CA (12.6%) is only slightly smaller than the average (13.8%), the profitability of CE-MG is three times smaller than the average (6.8%) (Table 7). [19] The lower profitability of CE-MG and CA is associated with a lower standard deviation of the

[18] ROE is the ratio of profits-to-capital base.
[19] Since CE-MG is exempt of taxes, the profit before taxes is used to compute the ROA and ROE.

ROE: 5.6%, 2.2% and 7.1% for CA, CE-MG and the sector, respectively. This is an indicator that non-for-profit banks have a less risky business model.

Table 7 – Main financial indicators (%)

	2004-07	2008-10	2004-10
ROE			
Sector's average	17.2	9.3	13.8 (7.1) [1]
CA	15.9	8.1	12.6 (5.6)
CE-MG	8.5	4.6	6.8 (2.2)
ROA			
Sector's average	0.7	0.4	0.5
CA	1.3	0.7	1
CE-MG	0.4	0.2	0.3
Capital Ratio			
Sector's average	5.6	5.5	5.5
CA	7.9	8.2	8.0
CE-MG	4.8	5.4	5.0
Cost-to-income			
Sector's average	58.3	54.1	56.5
CA	56.5	60.7	58.3
CE-MG	62.6	58.7	60.9

Note: [1] – standard deviation in brackets. To compute the ROE and ROA we used the results before taxes. The capital Ratio is not the regulatory capital ratio. Cost-to-income = Operational costs / Banking Product. Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

The picture is slightly different for the ROA (Return-on-Assets)[20] (Table 7). CE-MG is still presenting a ROA below the average, but CA has a ratio more than two times larger than the sector's average. However, in 2009 there was a sharp decrease in CA's ROA, which is justified in its Annual Report by the decrease in the Euribor. Given that CA has traditionally a lending position on the interbank market, the decrease in the Euribor meant a strong decline in returns. In general, the reason why CA has a ROA larger than the sector's average but a ROE smaller than the sector can be found in the fact that its capital ratio is considerably larger than the sector's ratio. But the same reason does not explain why CE-MG has a ROE smaller than the sector, since its capital ratio is below the sector's average.

Regarding operational efficiency, we found that the cost-to-income ratio of the two non-for-profit banks is larger than the average of commercial banks, with CE-MG presenting lower

[20] ROA is the ratio of profits-to-total assets.

efficiency than CA. Between 2004-2010, the ratio for the sector was 56.5%, for CA was 58.3% and for CE-MG 60.9% (Table 7).

From the previous data, it can be inferred that CE-MG and CA, despite the fact that both are non-for-profit banks, have a very different position in relation to the sector. On the one hand, CA presents some dimensions where it is better than standard commercial banks, such as ROA and capital ratio, being only slightly less efficient. On the other hand, CE-MG seems to be an under-performer on the three aspects presented. However, CE-MG has had a better performance than CA in terms of credit growth (Table 9).

In sum, in line with Ory et al. (2006) for France, our analysis of the Portuguese non-for-profit banks indicates, especially regarding the CA, that co-operative and mutual banks are not inefficient and condemn to disappear.

To finalize, above it was observed that CA has a better position than commercial banks regarding some financial indicators, namely concerning the ROA and capital ratio. It is possible to conjecture some reasons why that non-for-profit bank has such a financial performance. Firstly, it is located in locals where there is less competition and it exist a large pool of savings, which allow him to have a large deposit base. Secondly, CA is strongly rooted in the local economy and society, is closer to customers, has a decentralized and democratic decision process, and is seen as a safe institution. This allows CA to better respond to the preferences of local customers and earn their trust, and at the same time develops a better understanding of their credit risk.

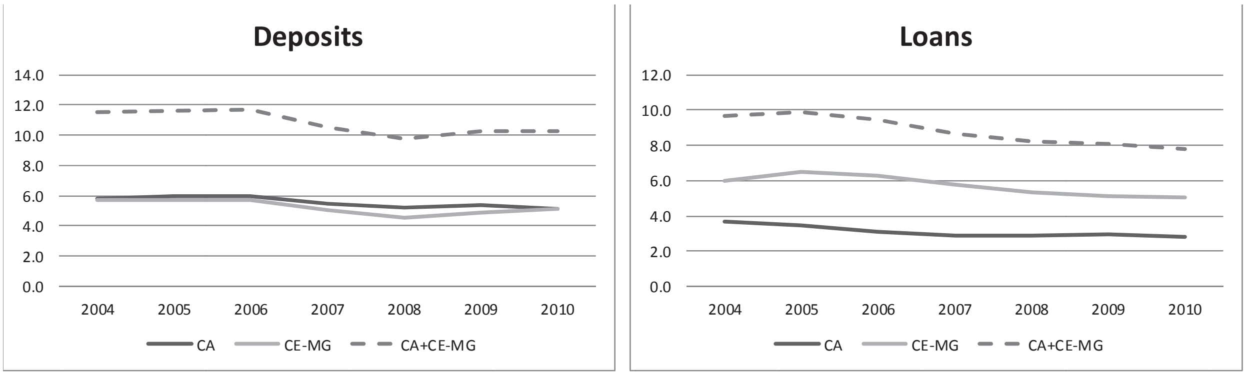
4. EVOLUTION OF THE NON-FOR-PROFIT PORTUGUESE BANKS' MARKET POSITION

Given the distinctive characteristics of CE-MG and CA, it is interesting to ask how have their market position's evolved over time in a context of increasing competition. In Portugal, the non-for-profit banks represented, in 2007, 8.6% of the loans market, and their market share has decreased 1 p.p. from 2004 to 2010 (Graph 1). In the EU 15, the loans market share of co-operative banks was in 2007 around 13.5%, and has been roughly constant between 2004 and 2007 (EACB, 2010).

In turn, the deposit market share of the Portuguese non-for-profit banks was in 2007 10.2%, being the co-operative banking EU-15 average around 14% (EACB, 2010). In line with the evolution in the EU 15, the tendency in Portugal was for a decline of the deposits market share of non-for-profit banks between 2004 and 2010, with a reduction of 1.3 p.p. [21] The above data indicate an erosion of the market position of the non-for-profit banks in Portugal.

If instead we look at the indicators of profitability, operational efficiency and capital in 2007, CA is positioned above the average of the co-operative European banks. On the contrary, on that indicators MG presents a worse position than similar European banks (Table 8).

Graph 1 – Deposits and loans market share (%)



Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

Table 8 – Portuguese non-for-profit banks and the European co-operative banks (2007) - %

	ROA	ROE	Cost-to-income	Tier 1 Capital ratio	Total Capital Ratio	Deposits market share	Credit market share
EU 21	0.5	10.4	65.3	8.6	11.0	21.0	18
CA	1.4	17.4	54.1	11.6	14.4	5.5	2.9
CE-MG	0.4	7.5	60.8	6.9	9.4	5.0	5.8
CA+CE-MG						10.5	8.7

Sources: EU21: European Association of Co-operative Banks. Portuguese data: *Associação Portuguesa de Bancos*, except data on regulatory capital, which is from Banks' Annual Reports.

Finally, during the 2008 financial crisis European co-operative banks seem to have been less affected than commercial banks. In this context it is relevant to ask how the Portuguese non-for-profit banks behaved during that crisis. To begin, the Portuguese financial system was not significantly exposed to toxic investments that loss value during the 2008 crisis. Consequently, the main impact of the crisis was felt through the worsening of the financing conditions of banks, higher credit risk and decrease in credit demand. To assess the impact of the crisis we

[21] In the EU15, between 2004 and 2007 the loans market share of co-operative banks has reduced 1 p.p (EACB, 2010), roughly the same as for the Portuguese non-for-profit banks in the same period (1.1 p.p.).

will look at the change in p.p. in some indicators between the period 2004/07 and the period 2008/10. The overall impact can be assessed using the ROE. For CA, this indicator has decreased from 15.9% in 2004/07 to 8.1% in 2008/10, which is a 7.7 p.p. decrease. For the overall banking industry the decrease was rather similar, 7.9 p.p., from 17.2% to 9.3%. The CE-MG's ROE decreased only 3.9 p.p., from 8.5% to 4.6%. From here, it can be concluded that the 2008 financial crisis' impact on the profitability of CA was similar to the impact on the industry average, whereas on CE-MG the impact was milder. When we look at the ROA, the picture is slightly worse for CA and similar for CE-MG. [22]

Table 9 – Loans growth rate (%)

	2005-07	2008-10	2002-10
Sector's average	13.2	3.8	8.4
CA	4.5	2.4	3.4
CE-MG	11.8	-0.8	5.3

Note: Source: authors' calculation from data of Associação Portuguesa de Bancos.

Table 10 – The impact of the 2008 financial crisis on key financial indicators (p.p.)

	ROE	ROA	Capital ratio	Loans growth rate	Deposits growth rate
Sector's average	-7.9	-0.29	-0.02	-9.3	-3.3
CA	-7.7	-0.58	+0.26	-2.1	-3.7
CE-MG	-3.9	-0.11	+0.58	-12.6	+2.4

Note: : average of 2008/10 minus the average of 2004/2007. For the growth rate of loans and deposits the later period is 2005/07. Source: authors' calculation from data of *Associação Portuguesa de Bancos*.

In the case of CE-MG, credit growth was 12.6 p.p. lower in the period 2008-10 than in the period 2005-07 (Table 9 and Table 10). In the case of CA, the decrease was 2.1 p.p (these numbers compare with a decrease of 9.3 p.p. for the industry). This seems to indicate that CA has had a smaller reduction in the growth of credit than other banks, especially if only the year 2008 and 2009 are considered. This indicates an anti-cyclical lending behaviour, typical of a co-operative bank.

[22] It has to be noticed that CE-MG in 2004-07 has much smaller ROE and ROA than CA. Therefore, it is normal that in p.p. the change in those indicators between 2004-07 and 2008-10 was smaller. Nevertheless, even if we look at the percentage change (and not to the change in percentage points) in ROA or ROE the picture is similar. The values for ROE are -45.9% ((-7.9%/17.2%)*100), -48.4% and -45.8% for the sector's average, CA and CE-MG, respectively. The values for ROA are -42.7%, -44% and -27.7% for the sector's average, CA and CE-MG, respectively.

After the 2008 financial crisis there was a strong competition between banks for deposits, in a context were funds from financial markets were more difficult to obtain. The strong deposits base of CA has been under attack by other banks, which explains why in the period 2008/10 the growth rate of deposits was 3.7 p.p. lower than in the period 2005/07, and for the sector the decrease was slightly less: 3.3 p.p. (Table 10). Surprisingly, CE-MG managed to increase the growth rate of deposits during the crisis by 2.4 p.p. As a result, in Portugal the overall impact of the crisis on the growth rate of deposits of non-for-profit banks was smaller than on the overall sector, implying that they increased their market share in 0.4 p.p. (Graph 1). The smaller impact of the crisis on the deposits of CE-MG can be seen as an indicator that, during the crisis, depositors trusted more this bank than on commercial banks.

The trust assigned by clients to non-profit banks, especially CE-MG, has had some justification: these banks have strengthened their capital base (although slightly) during the crisis, while for the entire sector that did not occur (Table 10).

Regarding the impact of the sovereign debt crisis, it is still very early to draw solid conclusions. Nevertheless, non-for-profit banks have a more conservative investment policy than commercial banks and, thus, invest more in Portuguese Government debt (normally held until maturity). This suggests that CE-MG and CA maybe more exposed to a default or debt restructuring by the Portuguese Government. Note that, on the other hand, these banks are benefiting from the higher yields offered by Government debt.

5. CONCLUSION

There are two non-for-profit banks operating in Portugal: CA and CE-MG. Despite the fact that they have a smaller importance in Portugal than similar banks in Europe, they are in the 9th and 6th place of the Portuguese ranking, respectively (in terms of assets). CA is a co-operative financial group composed by a centralized coordinating body and several local small banks. CE-MG is the bank of MG Mutual Association, which pursues mutual aid in the interest of its members. Over the last two decades, these two banks have modernized and transformed themselves into financial groups offering a wide variety of financial products similar to any commercial bank. Both groups are more specialized than commercial banks in domestic retail banking, with CA focusing more on credit to firms and CE-MG on credit to households.

In line with co-operative banks in the UE, CA and CE-MG share some important distinctive characteristics: they are customer owned entities with a democratic control by members; they maximize members/customer value and not exclusively profits; they look for contributing to the economic and social development of the regions where they operate; they retain a larger share of their profits to reinforce capital; they use a larger share of profits to promote social development; and they are more business conservative. These features bring them some advantages: allow them to charge lower interest rates on loans and give them a strong position in raising funds through deposits.

Since they are not listed in the stock market, they only raise capital through the injection of money by new or existing members and by retaining profits. The fewer options to quickly raise capital, the more conservative approach to business and the lower payout ratio, implies that CA is better capitalized than the sector's average. However, the same is not observed for CE-MG.

When looking at recent data, non-for-profit banks have an ROE mean and standard-deviation smaller than the sector's average. However, the ROA of CA is larger than the industry average. Notice also that both banks are less operationally efficient than the sector's average. It seems that CA has some strong features comparing to commercial banks, such as a larger ROA and capital ratio, being only slightly less operationally efficient. On the other hand, CE-MG seems to be an under-performer in terms of ROA, ROE and capital ratio. In general, CA is more similar to a typical co-operative/mutual bank than CE-MG.

CA is also more strongly connected to the local economy than CE-MG, especially in inland regions, as shown by its dense branch network. The closer connection of CA and, in less extend, of CE-MG to their clients does not translate in better indicators of credit risk comparing with the industry's average. However, CA has been able to manage credit risk in a more efficient way than the sector's average during the last years of economic crisis.

The data show an erosion of the market position in terms of credit and deposits of the non-for-profit banks in Portugal. The same has occurred in Europe at the level of deposits, but not in credit.

Compared with co-operative European banks, CA is positioned above the average in terms of profitability, operational efficiency and capital. On the contrary, on those indicators CE-MG presents a worse position than similar European banks.

Finally, the 2008 financial crisis' impact on the profitability of CA was similar to the impact on the industry's average, whereas on CE-MG the impact was milder. Moreover, CA showed during the crisis an anti-cyclical lending behaviour, typical of a co-operative bank. Despite the fierce competition, deposits of non-for-profit banks have suffered less during the crisis (especially CE-MG), probably due to the high trust depositors have on these banks. This trust was founded is some evidence: these banks have strengthened their capital base during the crisis, while the entire sector did not do that.

Some challenges lie ahead for the Portuguese non-for-profit banks. In more general terms, like in other large European co-operative banks, it is necessary that CE-MG and CA find new ways of promoting members' participation and to be in the frontline of the development of a social and responsible consumption, investment and banking (Gijselinckx and Develtere, 2008). An independent control of corporate governance is also a challenge for the future (Fonteyne, 2007).

Additionally, co-operative and mutual banks, like commercial banks are faced with a profound economic crisis in Portugal, which creates many challenges for the banking business. Firstly, they face a deterioration of the quality of credit portfolio and an increasing competition for deposits. Both CA and MG-CE will have an additional difficulty in insulating their returns from the slow growth of domestic credit in the next years, since they have a smaller international presence than commercial banks. Regarding CA, it is well positioned to deal with the stronger capital requirements demanded by the new Basel III regulatory framework. This together with its strong deposits base, may allow it to increase its credit market share. CA will have also to find ways of coping with the increasing desertification of the inland regions, where a large share of its business is concentrated. In turn, CE-MG needs to explore all the advantages brought by its recent bank's acquisition, and adjust to the probable loss of tax privileges.

The non-for-profit banks in Portugal, like other European co-operative/mutual banks, have special characteristics that contribute to the diversity and richness of the banking system, which may improve the economic and social impact of the banking industry. This issue could be further analysed in further works.

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