

10TH BANKING FORUM

**BANKING, SUPERVISION AND
FUNDING OF THE ECONOMY**

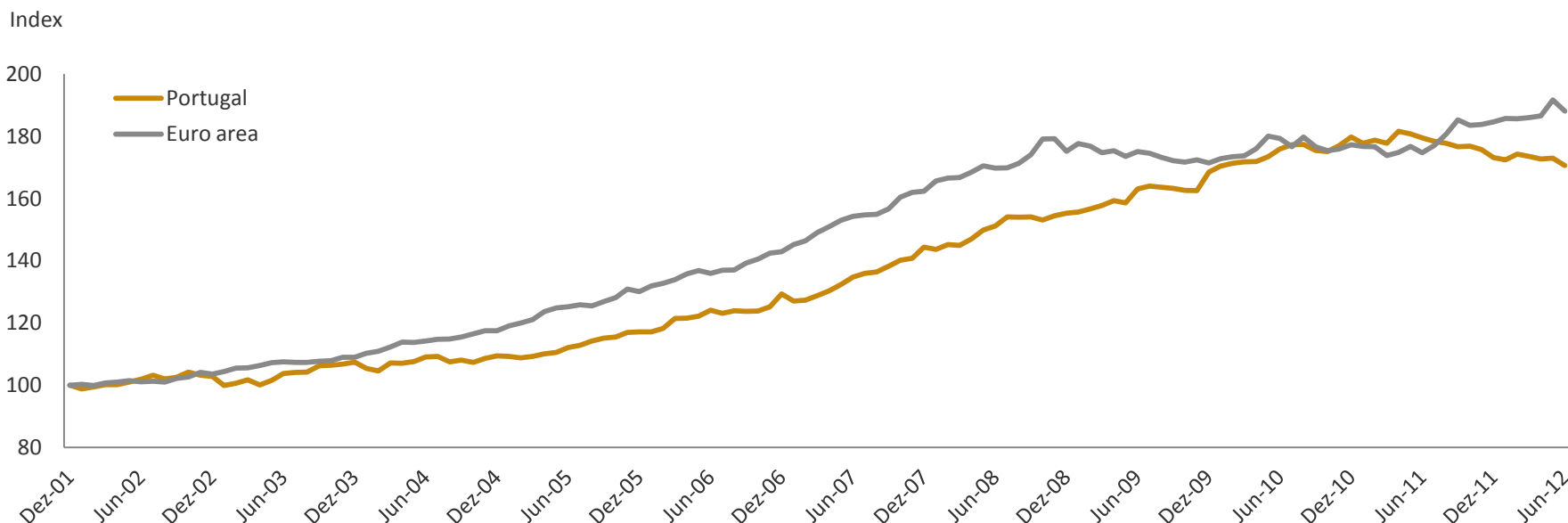
CONTENTS

- I. Banking in the last decade
- II. Effects of the 2008-2010 financial crisis
- III. The current situation
- IV. Funding the economy
- V. Main challenges
- VI. Conclusions

Performance of Portuguese and European banking assets over the last decade

- Constant growth until mid-2008
- Recent deleveraging process

Performance total assets (Dec. 2001=100)

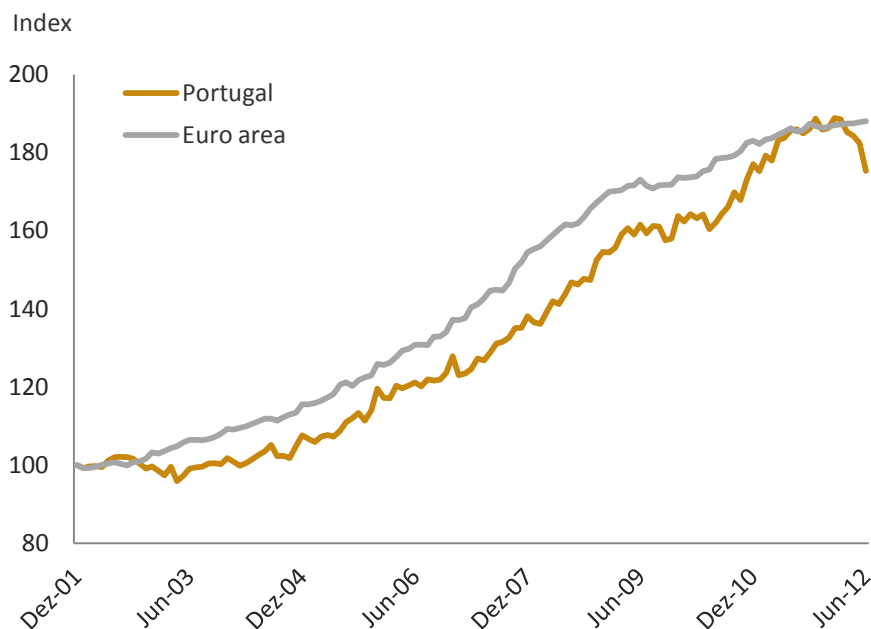


Source: Banco de Portugal, ECB

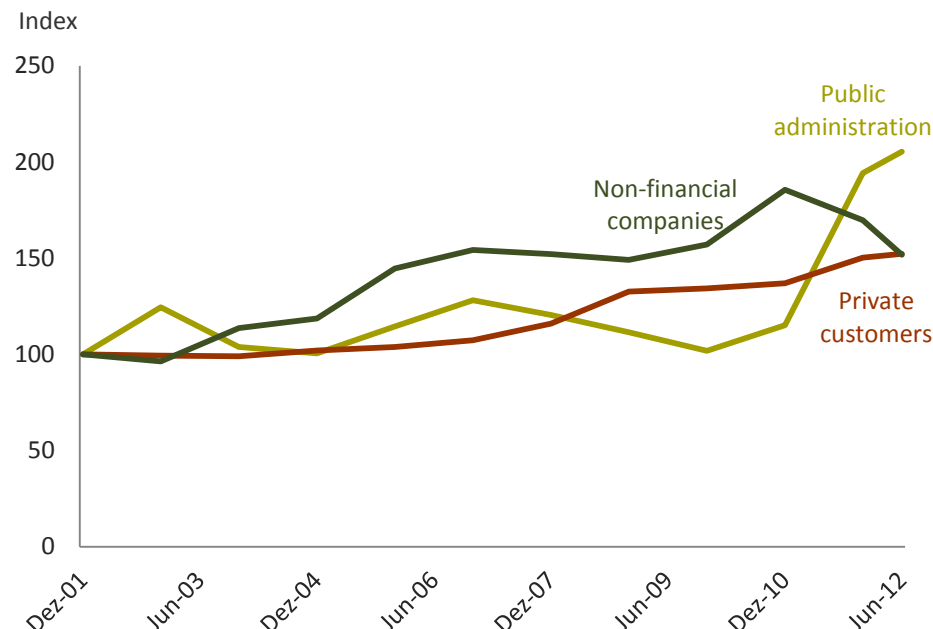
Funding of Portuguese banks

- Liquidity problems were mitigated
 - Solid growth of deposits

Performance of deposits* (Dec. 2001=100)



Performance of deposits by sector (Dec 2001=100)



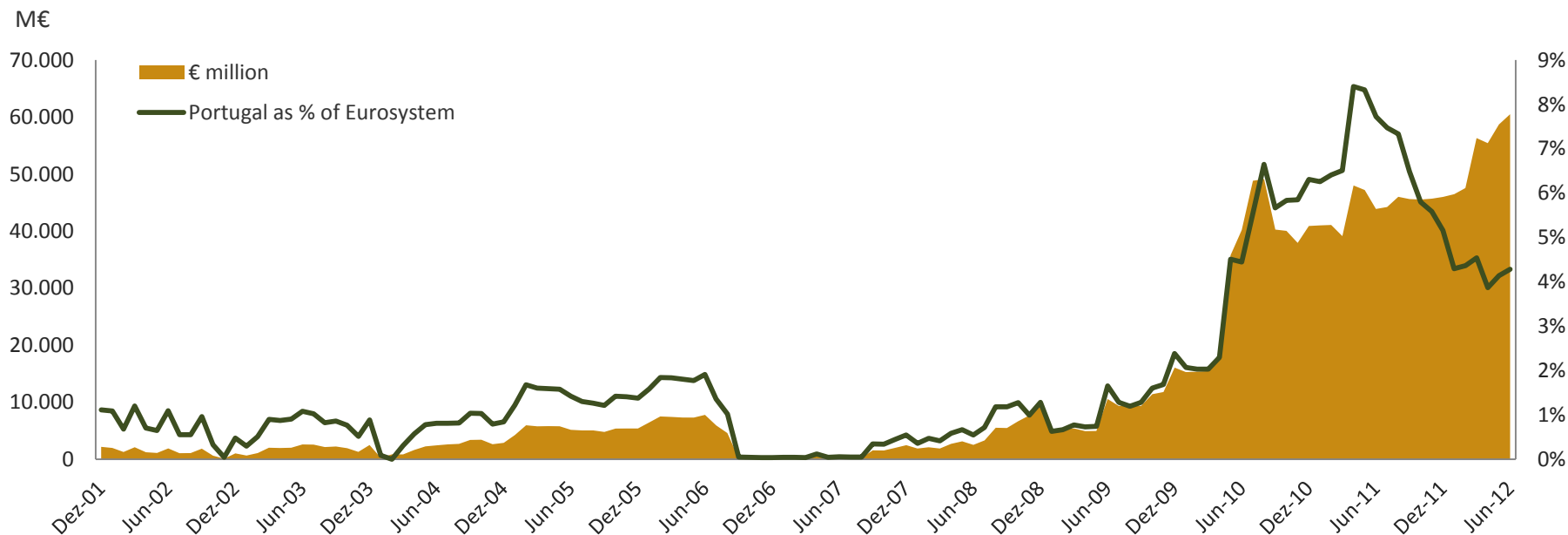
* Deposits from the non-monetary sector (end-of-period balances)

Source: Banco de Portugal, ECB

Funding of Portuguese banks

- Liquidity problems were mitigated
 - Funding from ECB

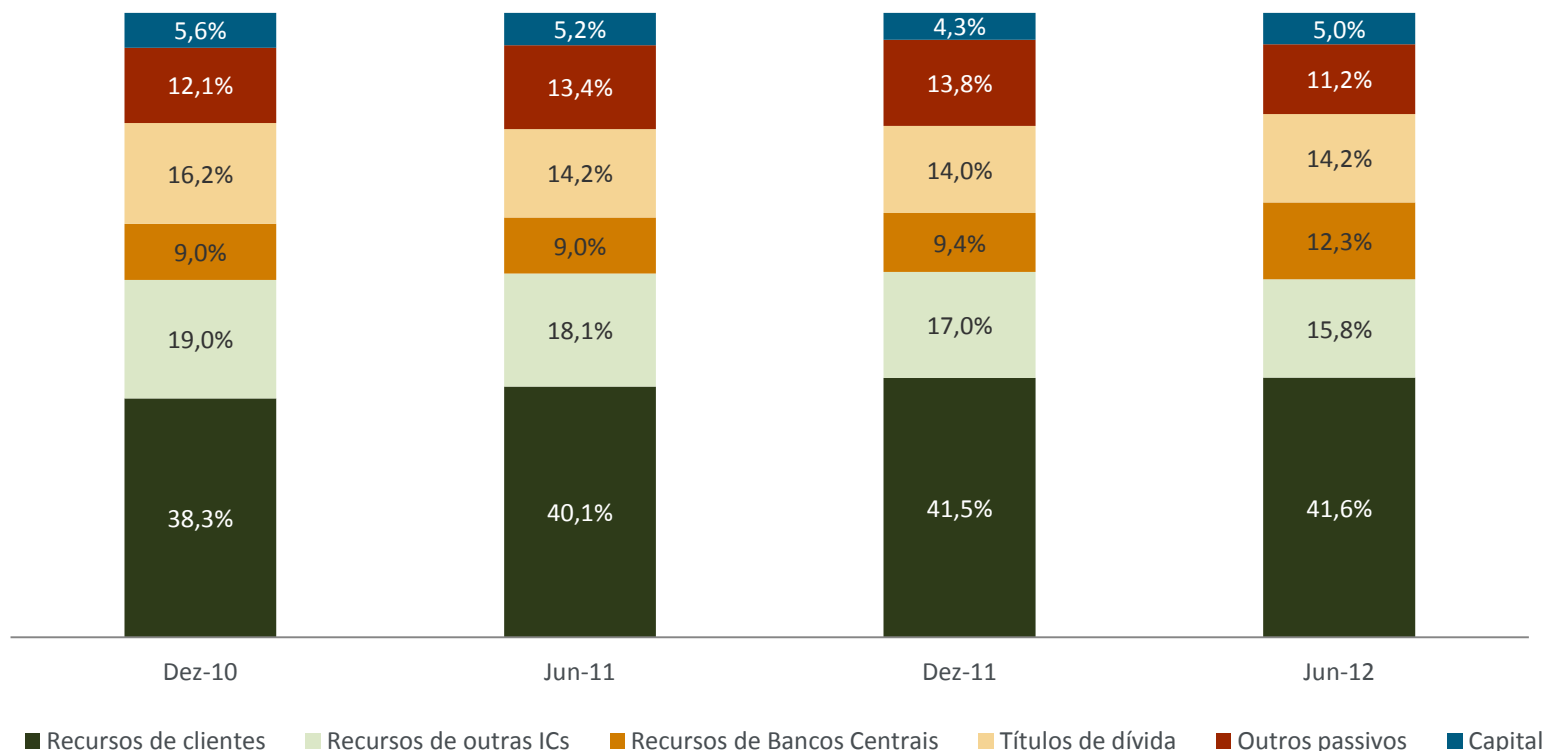
Lending by ECB



Source: Banco de Portugal, ECB

Sound funding structure based on customer deposits

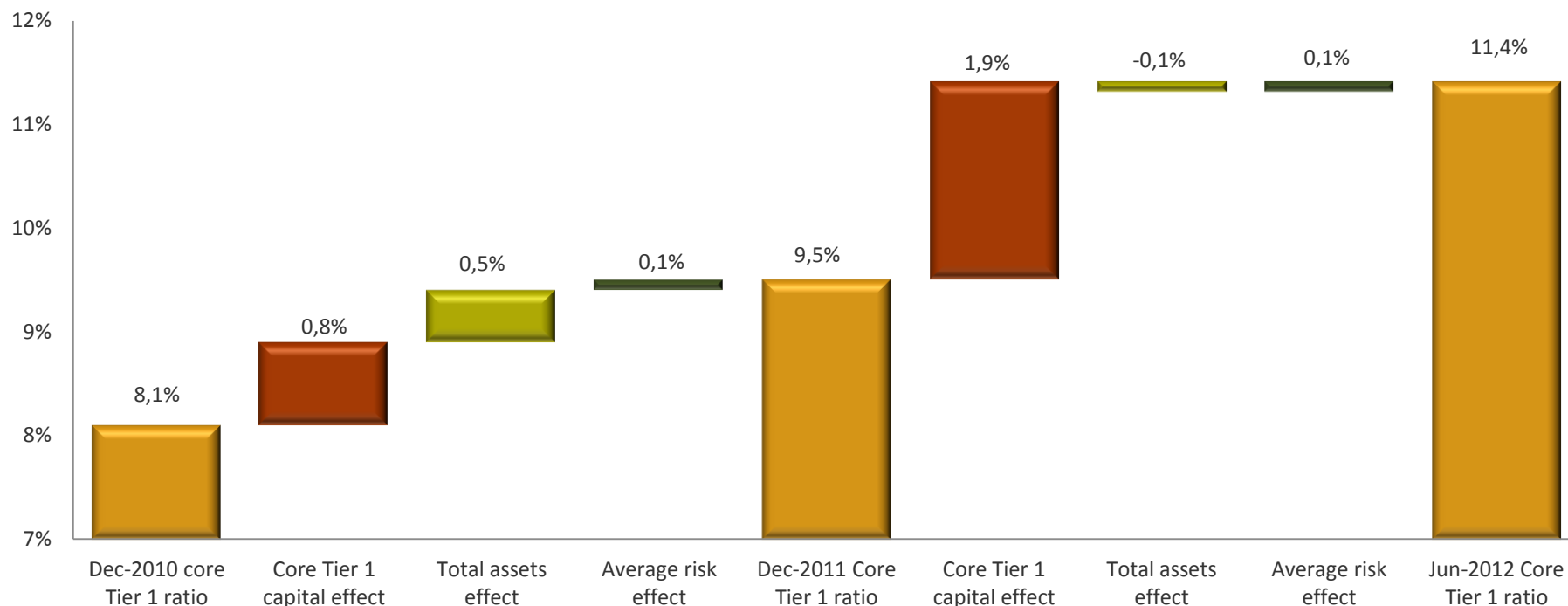
APB members' funding structure



Source: APB

The Portuguese banks' core Tier 1 ratio has been growing mainly via capital increases.

APB members' core Tier 1 ratio*

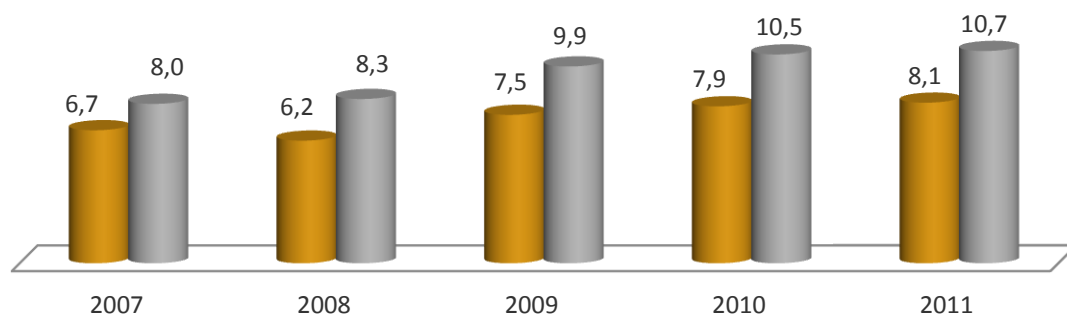


* Data from financial statements subject to prudential requirements

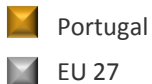
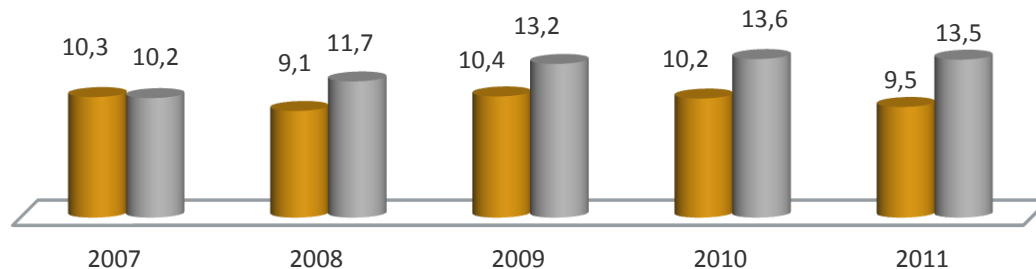
Source: APB, banks' annual reports and accounts

The Portuguese banks' capital levels have remained above the minimum legal requirements.

Tier 1 ratio (%)



Solvency ratio (%)



* Data on domestic banks and banking groups from consolidated accounts, excluding insurance business

Source: ECB

Return - I

- Pressure on return
 - Net interest income, provisions and impairments, extraordinary levy on banking sector

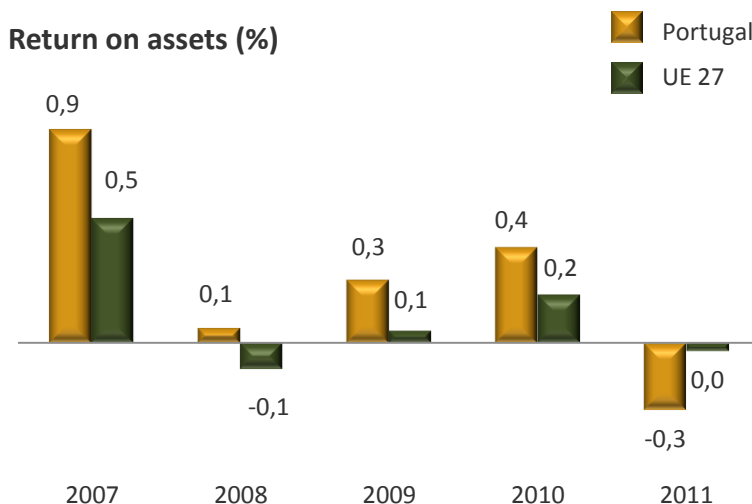


Source: APB

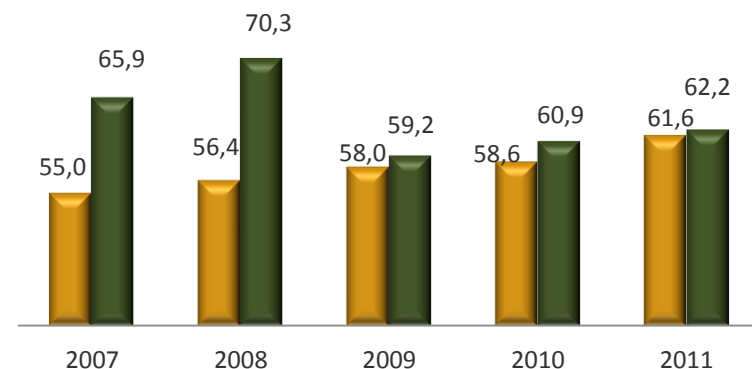
Return - II

- Pressure on return
 - Lower net interest income
 - Increase in provisions and impairments
 - Effects of deleveraging processes
 - Higher capital cost
 - Costs resulting from new regulatory rules
 - Greater tax burden

Return on assets (%)



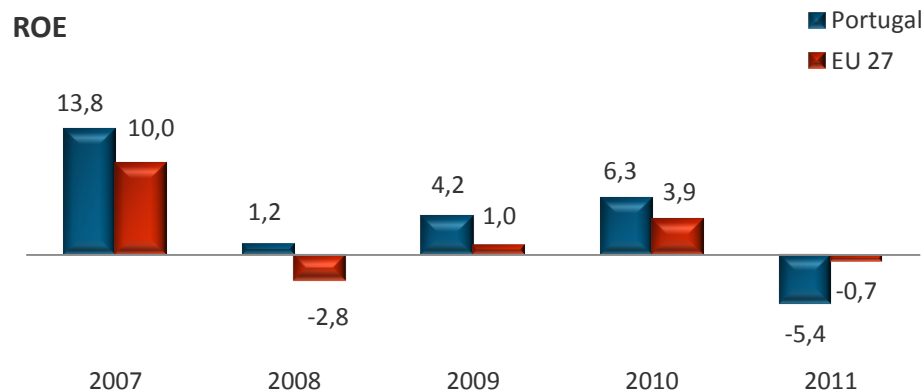
Cost-to-income ratio (%)



Source: ECB

Return for shareholders

- Loss of value for shareholders
 - An investor who invested **€1m** in the three largest listed Portuguese banks at end of October 2002 would have **€266,020** today.



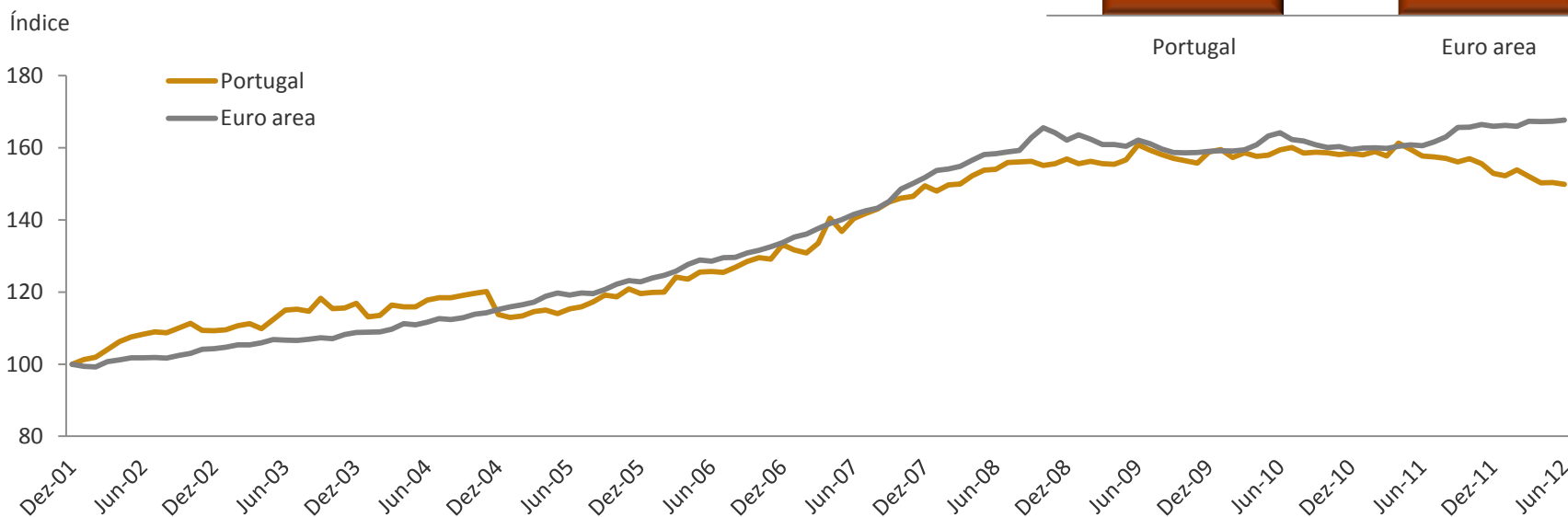
Source: ECB, Bloomberg



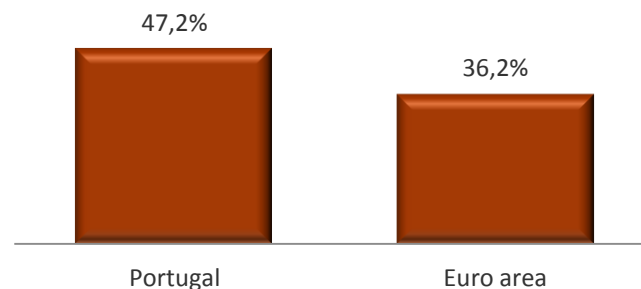
Loans granted by Portuguese and euro area banks in the last decade

- Strong growth until 2008
- Downward trend after EAP

Loans ** (Dec 2001=100)



Weight of loans* in total assets (Jun 2012)



* Loans to non-monetary sector (gross balances at month end)

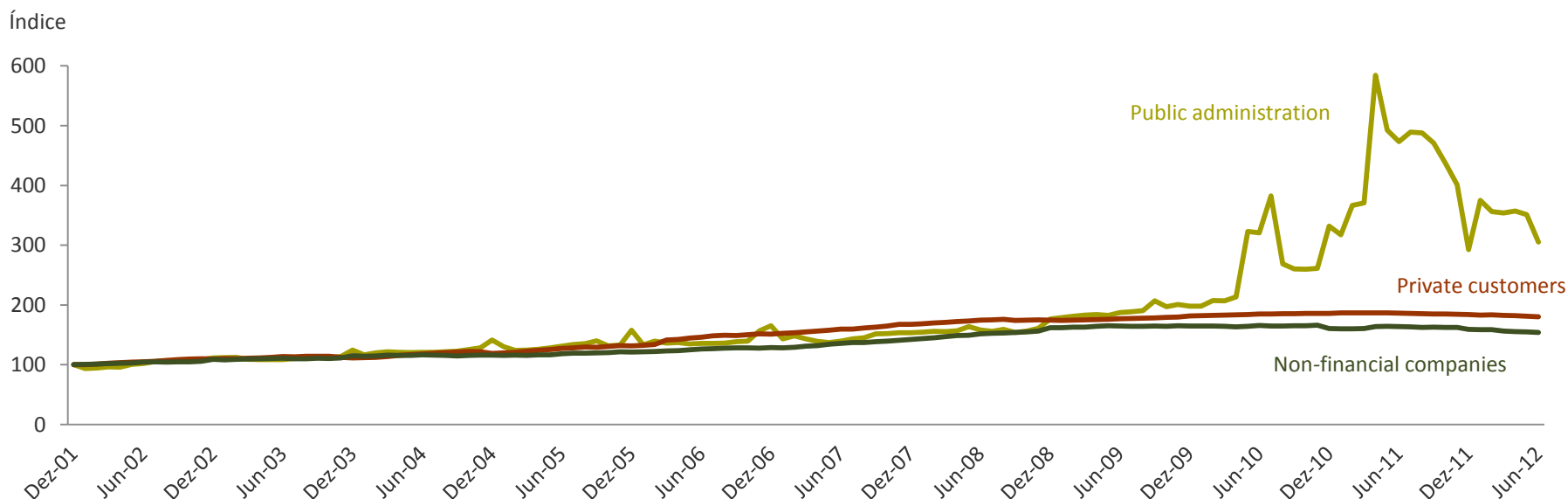
** Loans to monetary and non-monetary sectors (gross balances at month end)

Source: ECB

Loans to different sectors of the economy

- Balanced until 1st half of 2010
- High growth in loans to public sector after onset of sovereign debt crisis

Loans by sector (Dec. 2001=100)

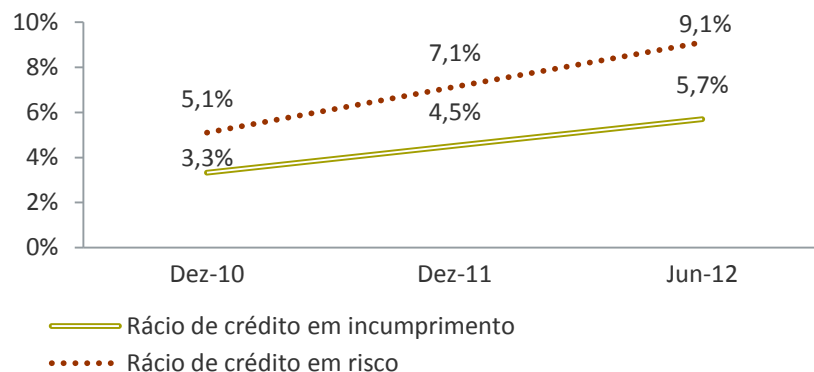


Source: Banco de Portugal

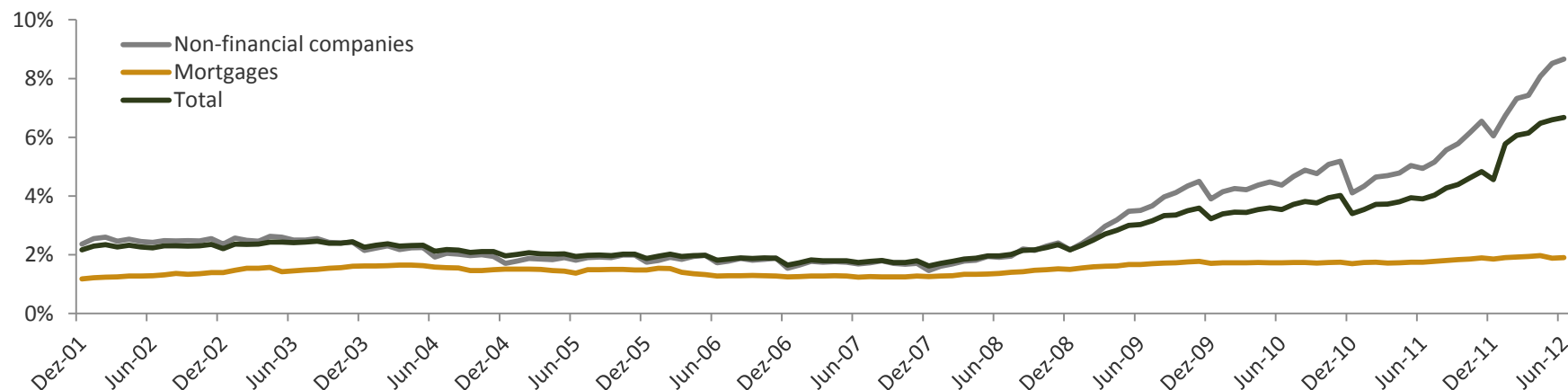
Credit quality

- Increase in defaults and non-performing loans

Credit quality indicators*



Doubtful loans as % of total loans**



* Data from APB members

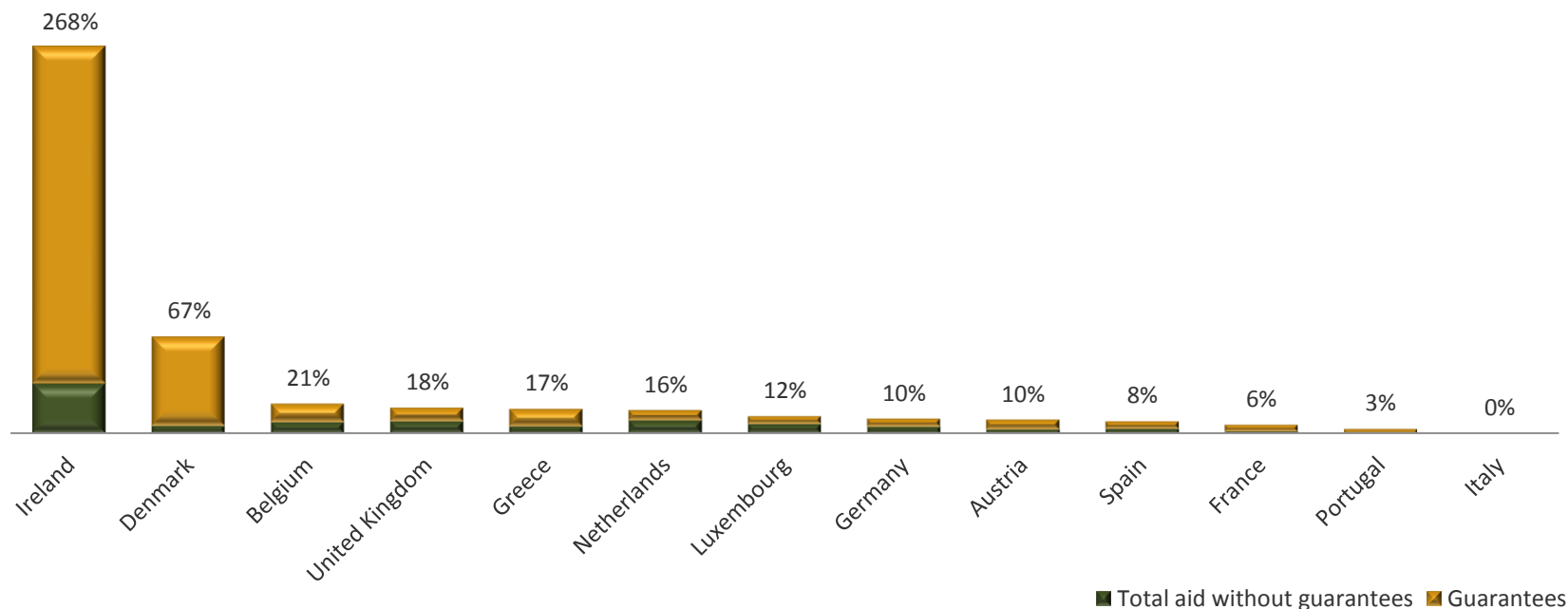
** Repayments overdue and doubtful future repayments.

Source: APB, Banco de Portugal

State assistance to banks during 2008-2010 financial crisis

- Portuguese banks have shown high resilience
 - Little state intervention

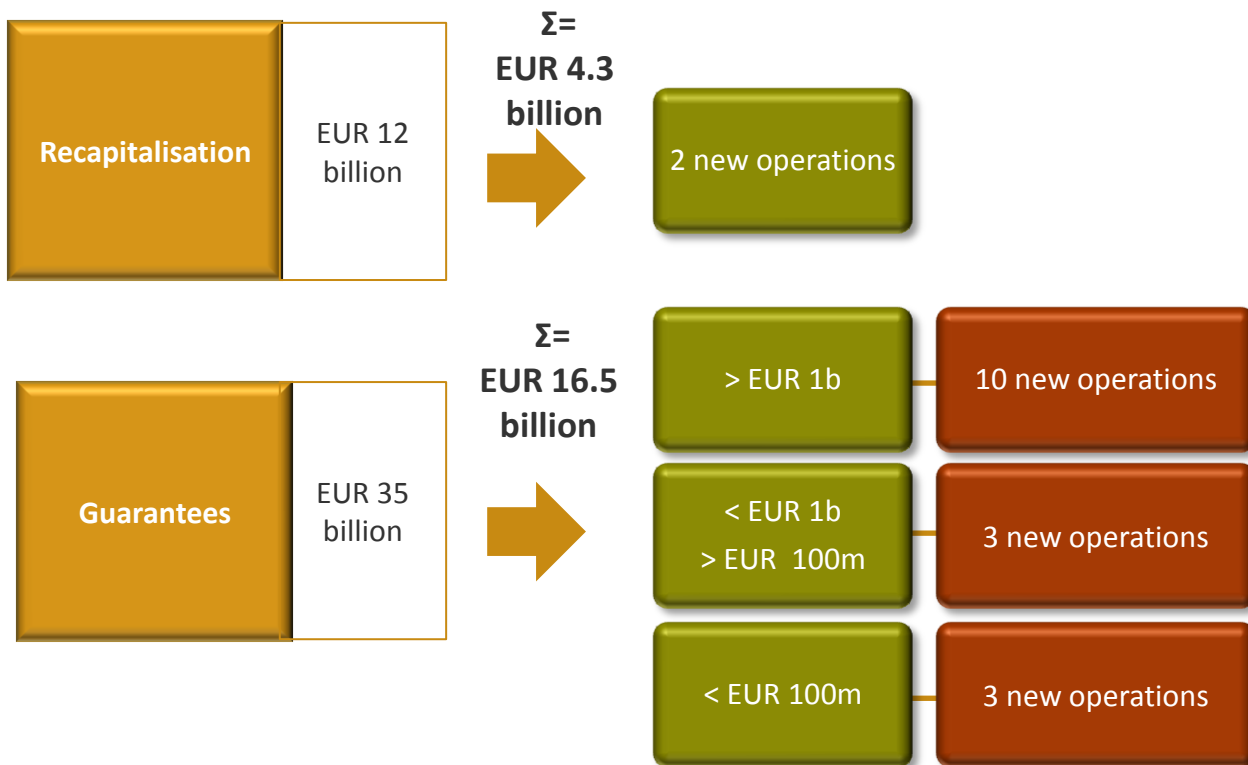
State aid to financial sector as percentage of GDP (2008-2010)



Source: European Commission

Recourse to state aid

State aid schemes used since July 2011



- Since July 2011:
 - 6 banks used the guarantee scheme in new funding operations
 - New operations totalled EUR 16.525b, 47.2% of the budget
- In June 2012, current guarantees (accumulated from previous periods) totalled EUR 16.525b

The main challenges



Economic

- Crisis in euro area
- EAP in Portugal



Regulatory

- Basel 3
- CRR / CRD 4
- Single Rule Book
- Banking union
- Crisis management (recovery and resolution plans)
- Liikanen Report (restructuring of European financial system)



Technological

- Distribution channels
- Means of payment
- Reporting & disclosure
- Product development



New business paradigm

- Funding model- lower dependence on ECB and increase in stable sources of funding
- Quality of assets and control of impairments
- Operational excellence – structural cost reduction
- Innovative products and services
- Governance

Conclusions

- High degree of soundness making it possible to get through the financial crisis in 2008-2010 with no great difficulty
- Competitive disadvantages in relation to other euro area countries
 - Ratings
 - Lack of access to interbank money market
 - Cost of funding
 - Defaults
 - New mortgage law
- Problem of return
 - Net interest income
 - Provisions and impairments
 - Extraordinary tax

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