AGENDA

I. Importance of the banking sector for the economy

II. Credit activity

III. Funding

IV. Solvency

V. State guarantee and recapitalisation schemes for credit institutions
I. Importance of the Banking Sector for the Economy
The financial crisis didn’t slow down the Portuguese banks’ total assets growth, contrary to what happened in the Euro area.

Banking sector’s total assets evolution (December 2005=100)

Average annual growth rate (YoY)
Portugal = 9.5%
Euro area = 11.1%

Average annual growth rate (YoY)
Portugal = 7.5%
Euro area = 1.5%

Source: ECB
The Portuguese banking sector plays an important role in the economy; nevertheless, its weight on the national GDP is still below Euro area’s ratio.

Banking sector’s assets relative to GDP* for Portugal and Euro area

Contrary to the recent stagnation of the Euro area’s banking assets over GDP ratio, Portuguese banks’ weight on the national GDP kept growing.

* Nominal Gross Domestic Product.

Source: ECB
In Portugal, the contribution of financial intermediation activities for the national Gross Value Added stays well above the one of the Euro area.

Financial intermediation GVA relative to total GVA for Portugal and selected European Union countries*

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial intermediation activities</th>
<th>Insurance, pension funding and activities auxiliary to financial intermediation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
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<tr>
<td>Italy</td>
<td></td>
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</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro area</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Data refers to year 2008.

Source: Eurostat, Statistics Portugal (INE), Central Statistics Office Ireland
II. Credit Activity
For Portuguese banks, credit to customers absorbs just about 50% of total assets.

Comparing to most of their Euro area peers, Portuguese banks’ activity is mainly centered on credit to customers.

* Loans to the non-monetary sector (gross outstanding amounts at the end of period).
** Aggregated data.

Source: ECB
During the period that preceded the financial crisis, credit volumes have followed a strong increasing trend, both in Portugal and in the Euro area.

Trends in credit* in Portugal and in the Euro Area (Dec. 2005=100)

* Loans to the monetary and non-monetary sectors (gross outstanding amounts at the end of period).

Source: ECB
Despite the reduction in the Credit to GDP ratio in 2011, the Portuguese economy still presents relatively high levels of bank debt when compared with the Euro area.

**Credit to Customers* / GDP** ratio

- At the end of 2011, credit to customers in Portugal represented around 163% of the nominal GDP.
- Since 2000 this ratio increased by approximately 45 percentage points.
- Nevertheless, Portugal’s Credit to Customers/GDP ratio dropped in the last two years.

* Loans to the non-monetary sector (gross outstanding amounts at the end of period).
** Nominal Gross Domestic Product.
Source: ECB, Eurostat
Stocks of credit to households and non-financial corporations reveal divergent trends than stocks of credit to the general Government.

The agreement on a financial support programme for Greece in May 2010 seriously worsened the Portuguese Republic’s conditions in obtaining financing through financial markets. On that period, the 10yr bond yield hit its maximum since Portugal adopted the euro, 6.29%, leading to the abrupt growth in credit to general government.

In April 2011, when Portugal asked for international financial assistance, credit volumes to general government hit its peak.

* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

Source: Banco de Portugal
In Portugal, the reliance on credit of households and non-financial corporations is considerably higher than in the Euro area.

Weight of credit to households, non-financial corporations and general Government, in Portugal vs. selected European Union countries (December 2011)

∑ = 183.4% 168.5% 155.4% 118.1% 117.6% 112.4% 112.2% 107.9% 106.5%

** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

Source: Ameco, ECB
However, state-owned entities account for almost 10% of the total debt of non-financial corporations to the resident financial sector.

Credit to state-owned non-financial corporations in Portugal*

* Percentages based on the amount of loans outstanding and debt securities owed by the State-Owned Enterprise Sector to the resident financial sector. The concept of resident financial sector includes not only banks but also other financial institutions.

Source: Banco de Portugal
Credit to households is primarily mortgages, whereas credit to NFC is mainly intended to construction and real estate.

**Total credit**

- **Households** 42%
- **Non-financial corporations** 34%
- **General Government** 3%
- **Others** 21%

**Credit to non-financial corporations**

- **Construction & real estate** 34%
- **Trade, accommodation and food services** 18%
- **Industry** 13%
- **Others** 33%
- **Agriculture, forestry and fishing** 2%
- **Others** 8%
- **Consumer Credit** 11%

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*Loans to the monetary and non-monetary sectors including non residents (gross outstanding amounts at the end of December 2011).

Source: Banco de Portugal
In Portugal, mortgages account for a bigger share on the outstanding amount of loans to households than in the Euro area.

The weight of consumer credit on the stock of loans to households decreased in the Euro area. Nevertheless, the relevance of this type of credit is still inferior in Portugal when compared with its Euro area peers.

Source: ECB
The trend of residential property prices in Portugal shows a more stable pattern than the one of other Euro area countries.

When the sub-prime crisis erupted, residential property prices in Portugal remained relatively constant. The real estate sector had not been influenced by a speculative boom, as happened in Spain or in Ireland.
Within the Euro area, the real estate sector absorbs the largest portion of the outstanding amount of loans to non-financial institutions.

In Portugal, the proportion of the construction and real estate sectors, in aggregated terms, has been decreasing since 2007. In contrary, the weight of these sectors of activity on the total credit to non-financial corporations of the euro area, increased because of the real estate sector.

Source: Banco de Portugal, ECB
NPL’S grew since 2008 mainly in the corporate segment.

Non-performing loans* as a percentage of the corresponding credit

* Overdue installments and other future installments of doubtful collection.

Source: Banco de Portugal
PORTUGUESE BANKING SECTOR OVERVIEW

III. Funding
Deposits from customers constitute the most important part of the financing structure of Portuguese banks.

### Financing structure of Portuguese and other European Union countries’ banks (December 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Deposits</th>
<th>Wholesale</th>
<th>Capital</th>
<th>Others*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>48%</td>
<td>34%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Portugal</td>
<td>42%</td>
<td>23%</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>Greece</td>
<td>39%</td>
<td>28%</td>
<td>23%</td>
<td>11%</td>
</tr>
<tr>
<td>Germany</td>
<td>37%</td>
<td>25%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Italy</td>
<td>34%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Euro area</td>
<td>33%</td>
<td>7%</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33%</td>
<td>9%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>France</td>
<td>30%</td>
<td>18%</td>
<td>43%</td>
<td>6%</td>
</tr>
<tr>
<td>Ireland</td>
<td>23%</td>
<td>16%</td>
<td>38%</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Includes external liabilities, i.e., liabilities issued by non-residents in the Euro area.

Source: ECB

Compared with the European context, the Portuguese banking system has a bigger share of deposits from customers in its financing structure. Therefore, wholesale funding plays a less important role.
The trend followed by deposits from customers in Portugal reveals some differences compared with the Euro area.

**Evolution of deposits* in Portugal and in the Euro area (Dec. 2005=100)**

* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: ECB
The use of wholesale funding among Portuguese banks grew at a significantly higher rate when compared with its Euro area peers.

* Wholesale includes deposits from the monetary sector, debt securities issued and money market funds (outstanding amounts at the end of period).

Source: ECB
In Portugal, deposits are mainly held by households.

Despite the considerable increase of the share of the non-monetary financial institutions over the last two years.

* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal
Deposits with maturities less than one year are the most notable, in spite of the recent growth in the share of deposits with longer maturities.

Evolution of deposits* in Portugal, by maturity

* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal
The growth in deposits from households coincides with the decrease in their units issued by investment funds.

This trend exposes a substitution effect between investment and savings products with different risk profiles, revealing a bigger preference for less risky assets.
The decrease of the Loan-to-Deposit ratio reflects the deleverage of the Portuguese banking sector.

Due to the Economic Adjustment Programme for Portugal, Banco de Portugal requires the eight largest Portuguese banking groups to reduce this ratio to 120% until 2014.

* Credit volumes net of impairments (includes securitized non derecognized credit). Outstanding amounts at the end of period.
Source: Banco de Portugal
In Portugal as well as in the Euro area, deposits from the monetary sector are the main component of wholesale funding.

Structure of wholesale funding, by type of instrument

<table>
<thead>
<tr>
<th>Year</th>
<th>Portugal</th>
<th>Euro area</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>68.0%</td>
<td>53.1%</td>
</tr>
<tr>
<td>2010</td>
<td>55.2%</td>
<td>51.4%</td>
</tr>
<tr>
<td>2011</td>
<td>50.4%</td>
<td>53.1%</td>
</tr>
</tbody>
</table>

However, in Portugal, the importance of the market for debt securities increased comparing to 2007. Nowadays this source of funding is more important for Portuguese banks than for its euro area peers.

Source: ECB
In Portugal as well as in the Euro area, debt securities issued by banks are mainly long-term.

Still, the emission of short-term debt securities plays a more important role within the Euro area banking sector than in Portugal.

Source: ECB
Over the past few years, covered bonds became increasingly important funding sources for Portuguese banks.

At the end of 2010, the outstanding amount of covered bonds represented approximately 5.9% of Portuguese banks’ assets.

Source: European Covered Bond Council, Factbook, 2010
The restrictions on the access to interbank markets contributed to a significant increase of Portuguese banks’ dependency on ECB.

Liquidity-providing operations from the European Central Bank to Portuguese banks*

* Outstanding amounts at the end of period.

Source: Banco de Portugal
In percentage, the share of Portuguese banks on the total amount of the ECB’s liquidity-providing operations also increased considerably.

* Share of Portuguese banks on the total amount of ECB’s liquidity-providing operations*

* Percentage of liquidity-providing operations to Portuguese banks from the total amount given by the Eurosystem to Euro area countries (outstanding amounts at the end of period).

Source: Banco de Portugal
PORTUGUESE BANKING SECTOR OVERVIEW

IV. Solvency
Portuguese banks’ assets risk level has been decreasing over the past few years.

The Risk Weighted Assets / Total Assets ratio for Portuguese banks suffered a considerable decrease over the past years. This trend reflects a decline of the average risk level of the assets that constitute Portuguese banks’ balance sheet.

* Risk weighted assets include off-balance sheet items. Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies. 
Source: ECB
Total assets have been showing higher growth rates compared to risk weighted assets.

Trend in Portuguese banks’ risk weighted assets and total assets* (Dec. 2007=100)

* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB
Portuguese bank’s total own funds have been increasing mainly due to Tier 1 capital, particularly after 2008.

Trend in Portuguese banks’ own funds* (Dec. 2007=100)

* Data on a consolidated basis.

Source: Banco de Portugal
Historically, the capital levels of Portuguese banks’ have stayed above the minimum legal requirements.

Basel II agreement requires financial institutions to maintain the Tier 1 ratio equal or above 4% and the Overall Solvency ratio not below 8%.

* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB
The core Tier 1 ratio of the 4 largest Portuguese banks has been increasing.

While in previous years the increase in the core Tier 1 ratio of the 4 largest Portuguese banking groups occurred through higher capital levels; in 2011, there was a double effect from the growth of capital and the reduction of the risk weighted assets.
Portuguese banks face new capital requirements within the scope of the Economic and Financial Assistance Program.

 Besides the increase of the core Tier 1 ratio that must be fulfilled, other factors contribute to augment the capital needs of the Portuguese banks, namely:

- Deduction of impairments of 50% to 65% of the nominal value of the exposures to Greek public debt.
- Haircut Greece debt
- Additional impairments recognized on the loans portfolio
- Transfer of banks’ Pension Schemes to the Social Security
- Increase of the own funds requirements for credit risk

These impacts will be recognized for prudential purposes during the 1st semester of 2012, reflecting in the core Tier 1 ratio then.

Source: APB, Banco de Portugal
Simultaneously, the EBA also imposed higher capital requirements for European banks to be fulfilled by June 2012.

- In order to deal with the sovereign crisis that affects Europe, the European Banking Authority, together with other European entities, established several measures that aim to strengthen the banking sector resilience.
- New capital requirements were therefore introduced under two different measures, namely:
  - Increase of the core Tier 1 ratio from 4.5% to 9%;
  - Establishment of a capital buffer for sovereign debt exposures as of 30th September 2011.

Source EBA
Results of the EU capital exercise reveal capital shortfalls for banks in 12 European countries.

- In December 2011, the European Banking Authority presented the results of the assessment made to the capital levels of the banking groups that were part of the stress-test, considering the market value of their sovereign exposures and capital as of 30 September 2011.
- The results of this exercise reveal that the additional core Tier 1 capital required to attain the 2 requirements imposed to all European banks goes up to 114,685 million euro.
- For the Portuguese banks included in this exercise, the overall shortfall of core Tier 1 capital identified was approximately 6,950 million euro.

Source APB, EBA
Results of the EU Capital Exercise - I

Core Tier 1 capital

- Capital surplus
- Capital shortfall
- Core Tier 1 capital as of 30.09.2011

Capital level needed to fulfill the requirements = 100%

<table>
<thead>
<tr>
<th>Country</th>
<th>80%</th>
<th>86%</th>
<th>94%</th>
<th>97%</th>
<th>71%</th>
<th>100%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>DE</td>
<td>80%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>FR</td>
<td></td>
<td>94%</td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>PT</td>
<td></td>
<td></td>
<td>97%</td>
<td></td>
<td></td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>GB</td>
<td></td>
<td></td>
<td></td>
<td>71%</td>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>IE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>85%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Capital shortfall

(million EUR)

<table>
<thead>
<tr>
<th>Country</th>
<th>ES</th>
<th>IT</th>
<th>DE</th>
<th>FR</th>
<th>PT</th>
<th>GB</th>
<th>IE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ES</td>
<td>26,170</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>15,366</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DE</td>
<td>13,107</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>FR</td>
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</tr>
<tr>
<td>PT</td>
<td>6,950</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GB</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IE</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: APB, EBA
Results of the EU Capital Exercise - II

Core Tier 1 ratio as of 30.09.2011

Core Tier 1 ratio (including the buffer for sovereign debt exposures) as of 30.06.2012*

Minimum required until June 2012
Core Tier 1 ratio = 9%

Source: APB, EBA

* Estimates.
For Portuguese banks, the capital needs stem from exposure to sovereign debt as well as the increase of the minimum ratio requirements.

**Drivers of the capital needs, by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>Capital Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain (ES)</td>
<td>19,610</td>
</tr>
<tr>
<td>Italy (IT)</td>
<td>5,692</td>
</tr>
<tr>
<td>Germany (DE)</td>
<td>5,544</td>
</tr>
<tr>
<td>France (FR)</td>
<td>3,812</td>
</tr>
<tr>
<td>Portugal (PT)</td>
<td>3,232</td>
</tr>
<tr>
<td>Belgium (BE)</td>
<td>1,539</td>
</tr>
<tr>
<td>Austria (AU)</td>
<td>3,812</td>
</tr>
<tr>
<td>Cyprus (CY)</td>
<td>1,075</td>
</tr>
<tr>
<td>Norway (NO)</td>
<td>1,520</td>
</tr>
<tr>
<td>Slovenia (SI)</td>
<td>317</td>
</tr>
<tr>
<td>Netherlands (NL)</td>
<td>-24</td>
</tr>
</tbody>
</table>

**Source:** APB, EBA
The consequences of the new capital requirements for the 4 Portuguese banks assessed imply an increase in core Tier 1 capital of 40%.

**September 2011**

- **Core Tier 1 capital**
  - EUR 17,386 M
- **Risk weighted assets**
  - EUR 230,564 M
  - 7.5%

**Goal until June 2012**

- **Core Tier 1 capital**
  - EUR 20,618 M
- **Risk weighted assets**
  - EUR 229,091 M
  - 9.0%

- **Sovereign debt exposure buffer**
  - EUR 3,718 M

- **Negative impact from the exposure to sovereign debt**
  - EUR 3,718 M
- **Positive impact from the new rules on the calculation of the risk weighted assets (CRD 3)**
  - EUR -133 M

- **Negative impact from the increase in the core Tier 1 ratio**
  - EUR 3,232 M

- **Shortfall**
  - EUR 6,950 M

- **New ratio = 10.6%**

Source: APB, EBA
The European-wide requirements come to exacerbate the capital needs meanwhile imposed by the national authorities.

Breakdown of the capital needs for the 4 Portuguese banks that were part of the EBA exercise

- The European Banking Authority estimates do not include the impacts on core Tier 1 capital resulting from the events that occurred in 2011 and will only be reflected on capital levels for prudential purposes in 2012, namely, the additional impairments on the loans portfolio, the change of the own funds requirements for credit risk, the haircut applied to Greek public debt imposed by Banco de Portugal and transfer of the banks’ pension schemes to the social security.
- Therefore, it is expected that the capital needs until June 2012 are higher than the ones calculated.
- Additionally, Portuguese banks will have to fulfill, by December 2012, the increase of the core Tier 1 ratio from 9% to 10%, which will imply new capital needs.

* Does not include the effect from the reduction of the risk weighted assets.

Source: APB, EBA
PORTUGUESE BANKING SECTOR OVERVIEW

V. State Guarantee and Recapitalisation Schemes for Credit Institutions
Timeline of the Portuguese State guarantee and recapitalization schemes for credit institutions

- **Guarantee Scheme**
  - October 2008: Scheme approved till Dec 2009
  - May 2009: Budget changed
  - February 2010: Extension till Jun 2010
    - Budget changed
    - EUR 9.15 B
  - March 2010: Extension till Dec 2010
  - July 2010: Extension till Jun 2011
  - January 2011: Extension till Jun 2011
  - June 2011: Extension 31 Dec 2011
  - Budget changed
  - EUR 35 B

- **Recapitalisation Scheme**
  - October 2008: Scheme approved till Nov 2009
  - May 2009: Budget changed
  - February 2010: Extension till Jun 2010
    - Budget changed
    - EUR 3 B*
  - March 2010: Extension till Dec 2010
  - July 2010: Extension till Jun 2011
  - January 2011: Extension till Jun 2011
  - June 2011: Extension 31 Dec 2011
    - Budget changed
    - EUR 12 B

* The usage of both schemes cannot exceed EUR 9.15 B.

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Law nº 60-A/2008
Law nº 63-A/2008
Law nº 3-B/2010
Law nº 48/2011
Portuguese banks went through the financial crisis without any State support in terms of recapitalization…

State Support Scheme used until end of June 2011

- Recapitalisation (Equity)
  - EUR 3 billion
- Guarantees
  - EUR 9.15 billion
  - Σ = EUR 4.95 B

By the end of June 2011:
- 6 banks (of which, CGD is State-owned) had used the State guarantee scheme;
- 2 operations that amounted to EUR 75 M were over (one in 2009 and the other in 2010);
- Outstanding guarantees totaled up to EUR 4,875 M, which corresponded to 53% of the budget.

* Not used by privately owned banks. In December 2010, CGD increased its capital by EUR 550 M, from which EUR 56 M were from the scheme budget.
… meanwhile, the public debt crisis lead to the increase in the usage of guarantees from the State.

State Support Scheme used since July 2011

- Since July 2011:
  - 6 banks used the State guarantee scheme for new operations;
  - New operations amounted to EUR 8,880 M, which corresponds to 25.4% of the budget.
- In December 2011, the guarantees in effect (accumulated from previous years) total up to EUR 12,505 M.
Cost with commissions upon access of the State guarantee scheme

The increase in commission costs results not only from the increment in the amount of guarantees issued in 2011 but also from a price effect since the commission fee has increased, on average, 43 basis points on the new operations.
Commissions paid and due upon access of the State guarantee scheme

Annual commissions paid and due* (EUR Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Cumulative paid until end 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>11.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td>45.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td>62.6</td>
<td>119.1</td>
</tr>
<tr>
<td>Cumulative paid until end 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>119.1</td>
</tr>
</tbody>
</table>

* Estimates.

Σ = EUR 500.3 Million