PORTUGUESE BANKING SECTOR OVERVIEW

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

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

VI. Profitability

PORTUGUESE BANKING SECTOR OVERVIEW

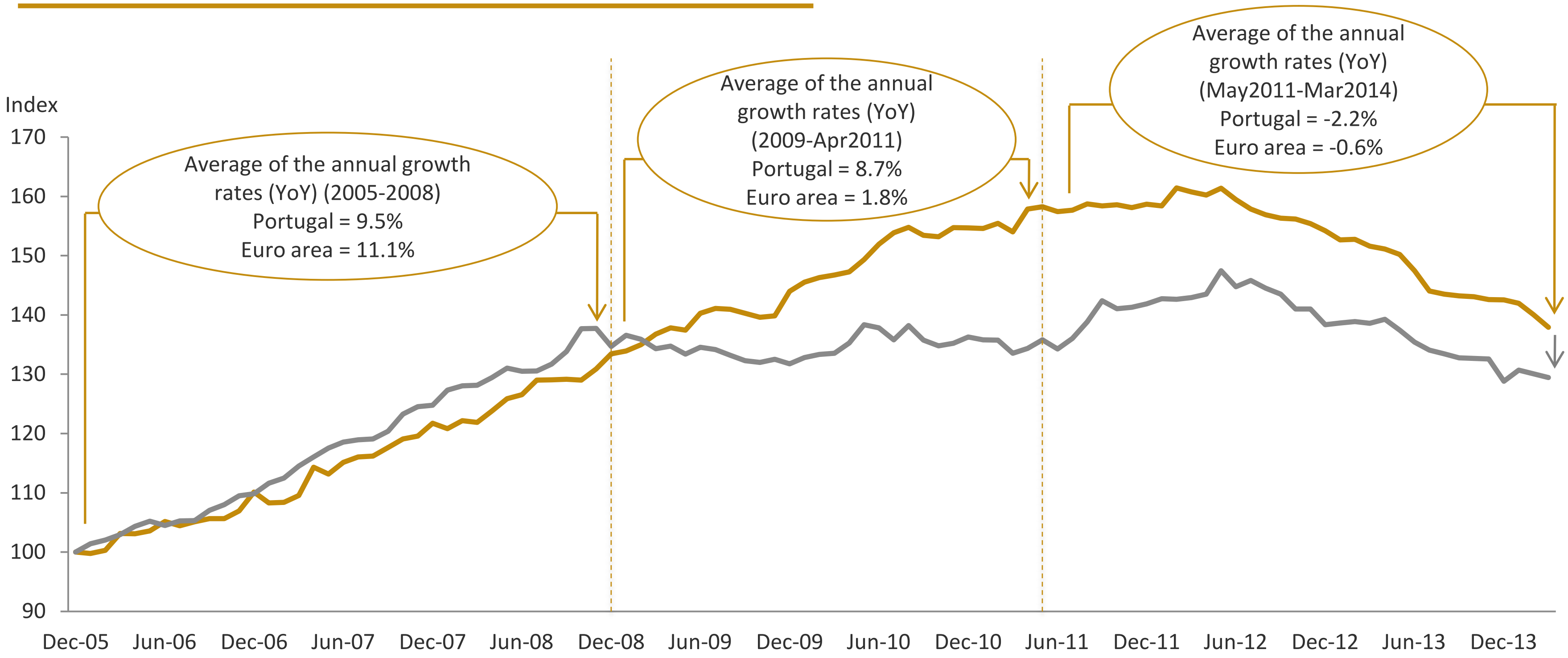
I. Importance of the Banking Sector for the Economy

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

Contrary to what occurred in the Euro area, the 2008 financial crisis did not slow down the total assets growth of Portuguese banks.

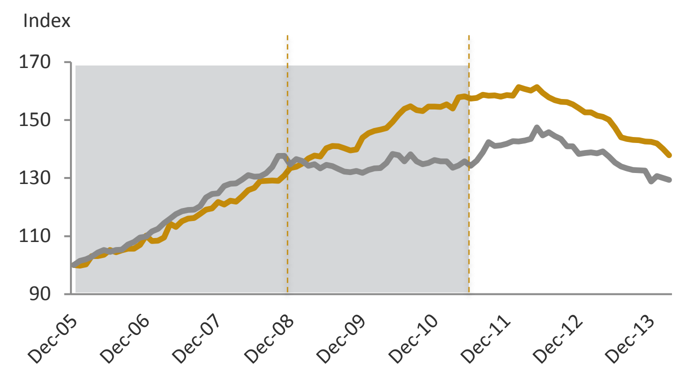
Banking sector's total assets evolution (Dec. 2005=100)



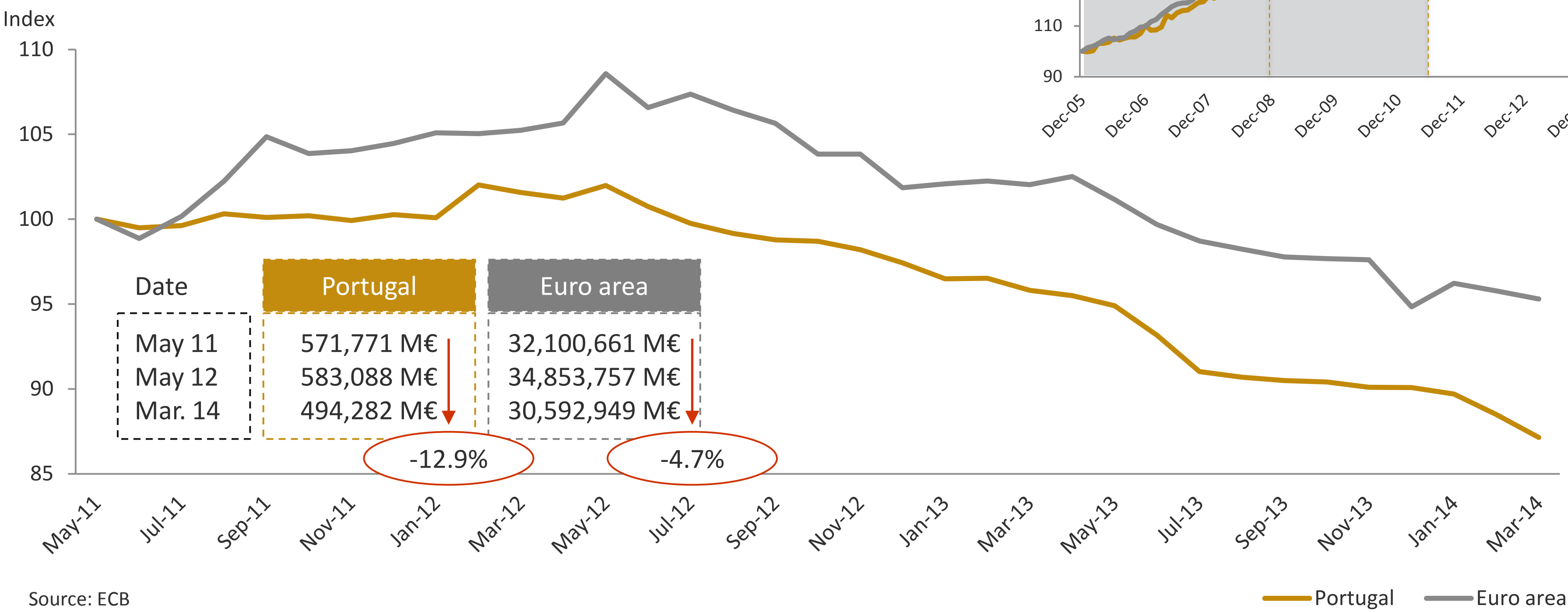
Source: ECB

Portuguese banks started the measures for undertaking their deleveraging process after the Economic Adjustment Programme began. Their results started to show on banks' balance sheets after May 2012.

Banking sector's total assets evolution (Dec. 2005=100)



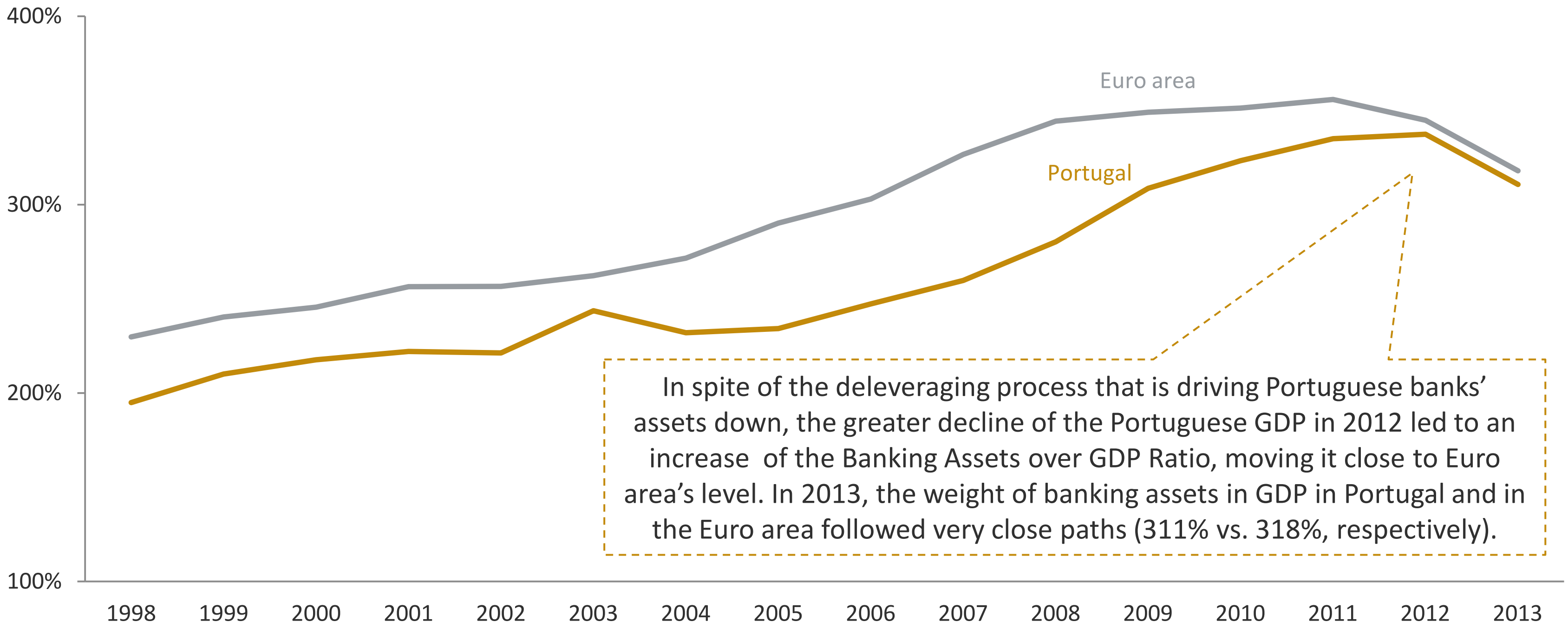
Banking sector's total assets evolution (May 2011=100)



Source: ECB

The Portuguese banking sector plays an important role in the economy. Its weight on the national GDP is similar to Euro area's level.

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

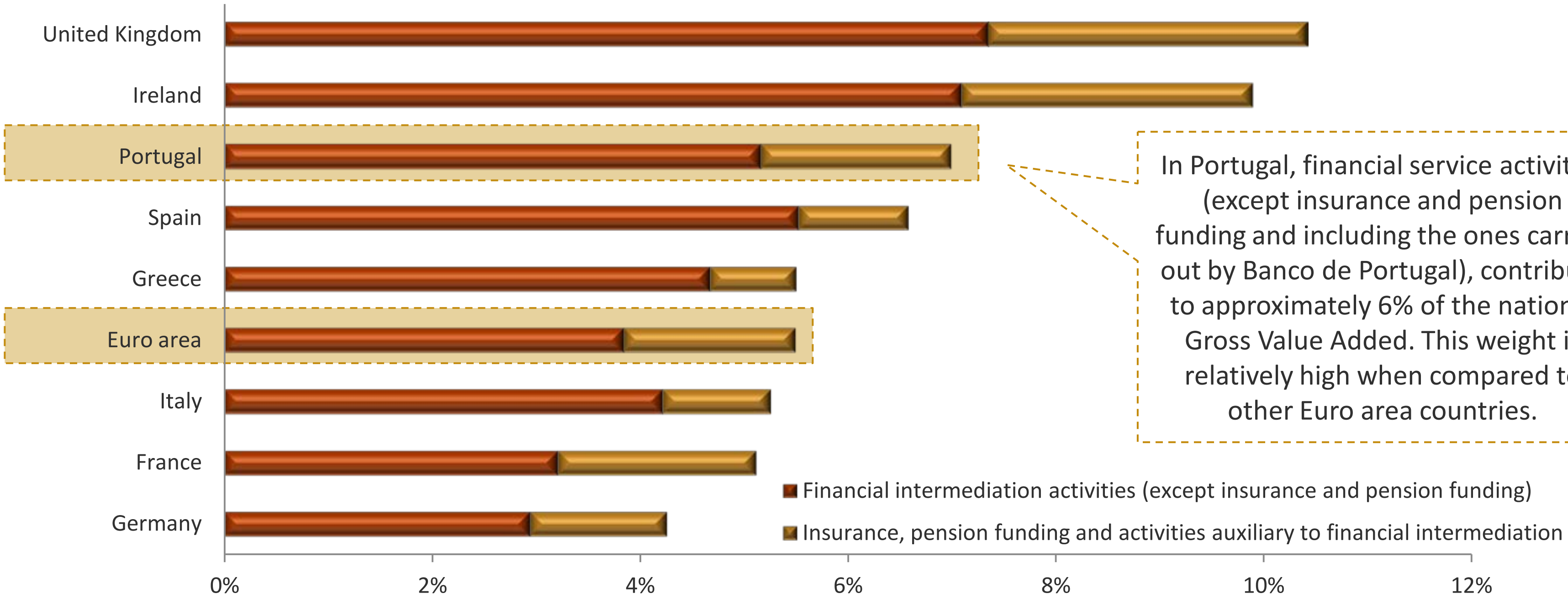


* Nominal Gross Domestic Product.

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 (2009)

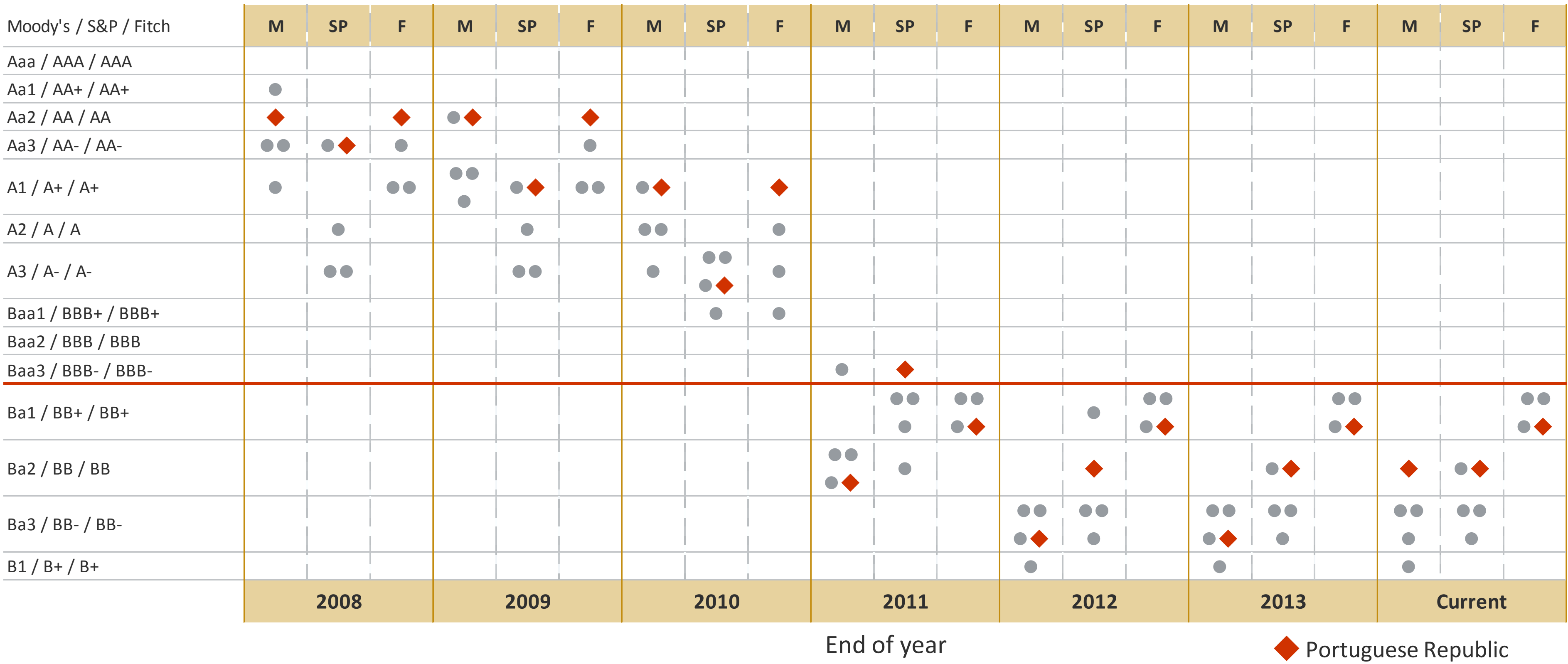


In Portugal, financial service activities (except insurance and pension funding and including the ones carried out by Banco de Portugal), contribute to approximately 6% of the national Gross Value Added. This weight is relatively high when compared to other Euro area countries.

Source: Eurostat, Statistics Portugal (INE), Central Statistics Office Ireland

The downgrades of the Portuguese Republic ratings negatively affected the ratings of Portuguese banks.

Evolution of the Portuguese Republic and Portuguese banks' ratings by Moody's, S&P and Fitch



Source: Bloomberg

PORTUGUESE BANKING SECTOR OVERVIEW

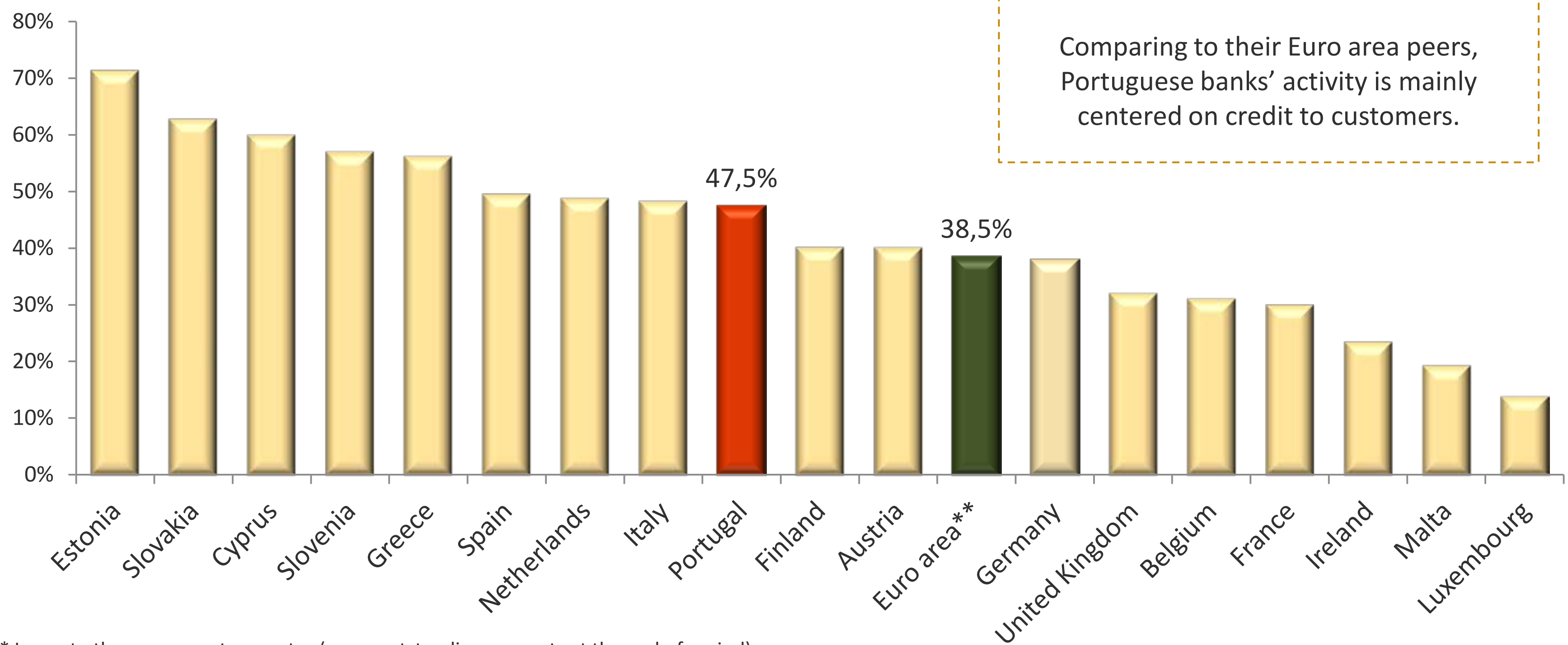
II. Credit Activity

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

For Portuguese banks, credit to customers absorbs almost 50% of total assets.

Credit to customers* as a percentage of total assets (December 2013)



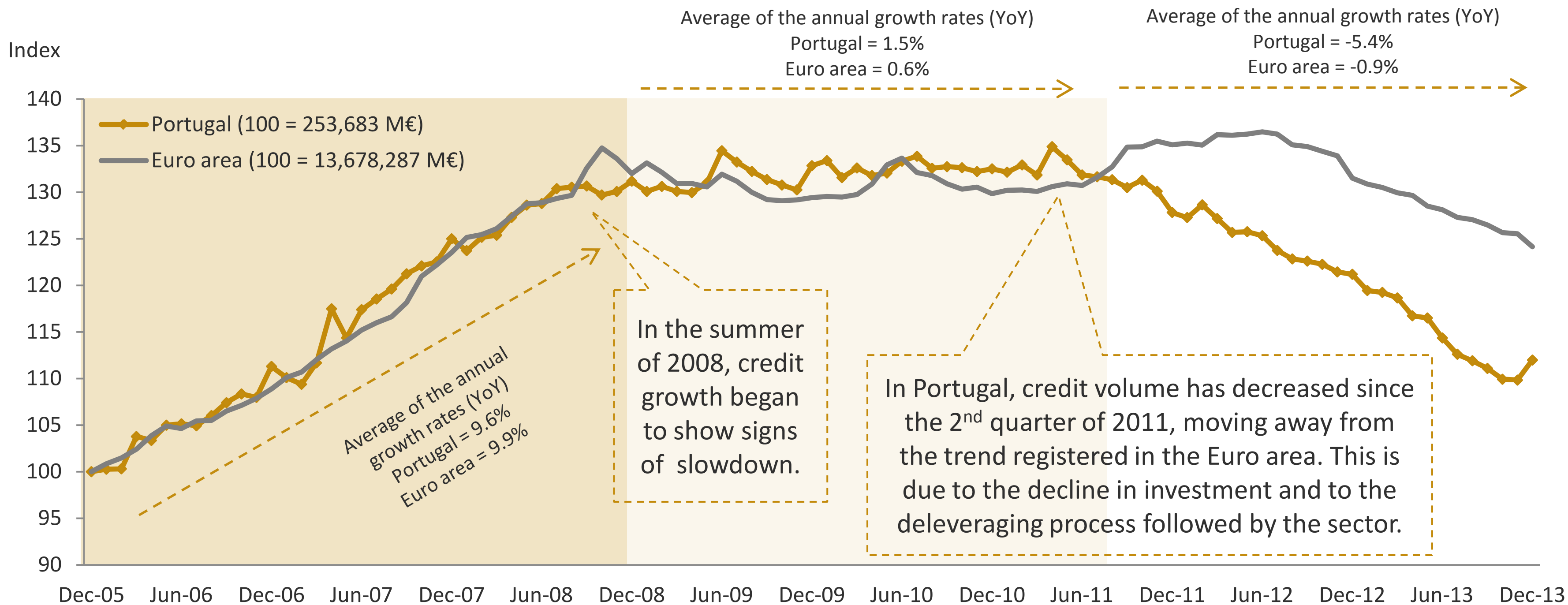
Comparing to their Euro area peers, Portuguese banks' activity is mainly centered on credit to customers.

* 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 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)

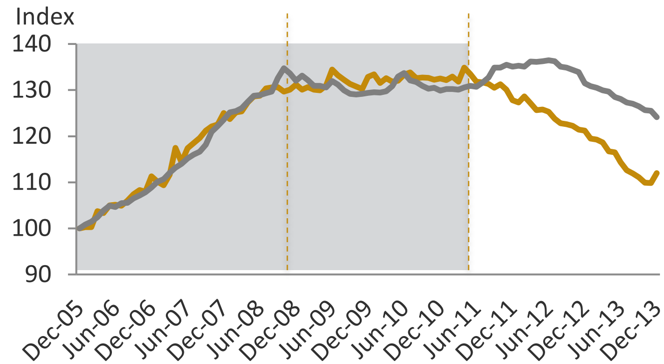


* Loans to the monetary and non-monetary sectors (gross outstanding amounts at the end of period).

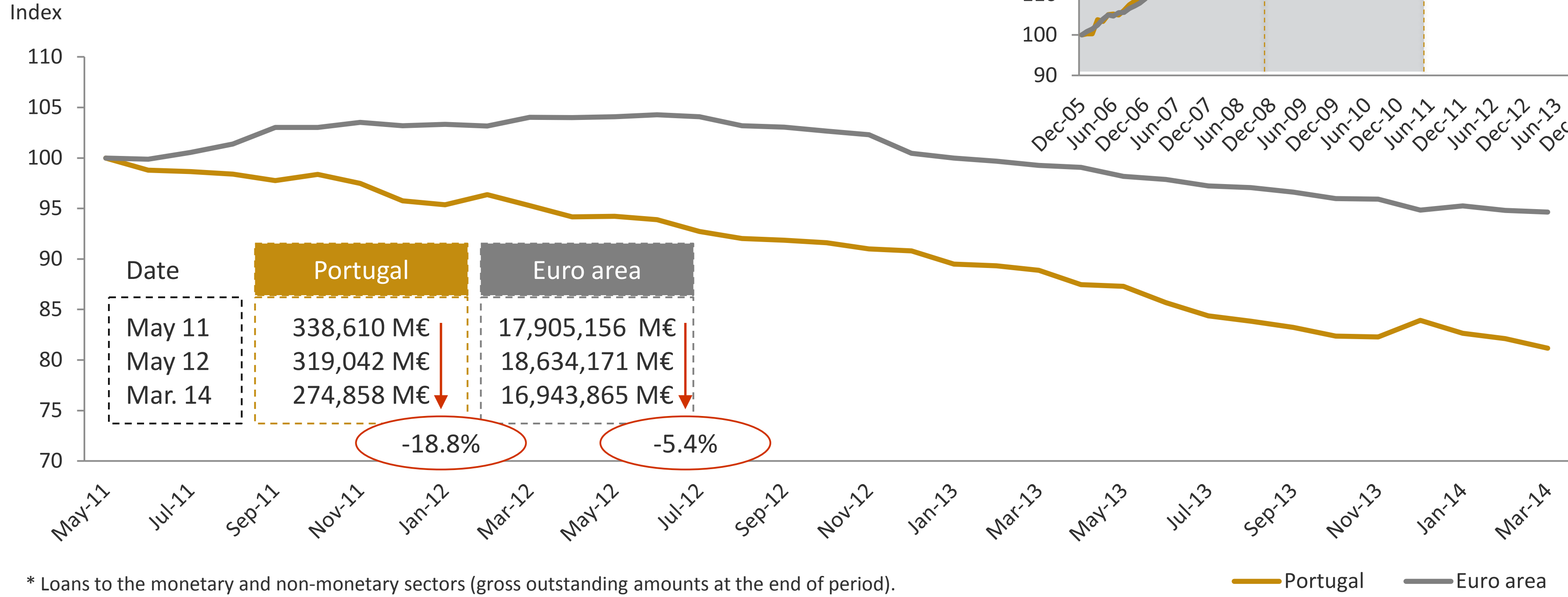
Source: ECB

After the sovereign crisis affected Portugal, credit volume decreased more than in the Euro area.

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



Trends in credit* in Portugal and in the Euro Area (May 2011=100)



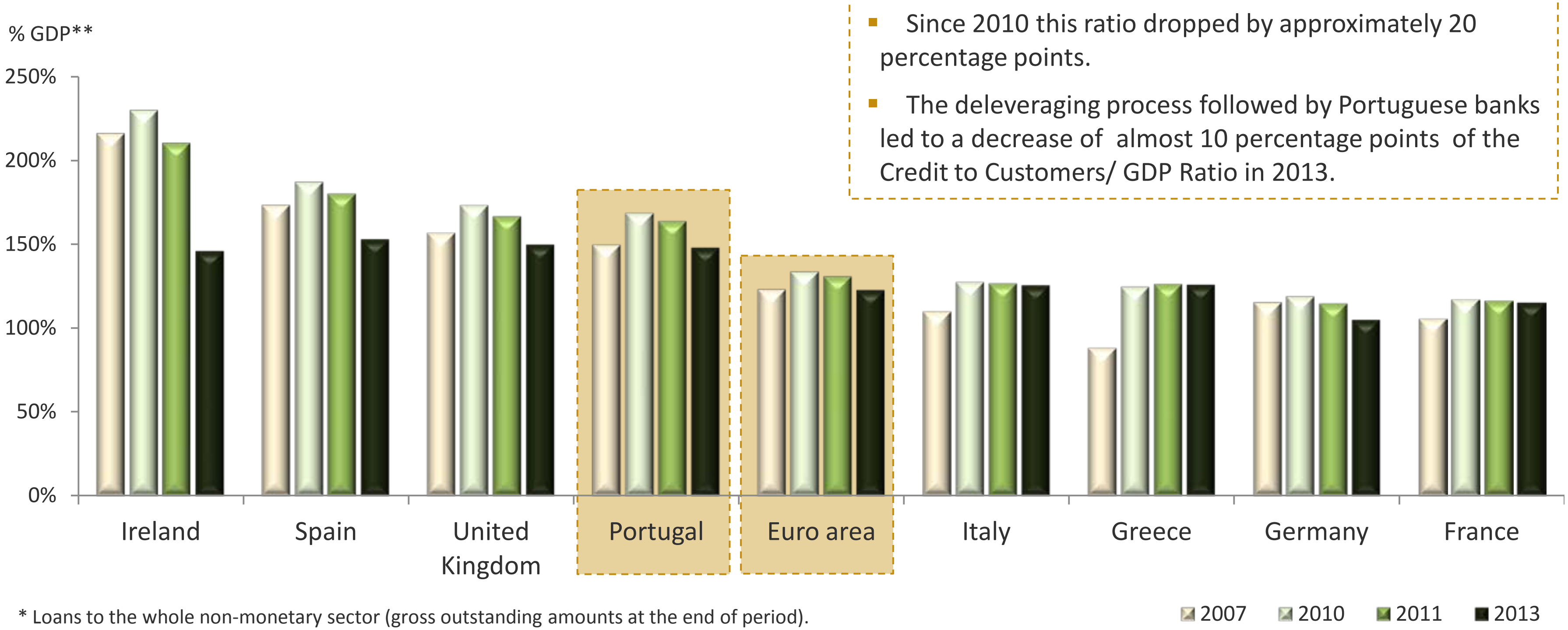
Date	Portugal	Euro area
May 11	338,610 M€	17,905,156 M€
May 12	319,042 M€	18,634,171 M€
Mar. 14	274,858 M€	16,943,865 M€

* 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 since 2010, the Portuguese economy still presents relatively high levels of bank debt to GDP when compared with the Euro area.

Credit to Customers* / GDP Ratio**



- At the end of 2013, credit to customers in Portugal represented around 148% of the nominal GDP.
- Since 2010 this ratio dropped by approximately 20 percentage points.
- The deleveraging process followed by Portuguese banks led to a decrease of almost 10 percentage points of the Credit to Customers/ GDP Ratio in 2013.

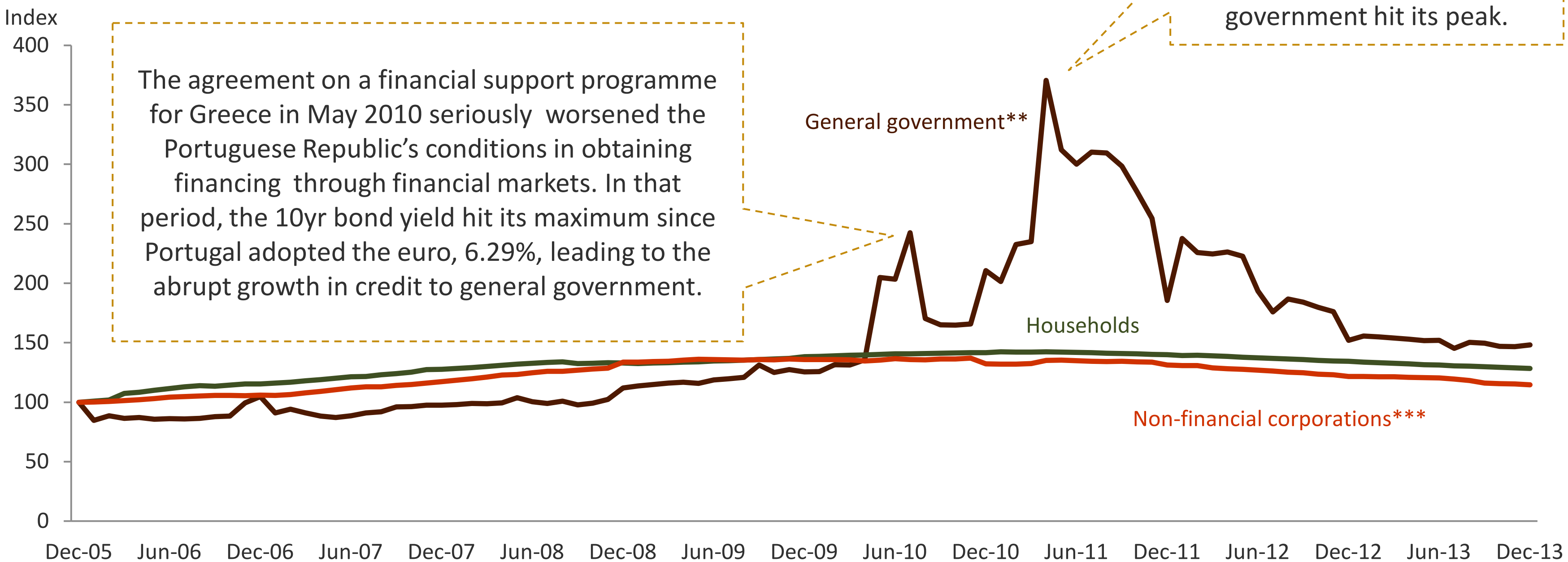
* Loans to the whole non-monetary sector (gross outstanding amounts at the end of period).
** Nominal Gross Domestic Product.

Source: ECB, Eurostat

Stocks of credit to households and non-financial corporations reveal divergent trends than stocks of credit to the general government.

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

Trends in credit volumes* by institutional sector (Dec. 2005=100)

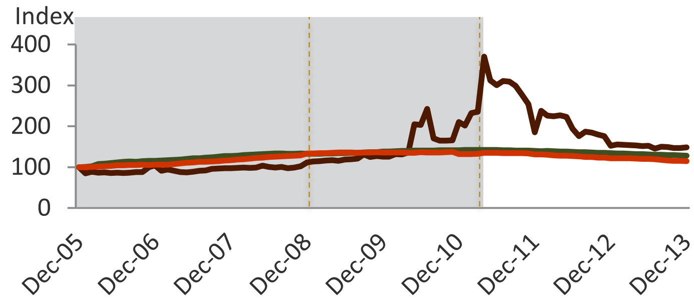


* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

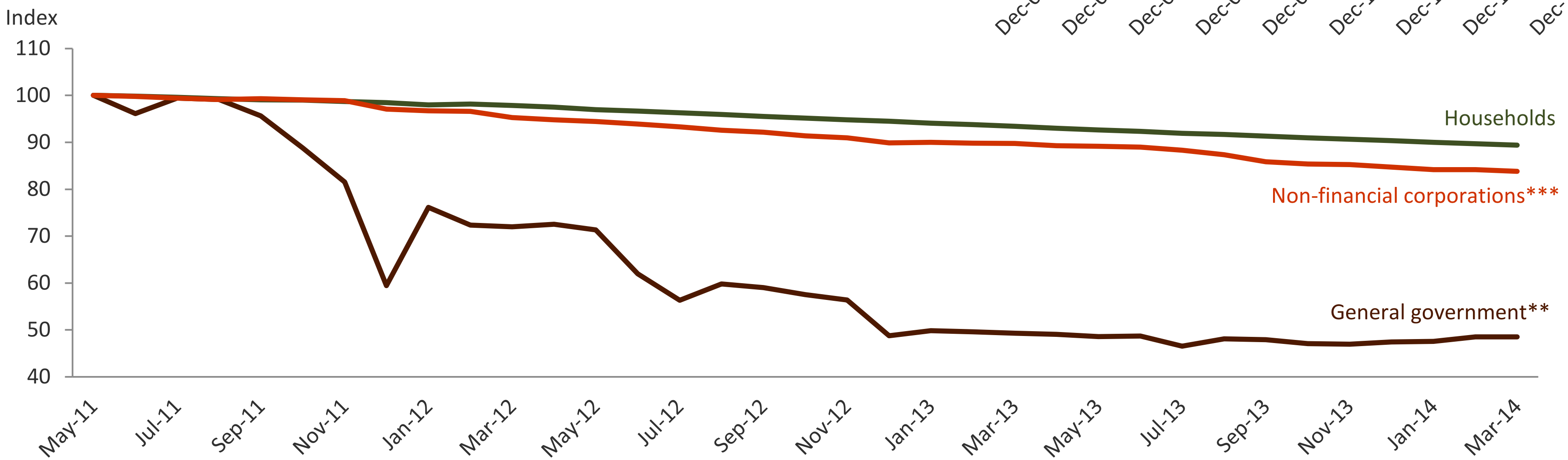
Source: Banco de Portugal

However, since the beginning of the EAP the stock of credit to the general government has been decreasing at a higher pace than the stock of credit to households and non-financial corporations.

Trends in credit volumes* by institutional sector (Dec. 2005=100)



Trends in credit volumes* by institutional sector (May 2011=100)

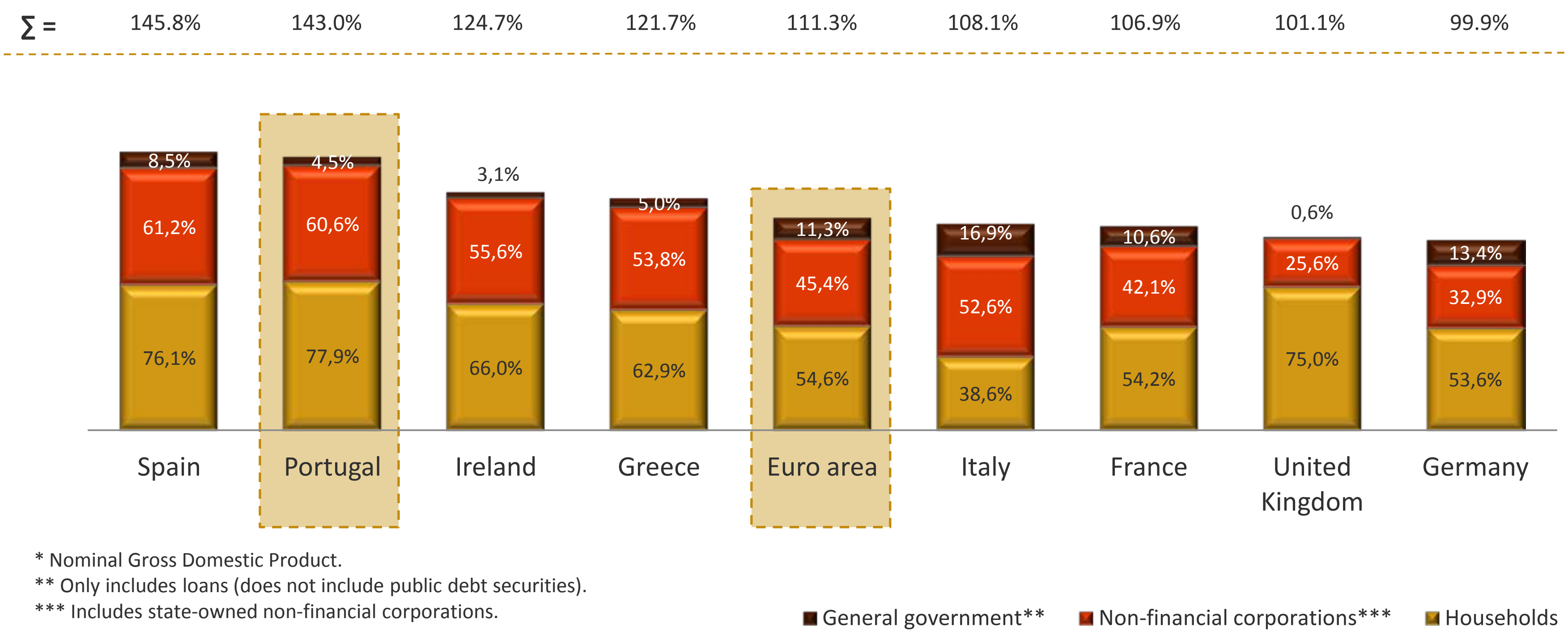


* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

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 GDP*, in Portugal vs. selected European Union countries (December 2013)

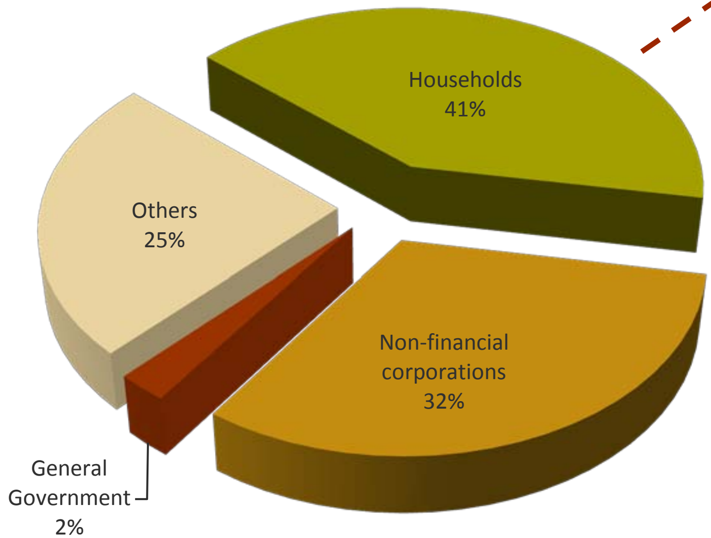


* Nominal Gross Domestic Product.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

Source: Ameco, ECB

Credit to households is primarily mortgages, whereas credit to NFC is mainly intended to construction and real estate.

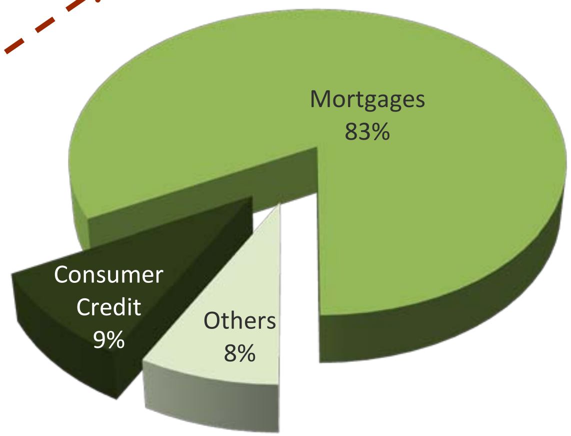
Total credit* (December 2013)



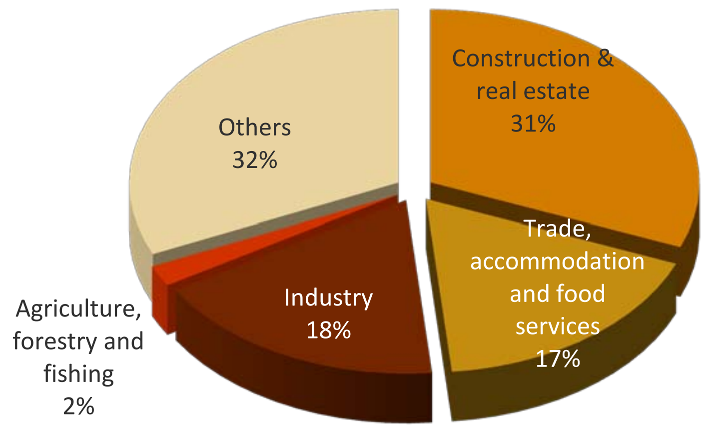
*Loans to the monetary and non-monetary sectors including non-residents (gross outstanding amounts at the end of month).

Source: Banco de Portugal

Credit to households

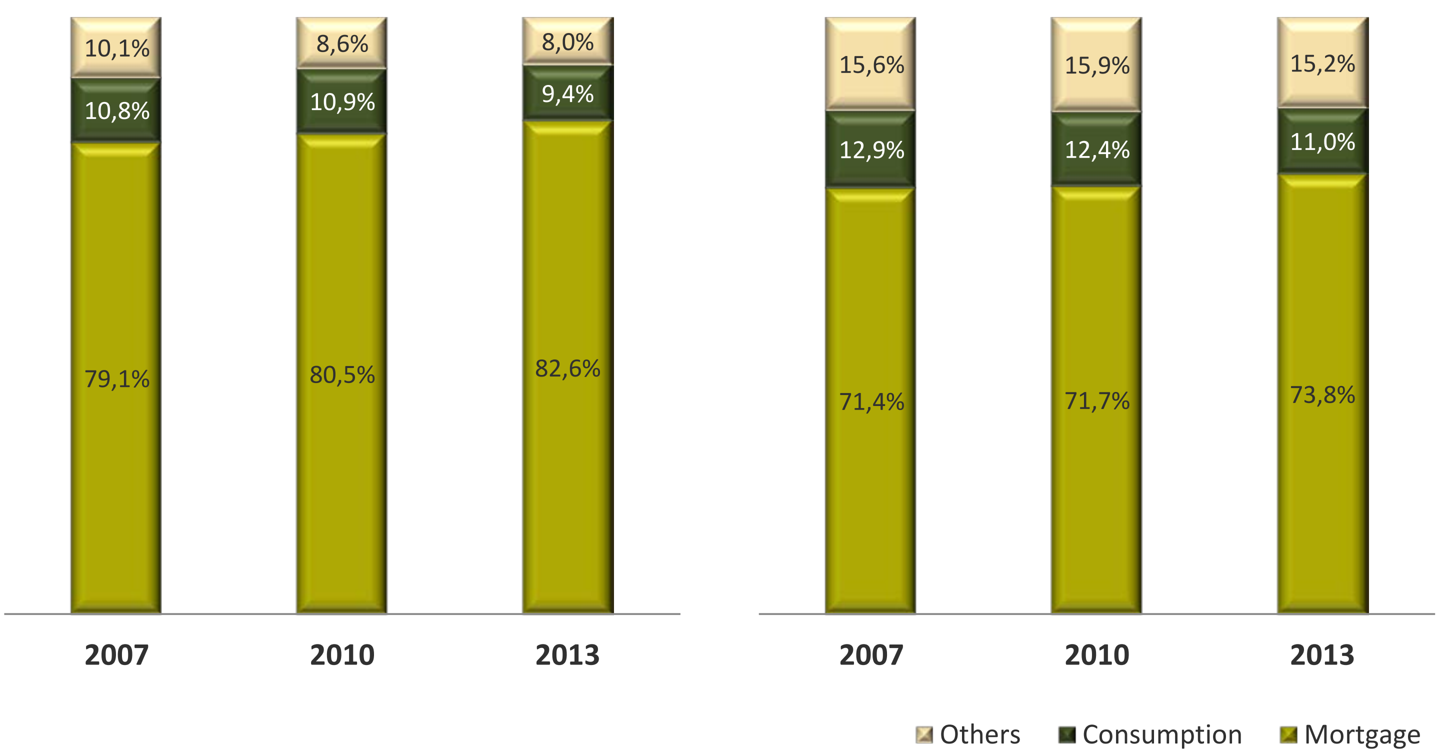


Credit to non-financial corporations



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

Portugal **Euro area**

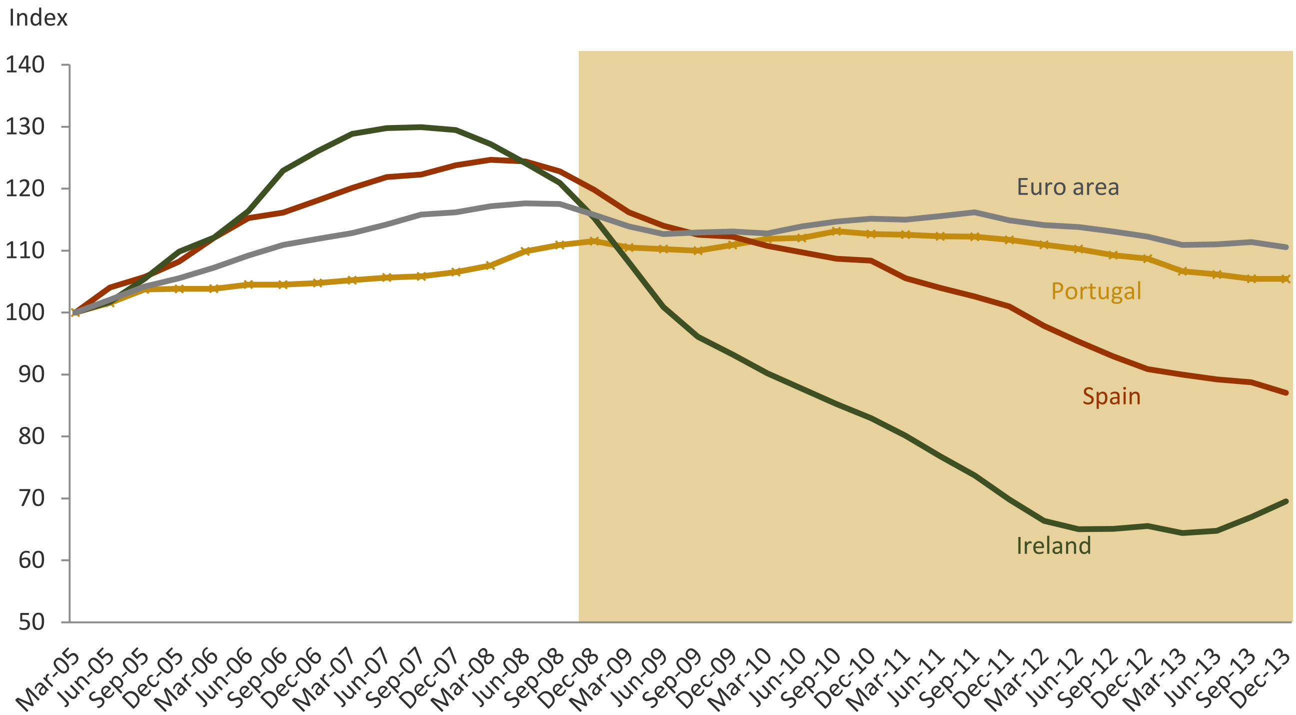


The weight of consumer credit on the stock of loans to households has decreased both in Portugal and in the Euro area. Nevertheless, this type if credit is still less relevant in Portugal than in the Euro area.

Source: ECB

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

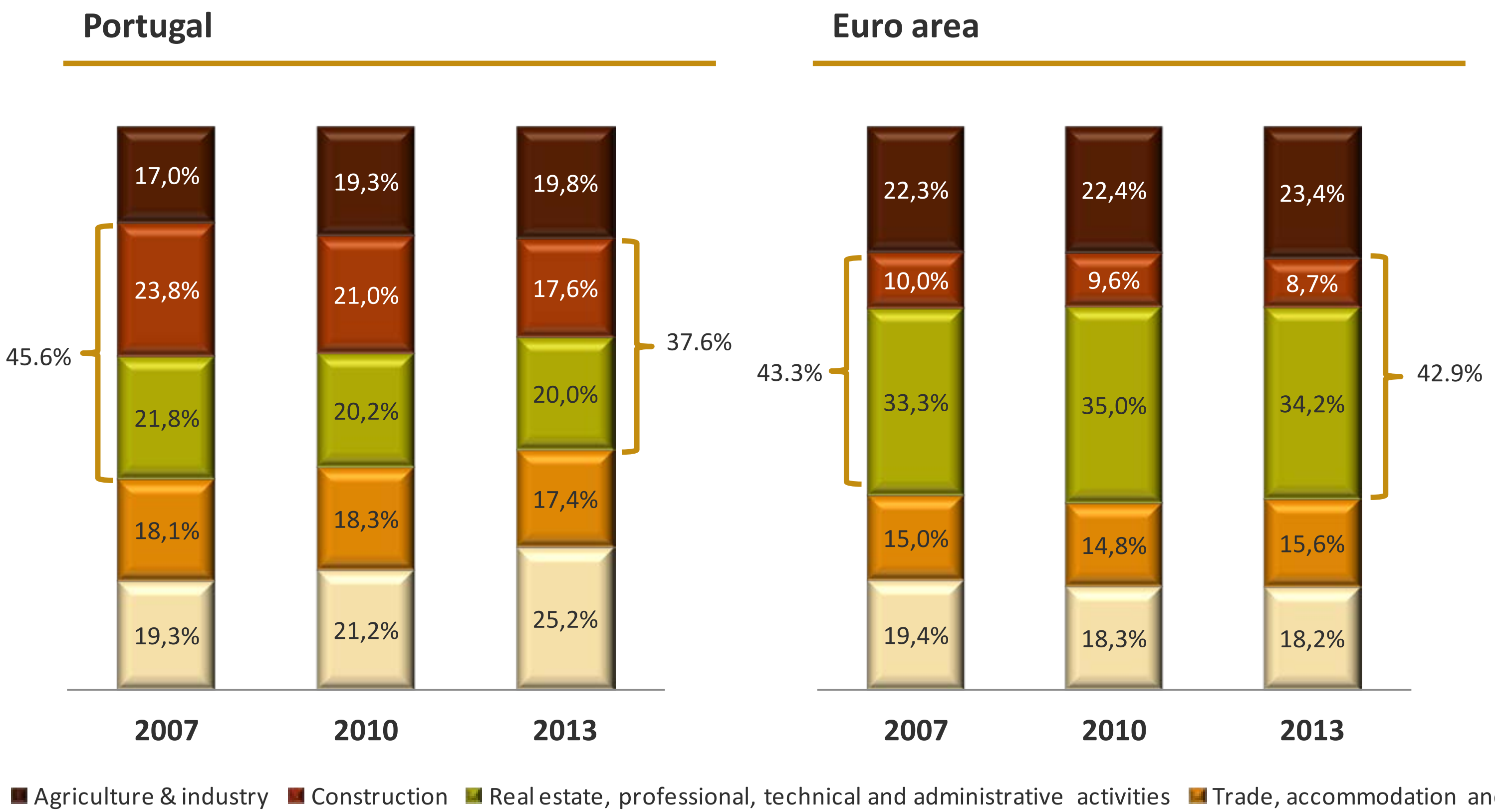
Residential property prices in Portugal and selected Euro area countries (Mar. 2005=100)



Source: ECB

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 corporations.

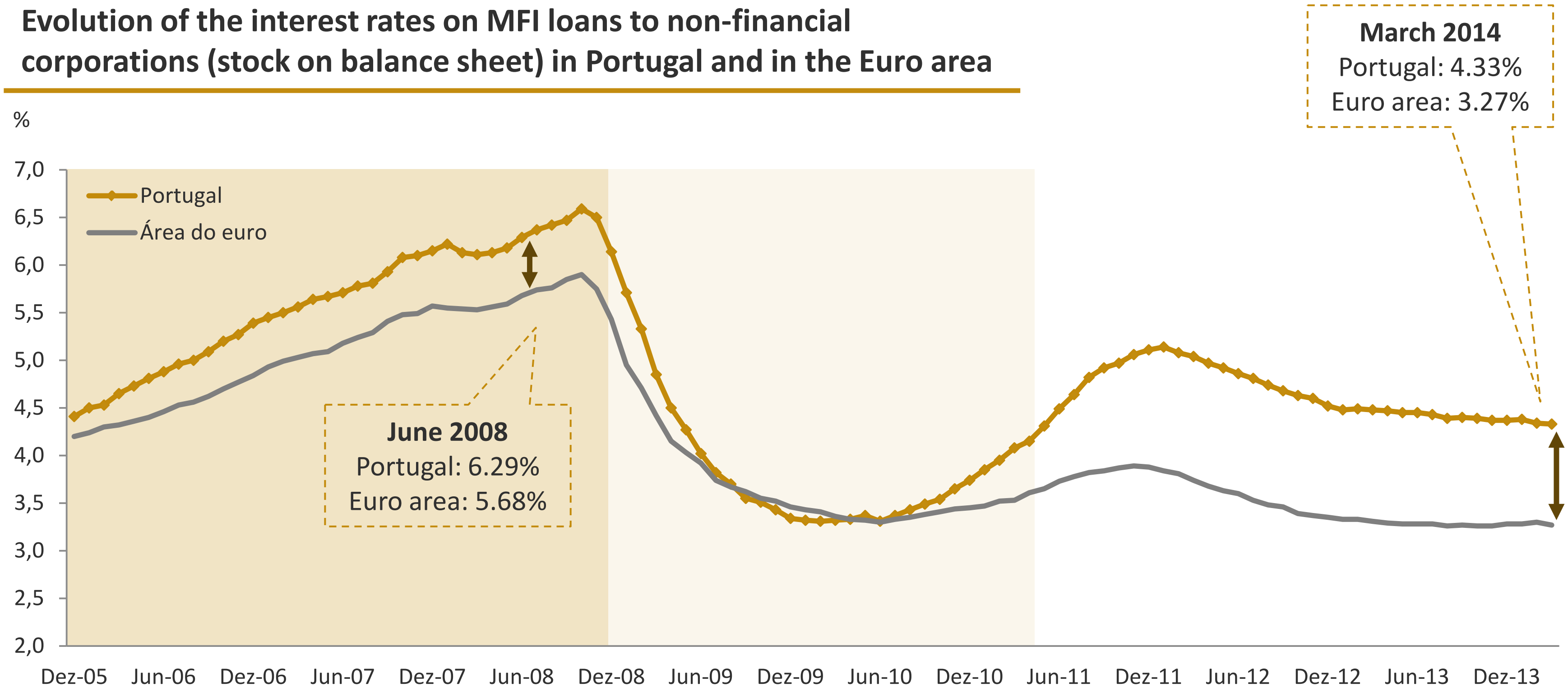


In Portugal, the proportion of the construction and real estate sectors, in aggregated terms, has been decreasing since 2007. In the Euro area, the weight of these sectors increased until 2012, sustained by the real estate sector. More recently however, it has been declining as well.

Source: Banco de Portugal, ECB

The gap between interest rates on new loans to non-financial corporations in Portugal and in the Euro area increased after the beginning of the sovereign crisis.

Evolution of the interest rates on MFI loans to non-financial corporations (stock on balance sheet) in Portugal and in the Euro area

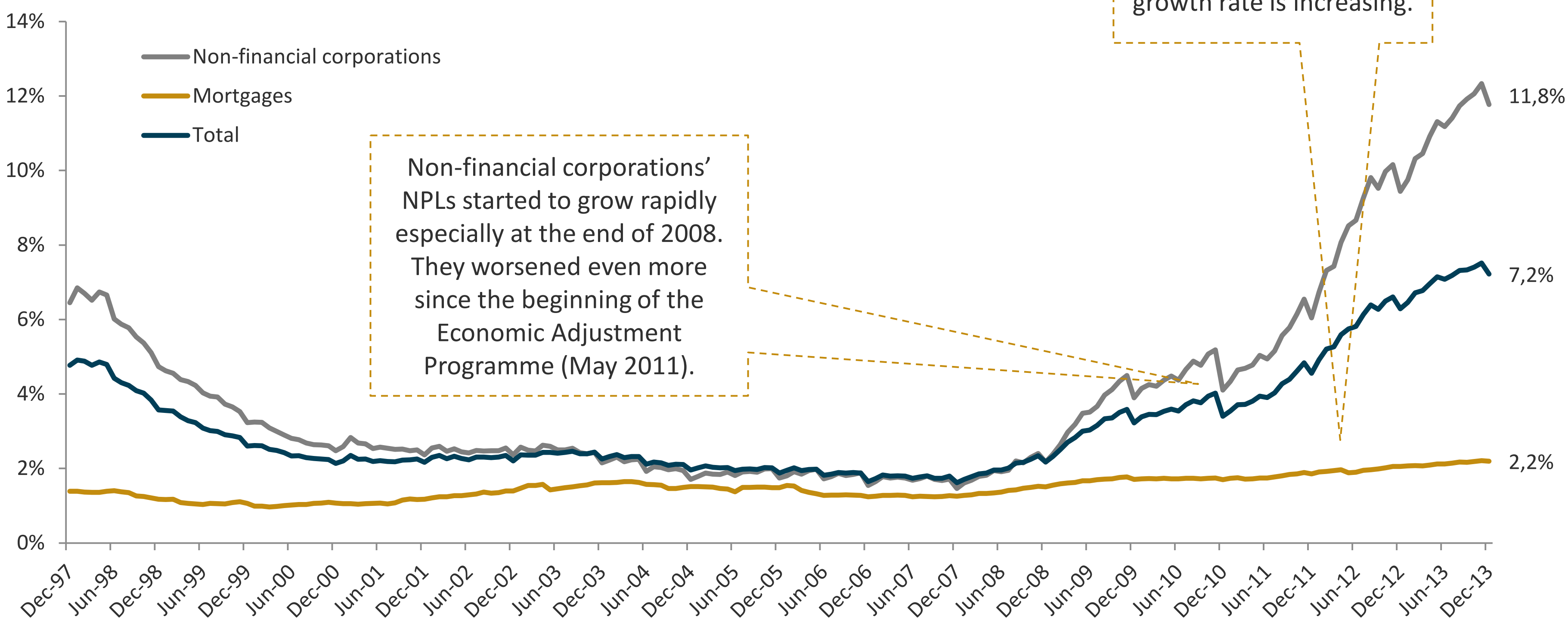


Source: ECB

NPLs grew since 2008 mainly in the corporate segment.

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

Meanwhile, mortgages' NPLs remained relatively stable. However, their growth rate is increasing.



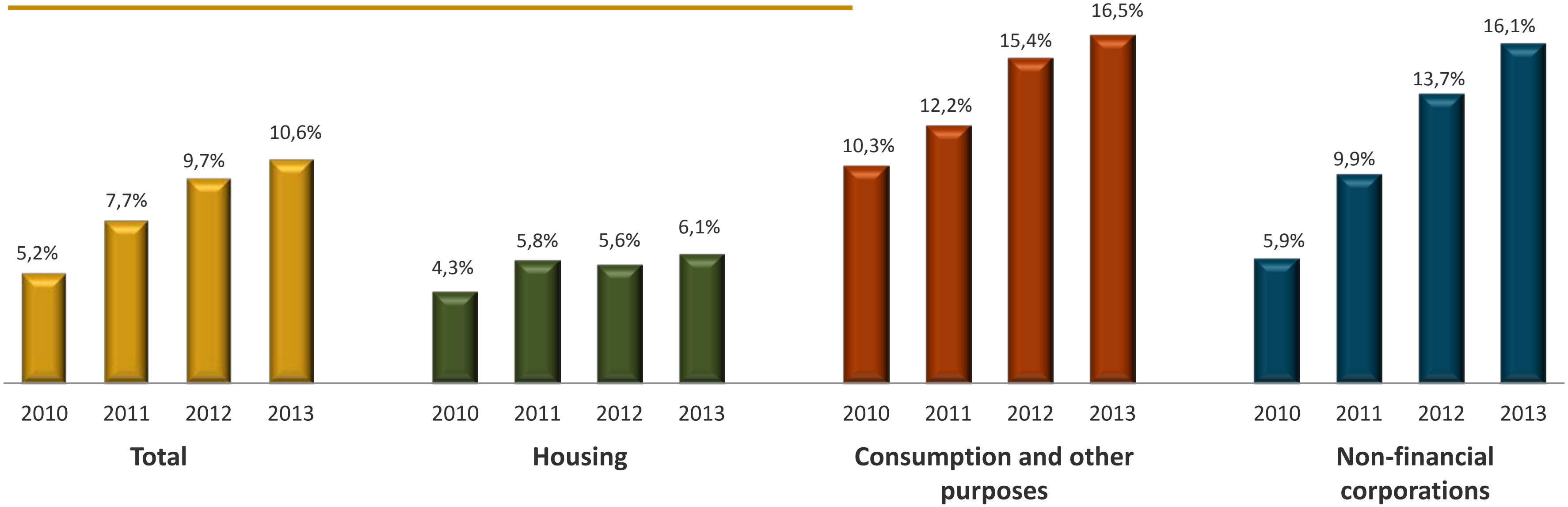
* Base on the national definition that includes only amounts outstanding of credit overdue for at least 30 days and doubtful loans recorded in the balance sheet of monetary financial institutions.

Source: Banco de Portugal

In 2011, following the Adjustment Programme requirements, Banco de Portugal has implemented a new NPLs ratio in line with international practices, named credit-at-risk.

The new ratio considers the entire impaired loan, rather than only the overdue amount.

Credit-at-risk* as a percentage of the corresponding credit



* Includes total outstanding credit with overdue installments of principal or interest for a period of more than 90 days, total value of outstanding restructured credits in which payments of principal or interest, having been overdue by a period equal to or greater than 90 days, have been capitalized, refinanced or rescheduled without adequate strengthening of collateral or full repayment of overdue interest and outstanding credit with overdue installments of principal or interest for a period of less than 90 days, but for which there is evidence that would justify its classification as non-performing loans

Source: Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

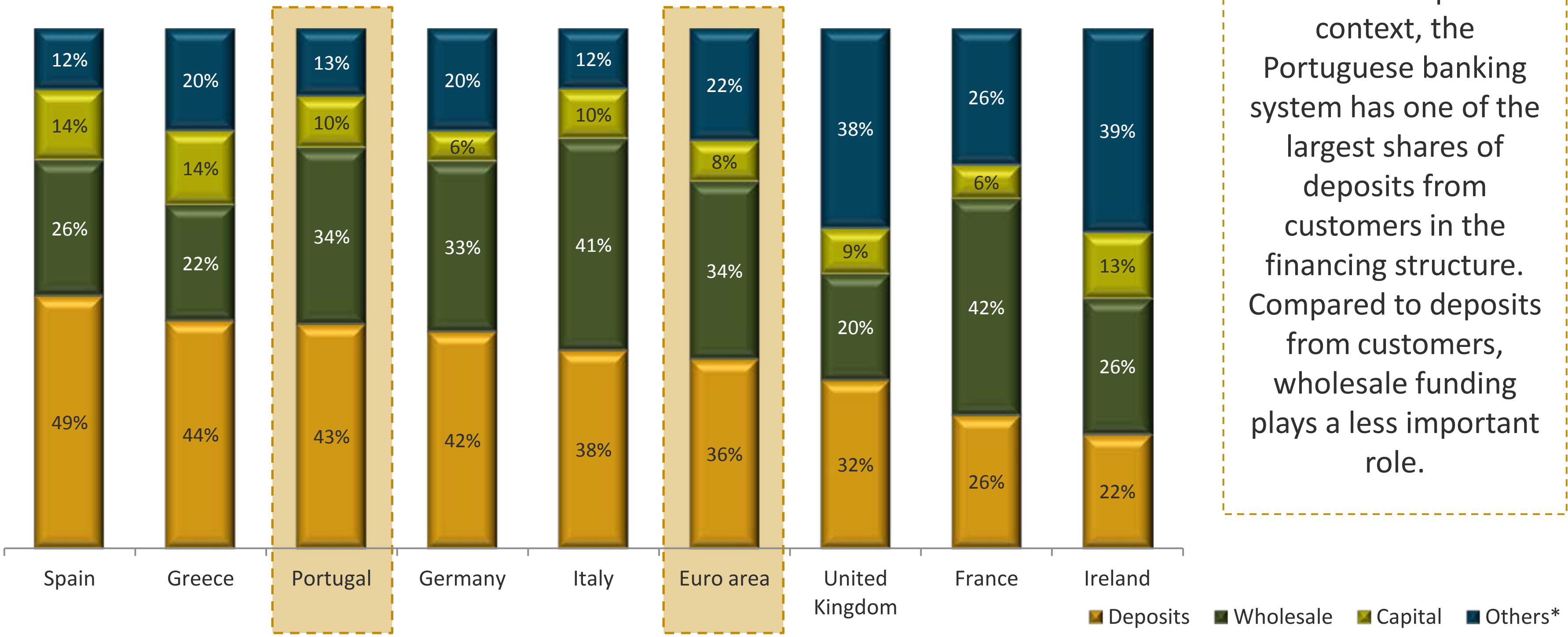
III. Funding

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

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 2013)



In the European context, the Portuguese banking system has one of the largest shares of deposits from customers in the financing structure. Compared to deposits from customers, wholesale funding plays a less important role.

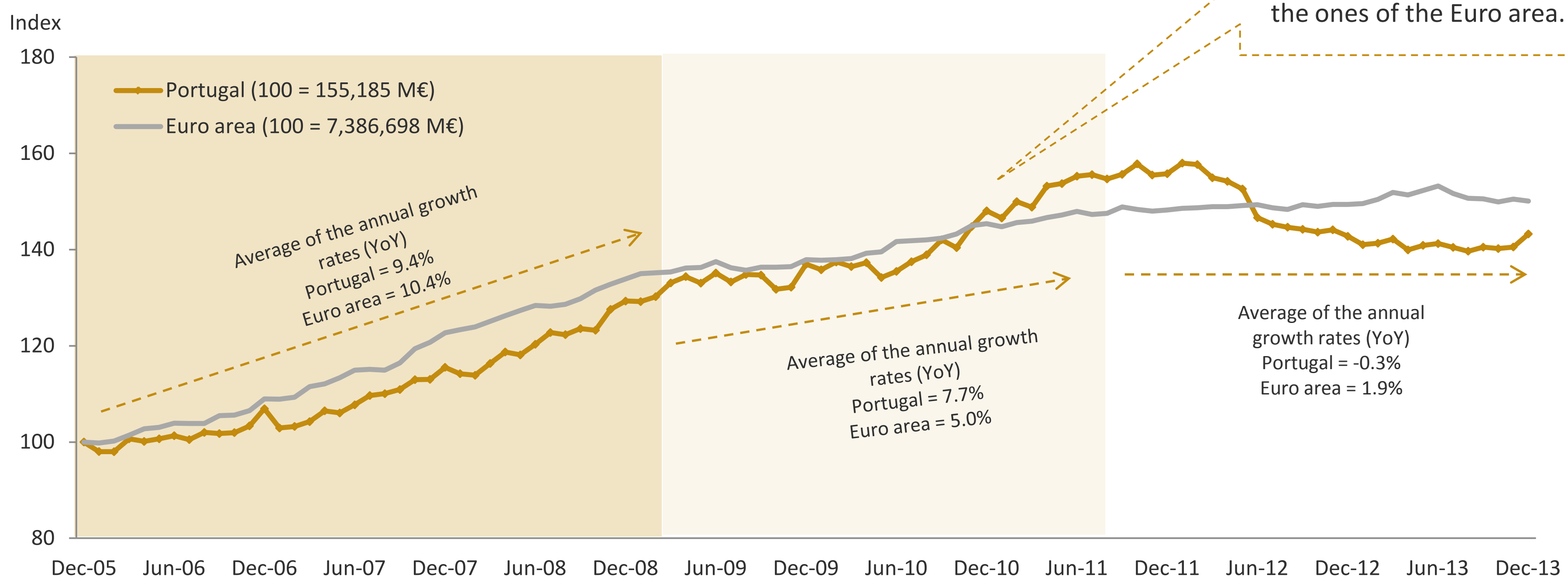
* Includes external liabilities, i.e., liabilities issued by non-residents in the Euro area, except in the UK where it refers to liabilities issued by non-residents in the country.

Source: ECB

The trend followed by deposits from customers in Portugal reveals some differences compared with the Euro area.

After mid-2010, deposits in Portugal began growing at a significantly higher rate than the ones of the Euro area.

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



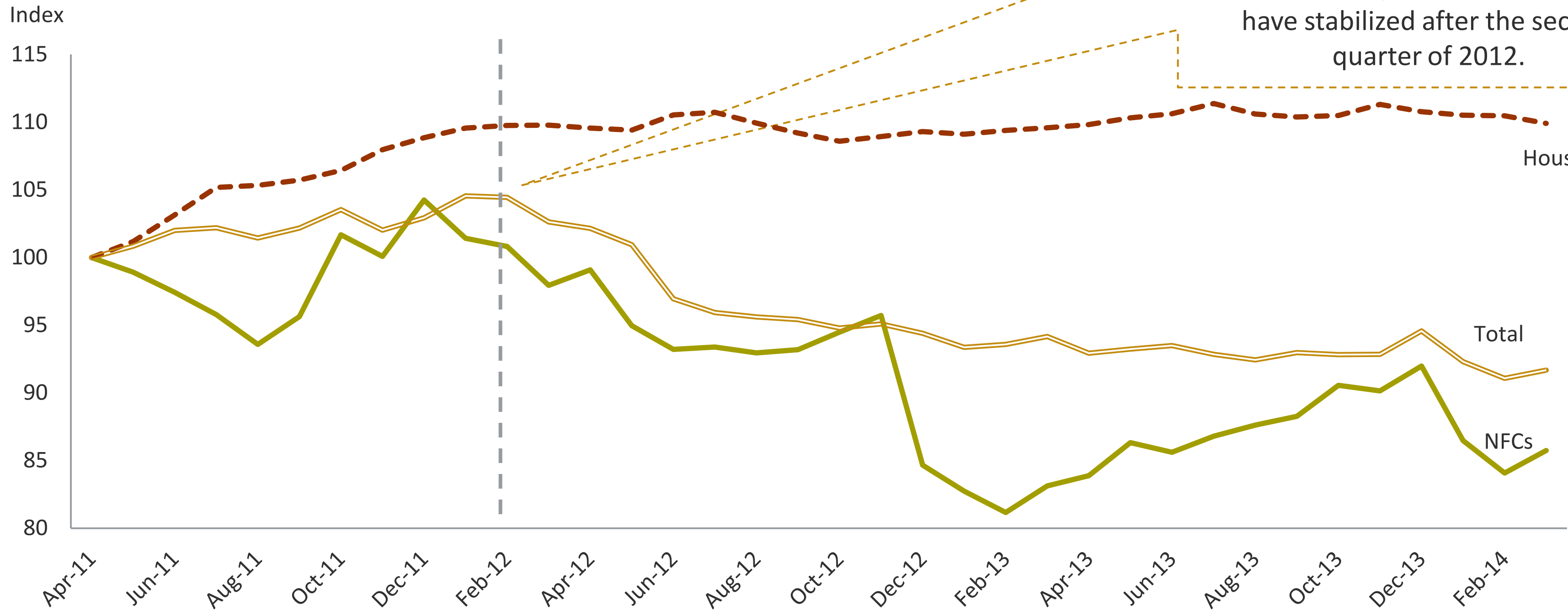
* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: ECB

In spite of the austerity imposed by the Adjustment Programme deposits from households continued to grow one year following its implementation.

Since the begining of 2012, Portuguese non-financial corporations have been reducing their amount of deposits due to difficult financial positions. This trend has been driving down the total amount of deposits in Portuguese banks, since deposits from households have stabilized after the second quarter of 2012.

Evolution of deposits* in Portugal, by institutional sector (Apr. 2011 = 100)

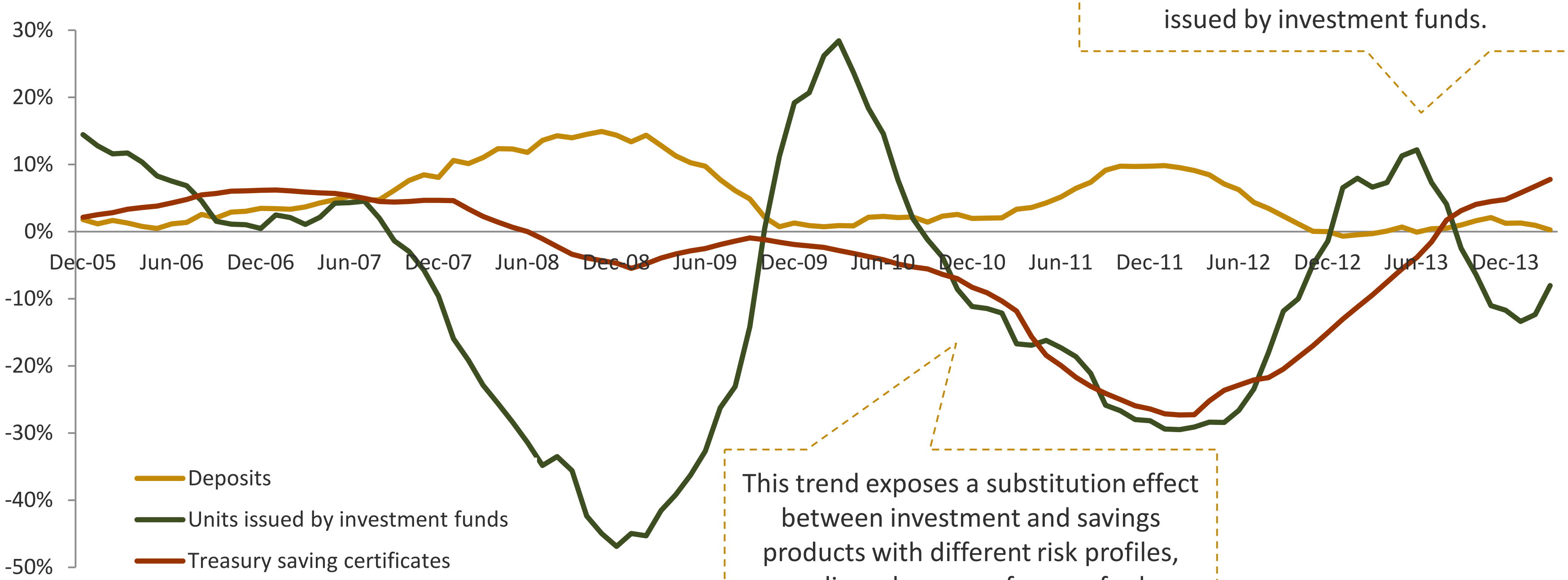


* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

During 2011, the growth in deposits from households coincided with the decrease of their ownership of units issued by investment funds.

Growth rates of households' deposits, units issued by investment funds and savings certificates, in Portugal (YoY)



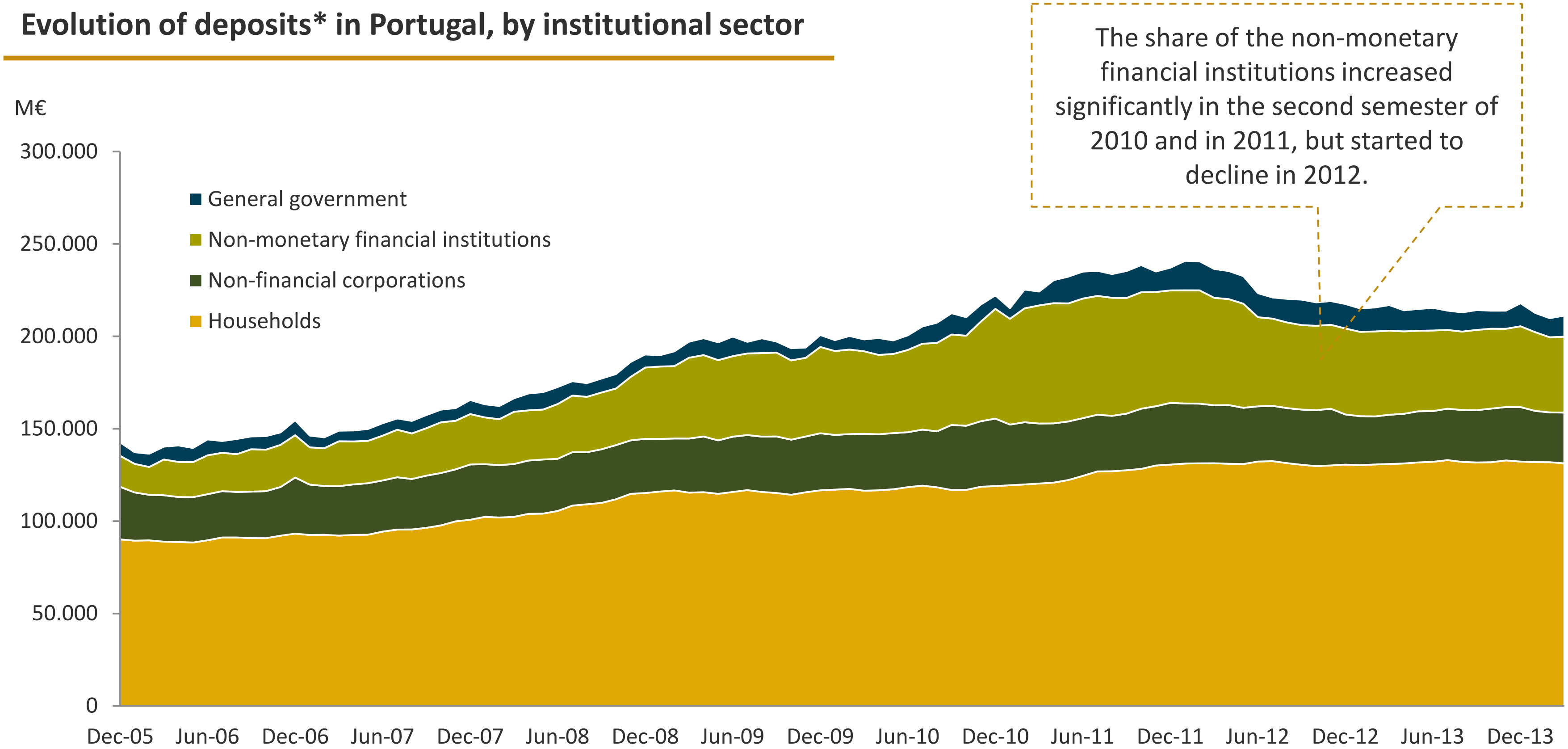
Whereas bank deposits are stabilized since end-2012, Treasury savings certificates have gained popularity more recently in detriment of units issued by investment funds.

This trend exposes a substitution effect between investment and savings products with different risk profiles, revealing a larger preference for less risky assets after the financial crisis.

Source: Banco de Portugal

In Portugal, deposits are mainly held by households and their share has been consistently increasing.

Evolution of deposits* in Portugal, by institutional sector

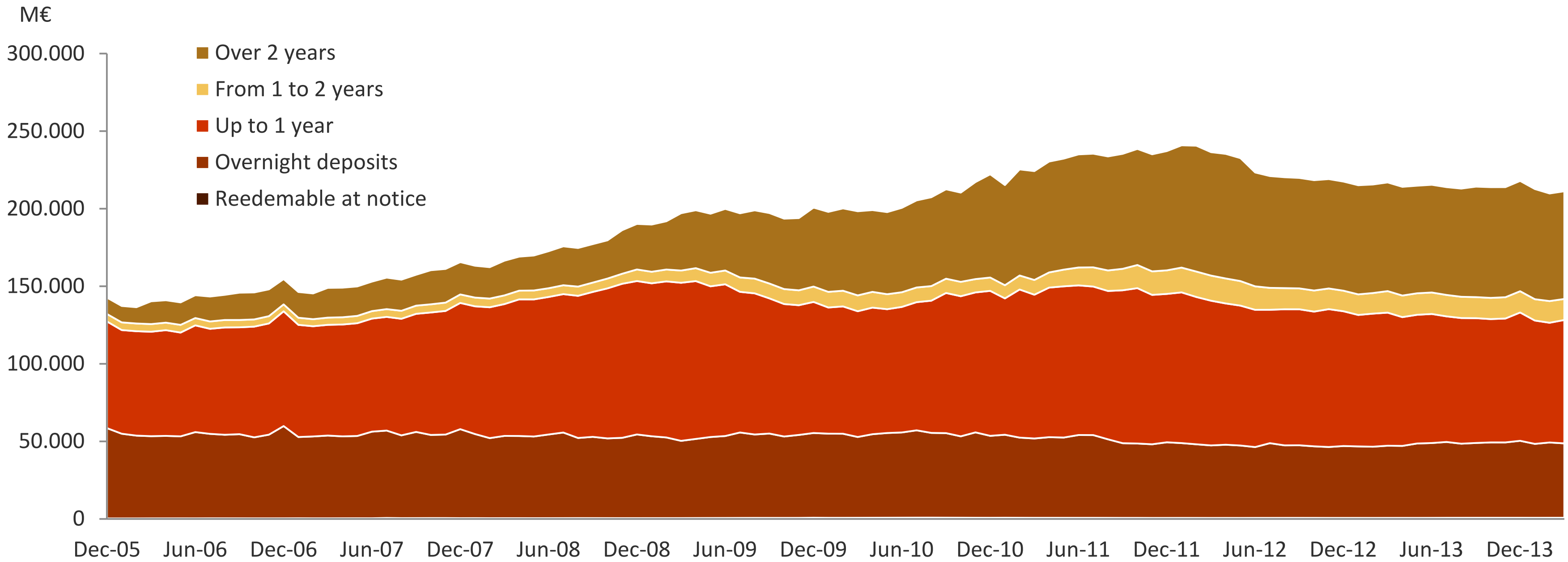


* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

Deposits with maturities of 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

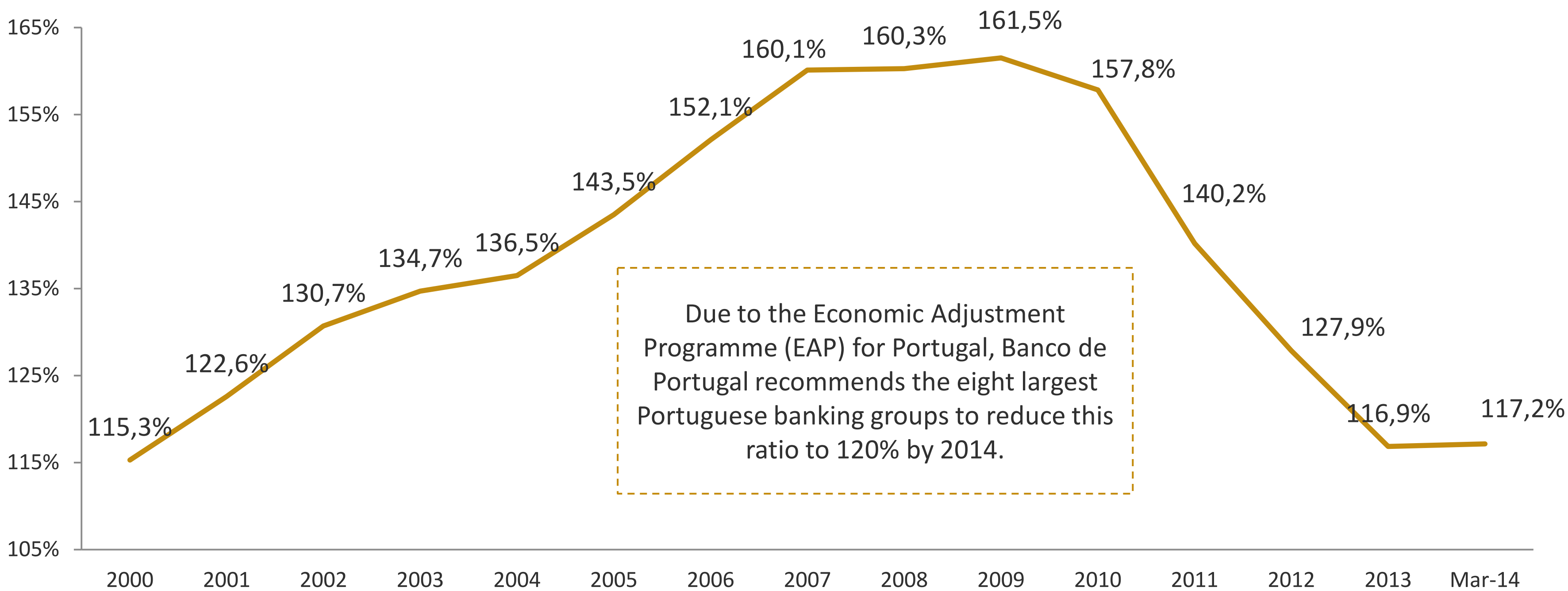


* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

The decrease of the Loan-to-Deposit Ratio reflects the deleverage of the Portuguese banking sector.

Loan*-to-Deposit Ratio, on a consolidated basis



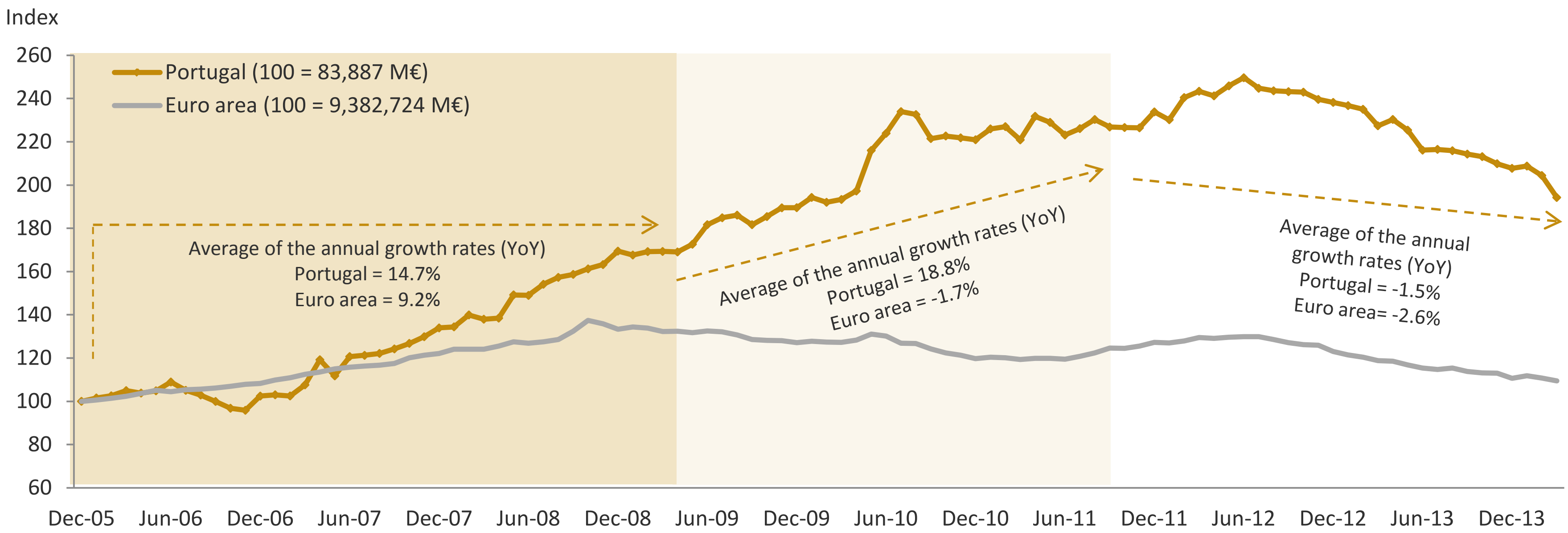
* Credit volumes net of impairments (includes securitized non-derecognized credit). Outstanding amounts at the end of period.

Source: Banco de Portugal

The use of wholesale funding among Portuguese banks grew at a significantly higher rate when compared with the Euro area.

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

The growth of deposits in Portugal was not sufficient to compensate the growth of national banks' assets, leading to a higher dependence on wholesale funding.

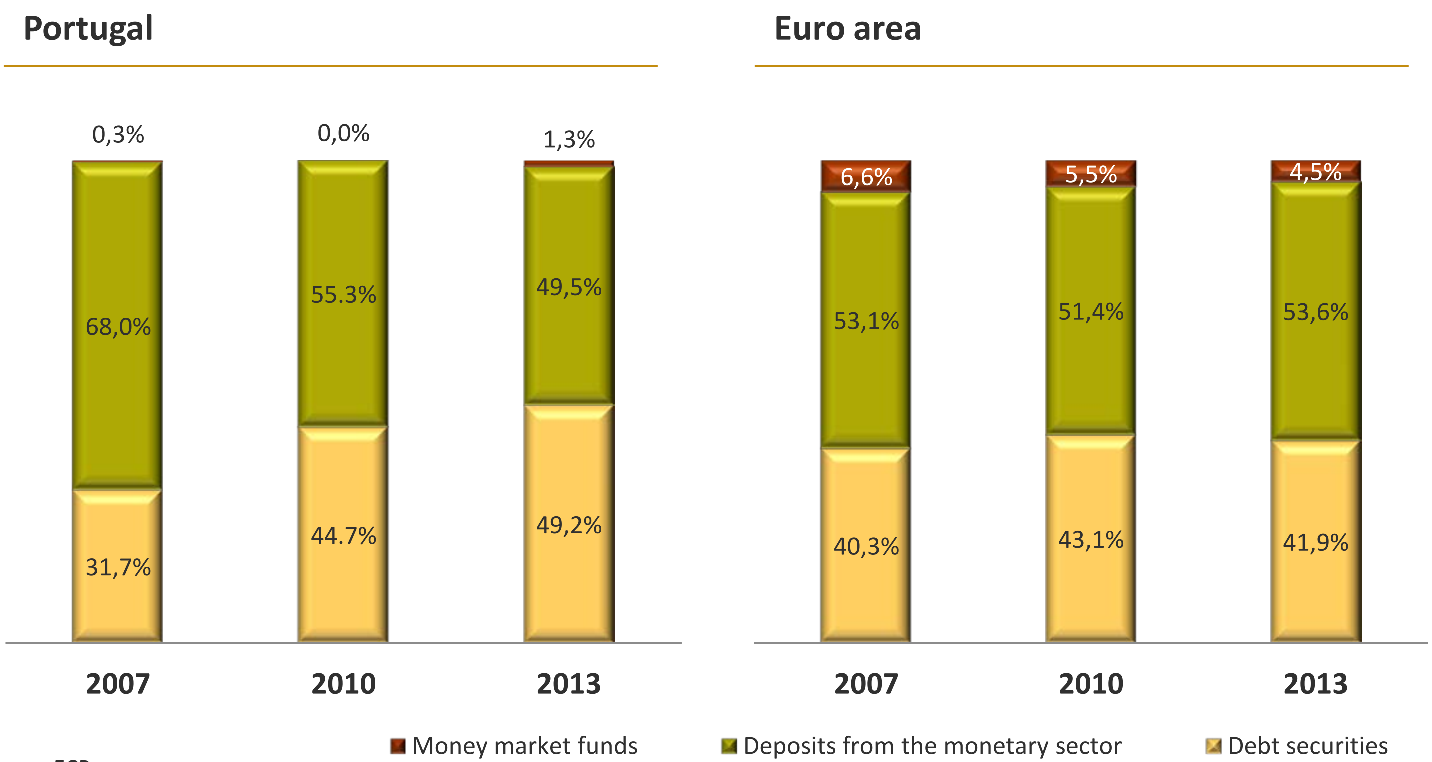


* Wholesale includes deposits from the monetary sector, debt securities issued and money market funds (outstanding amounts at the end of period).

Source: ECB

In Portugal, deposits from the monetary sector have reduced their weight on wholesale funding to debt securities. This trend has not been seen on the Euro area.

Structure of wholesale funding, by type of instrument



This trend is due to the fragmentation of financial markets in Europe that led to high barriers on the access to the interbank markets by financial institutions from periphery countries.

Source: ECB

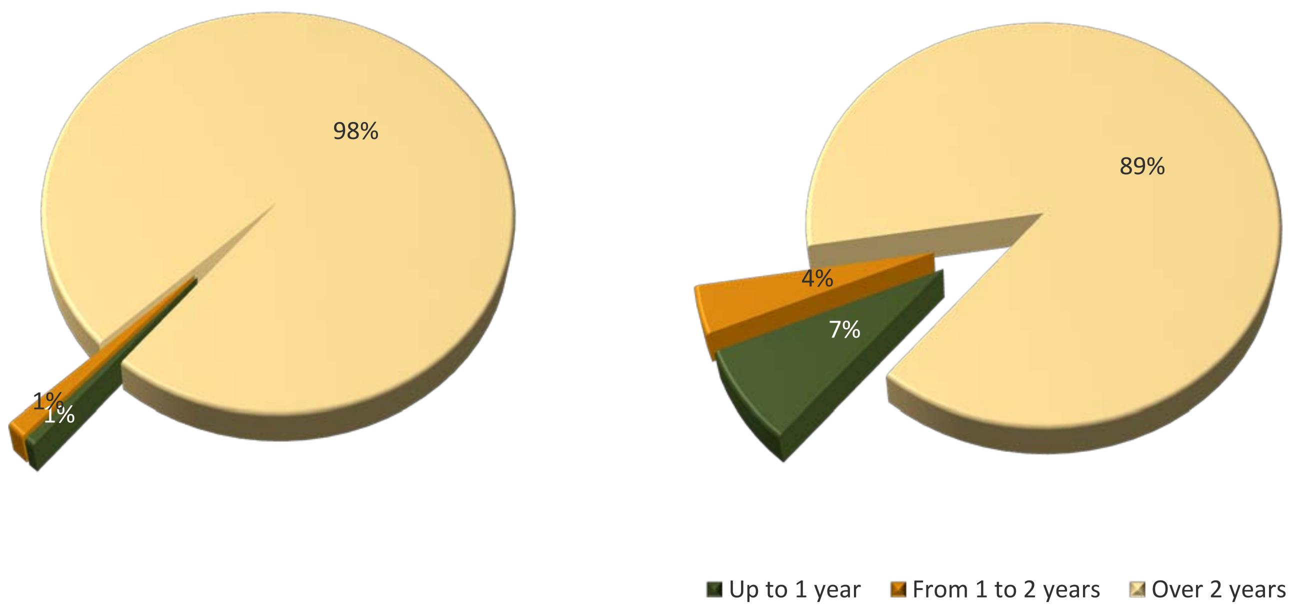
ASSOCIAÇÃO PORTUGUESA DE BANCOS

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

Structure of debt securities, by maturity at issue date (December 2013)

Portugal

Euro area

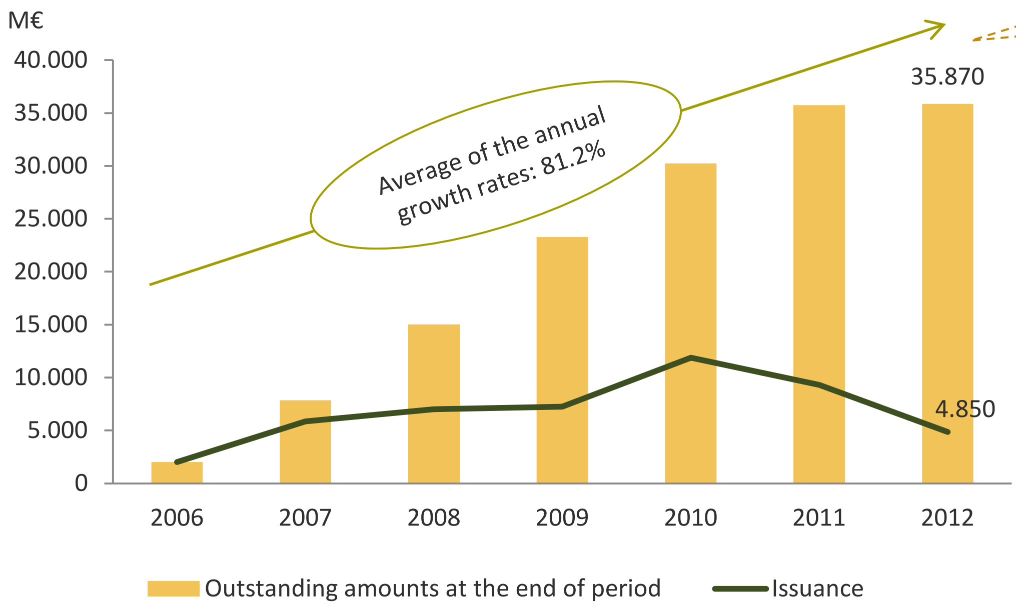


Still, the issuance of short-term debt securities plays a more important role within the Euro area banking sector than in Portugal.

Source: ECB

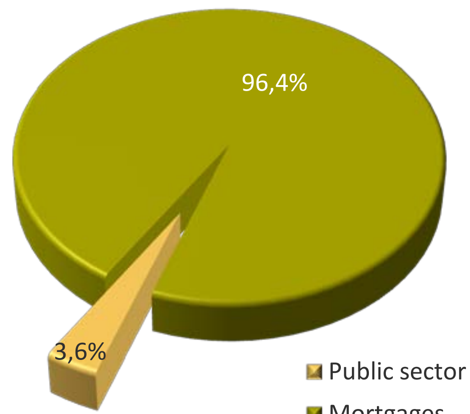
Until 2011, covered bonds became an increasingly important funding source for Portuguese banks. However, more recently the amount issued has been decreasing.

Issuance and outstanding amounts of covered bonds in Portugal



At the end of 2012, the outstanding amount of covered bonds represented approximately 6.4% of Portuguese banks' funding.

Covered bonds by type of underlying asset (2012)

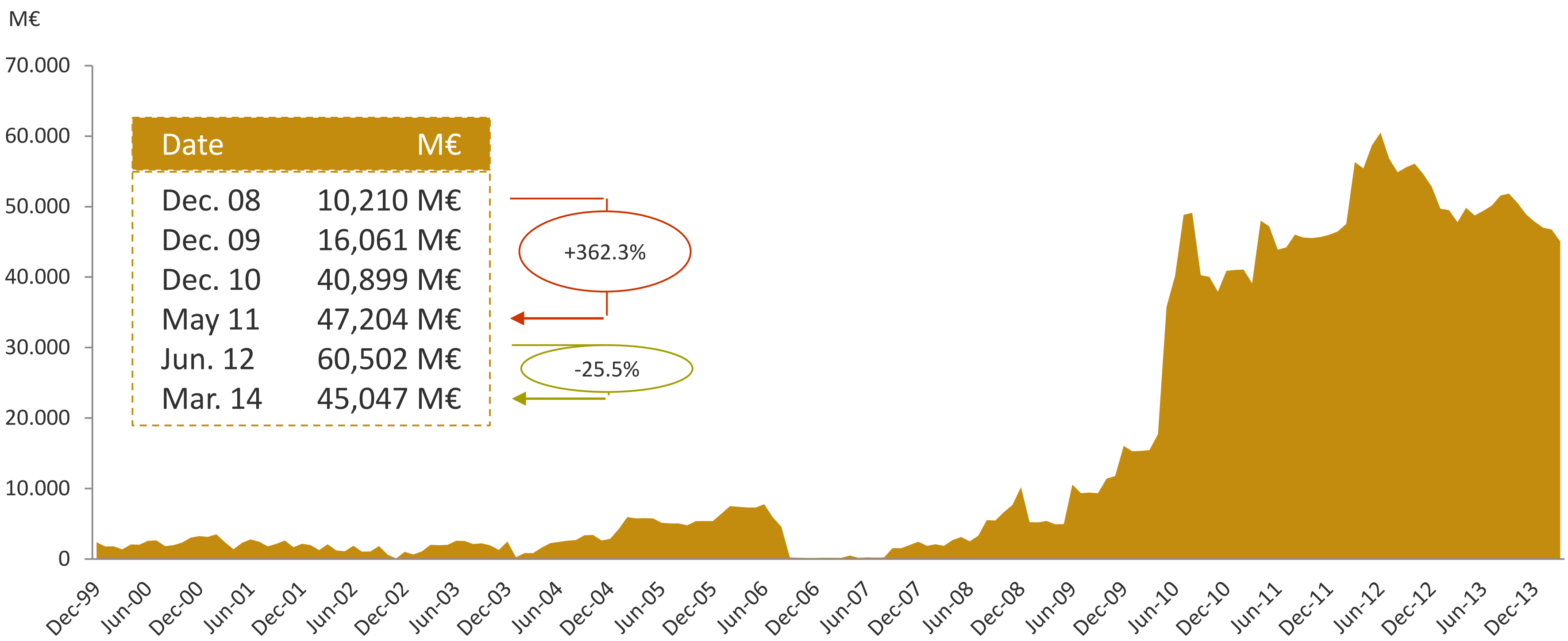


Source: European Covered Bond Council, Factbook, 2013

Restrictions of access to interbank financial markets led to an increase of Portuguese banks' dependency on ECB.

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

Date	M€
Dec. 08	10,210 M€
Dec. 09	16,061 M€
Dec. 10	40,899 M€
May 11	47,204 M€
Jun. 12	60,502 M€
Mar. 14	45,047 M€



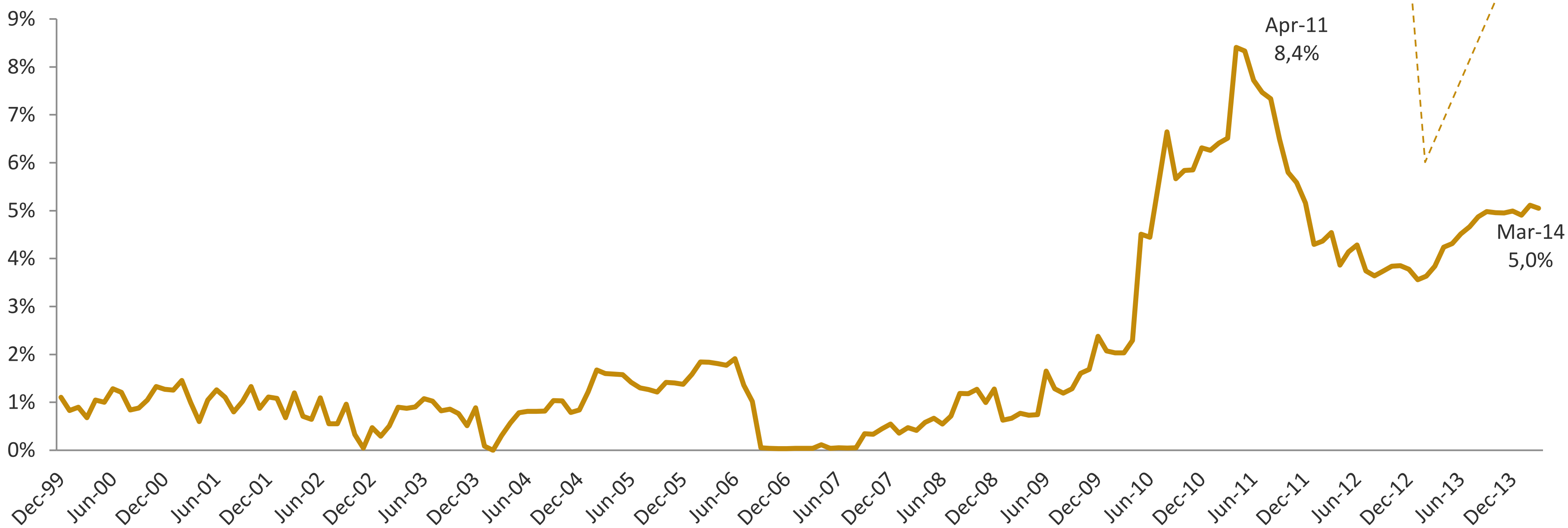
* Outstanding amounts at the end of period.

Source: Banco de Portugal

In percentage, the share of Portuguese banks on the total amount of the ECB's liquidity-providing operations also increased.

However, Portuguese banks efforts to decrease their share on the total amount of ECB's liquidity-providing operations, are being successful.

Share of Portuguese banks in the total amount of ECB's liquidity-providing operations*



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

Source: Banco de Portugal, ECB

PORTUGUESE BANKING SECTOR OVERVIEW

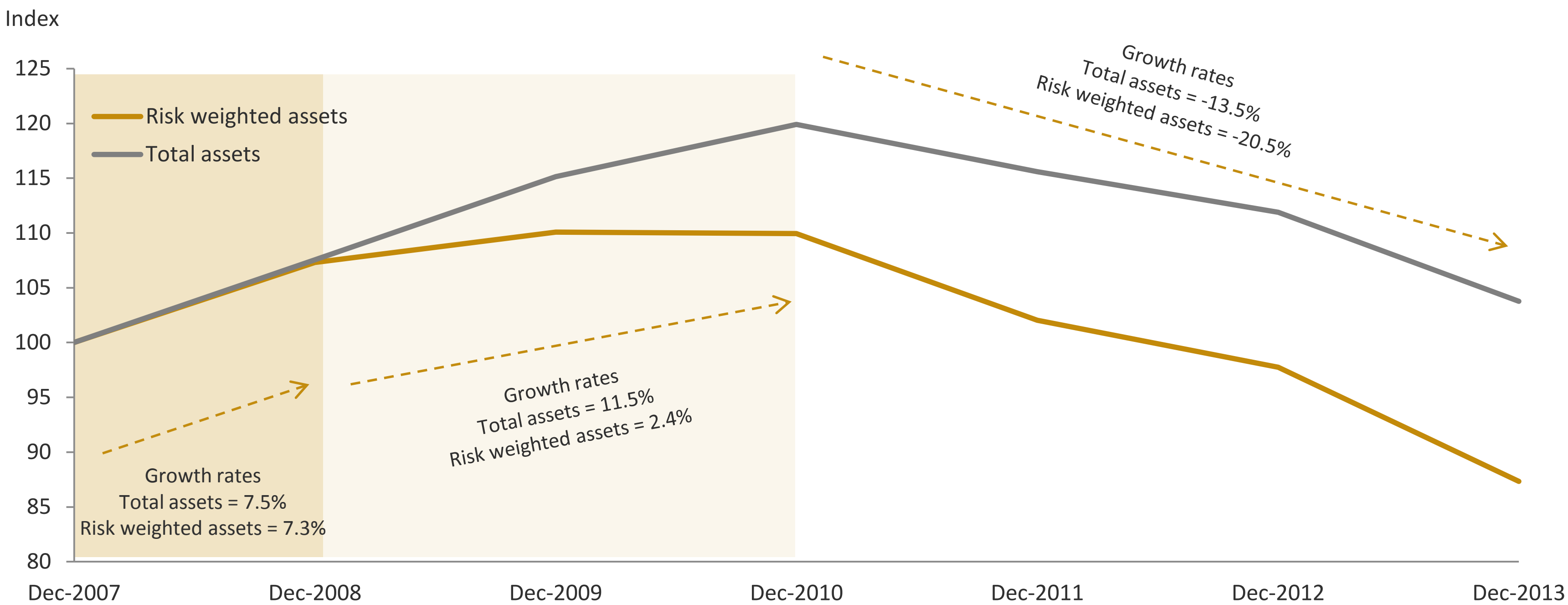
IV. Solvency

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

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)

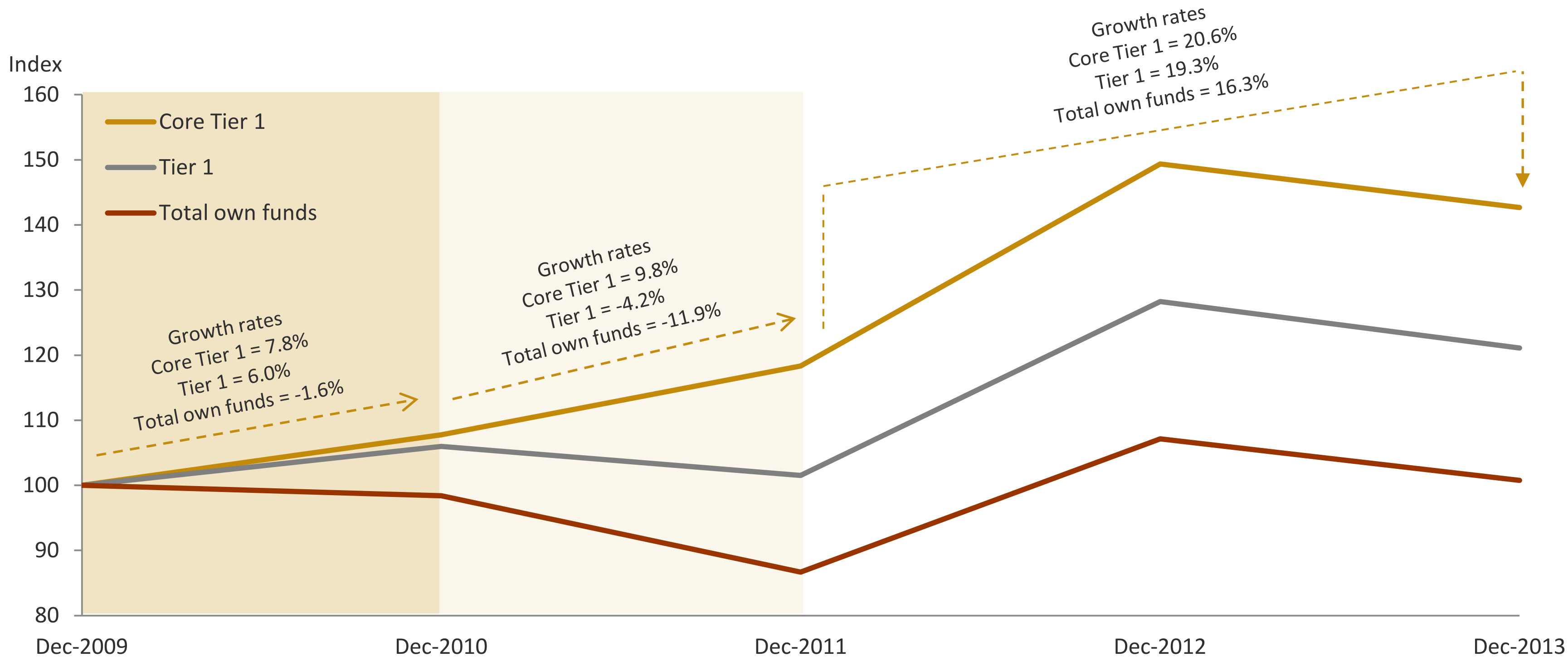


* Data for the Portuguese banking sector, on a consolidated basis which excludes insurance companies.

Source: Banco de Portugal

Portuguese bank's better quality capital, common equity Tier 1, increased significantly since 2009.

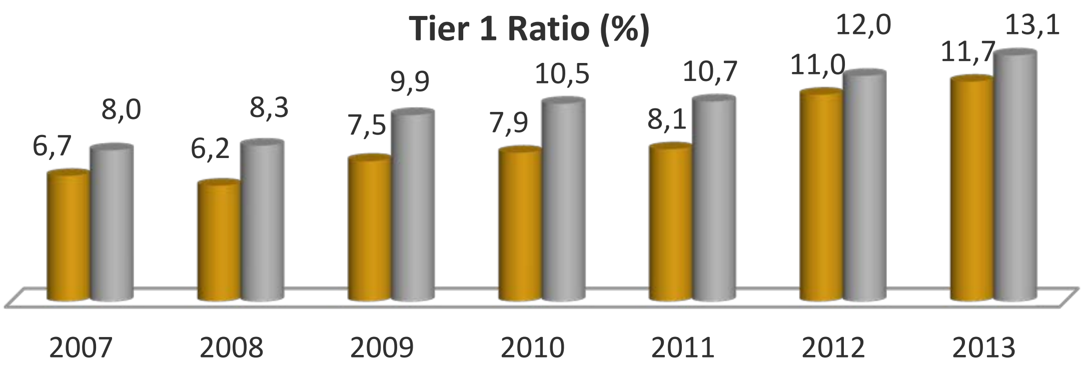
Trend in Portuguese banks' own funds* (Dec. 2009=100)



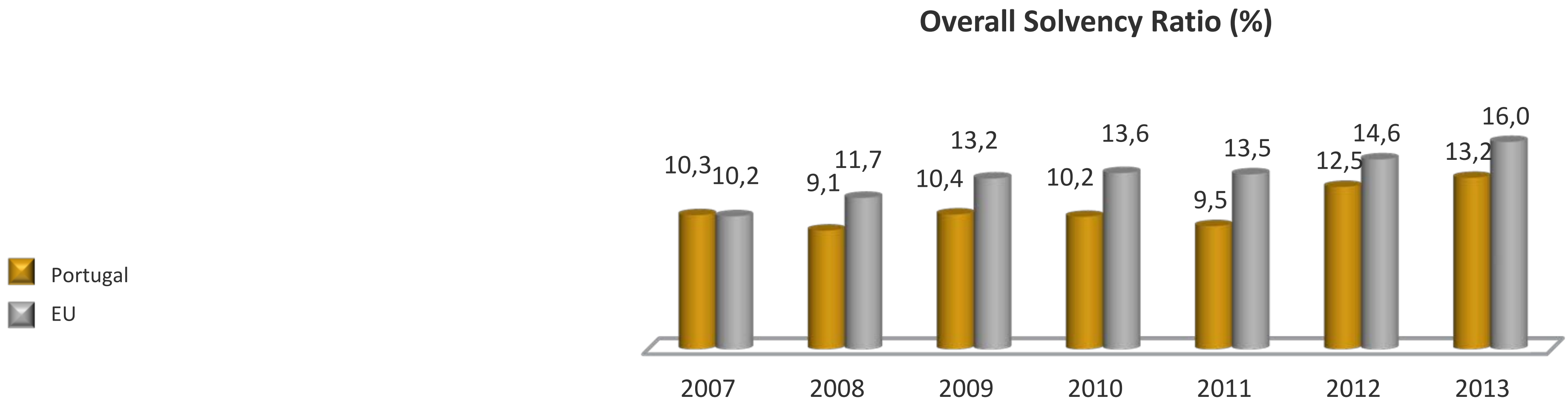
* Data for the Portuguese banking sector, on a consolidated basis which excludes insurance companies.

Source: Banco de Portugal

Historically, the capital ratios of Portuguese banks have stayed above the minimum legal requirements.



The Basel II Agreement required financial institutions to maintain a Tier 1 Ratio equal or above 4% and an Overall Solvency Ratio not below 8%. Since the beginning of 2014, the new regulatory framework adopted after Basel III agreement focus on the Common Equity Tier 1 Ratio.



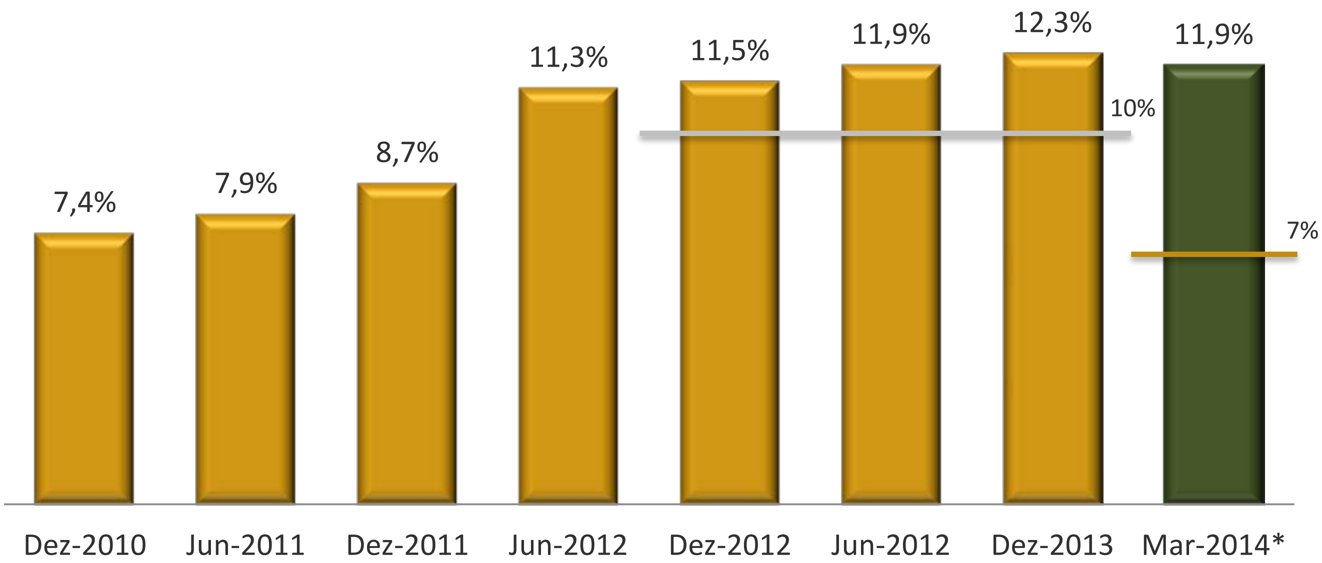
* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB

Portuguese banks' solvency position improved substantially since 2011 allowing the new CET 1 Ratio to be comfortably above the minimum requirements.

Since the beginning of 2014, Portuguese banks are obliged to fulfil the new, transitory, regime of own funds adequacy established by the CRD IV/CRR which requires a minimum Common Equity Tier (CET) 1 Ratio of 7%. Until end-2013, Portuguese banks had to comply with a 10% minimum Core Tier 1 Ratio imposed by Banco de Portugal.

Core Tier 1 Ratio

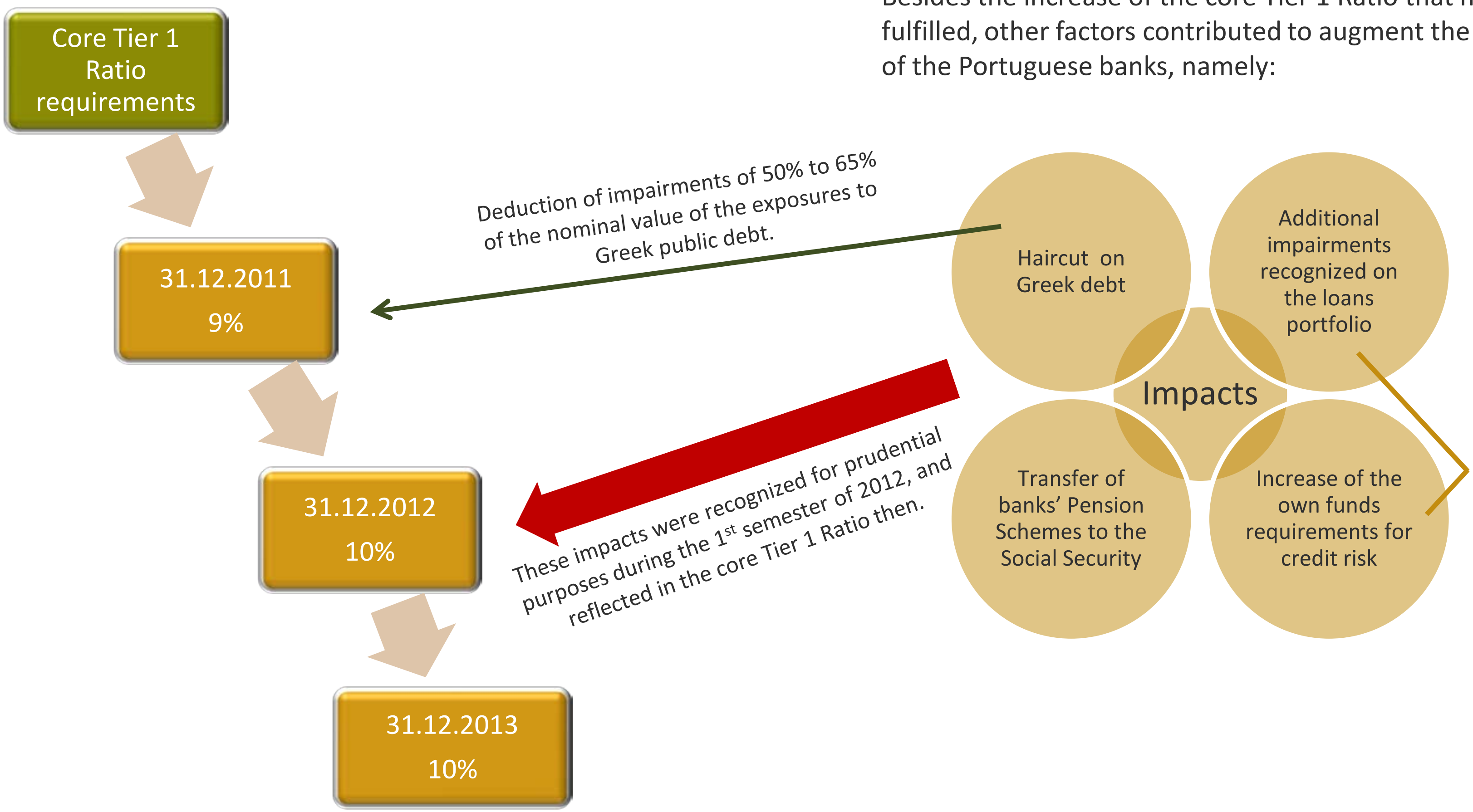


* CET 1 Ratio calculated according to the new transitory regime established by the CRD IV/CRR.

Source: Banco de Portugal

Portuguese banks faced new capital requirements within the scope of the Economic and Financial Assistance Program.

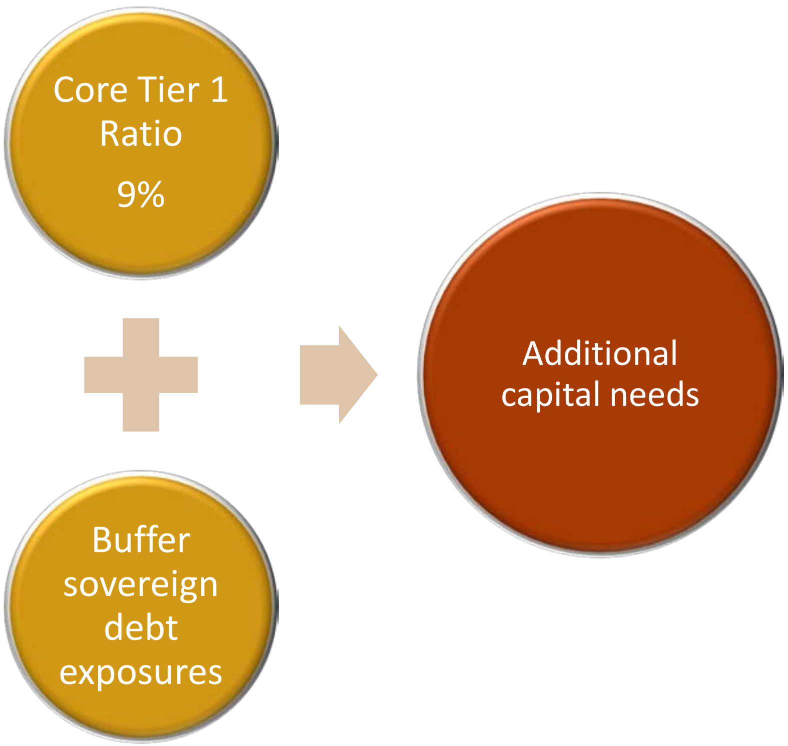
Besides the increase of the core Tier 1 Ratio that must be fulfilled, other factors contributed to augment the capital needs of the Portuguese banks, namely:



Results of the Special Inspections Programmes carried out in the 8 largest banking groups, in 2011, 2012 and 2013. This assessments aimed to validate the data that supports the calculation of the solvency position of the institutions and assess the adequacy of impairment levels.

Source: APB, Banco de Portugal

Simultaneously, the EBA also imposed higher capital requirements for European banks to be fulfilled since 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

PORTUGUESE BANKING SECTOR OVERVIEW

V. State Guarantee and Recapitalisation Schemes for Credit Institutions

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

Timeline of the Portuguese State guarantee and recapitalisation schemes for credit institutions

	Oct. 2008	May 2009	Feb. 2010	Mar. 2010	Jul. 2010	Jan. 2011	Jun. 2011	Dec. 2011	May / Jun. 2012	Dec. 2012
							Economic Adjustment Programme			
Guarantee Scheme	• Scheme approved till Dec 2009 • EUR 20 B	• Budget changed • EUR 16 B	• Extension till Jun 2010 • Budget changed • EUR 9.15 B		• Extension till Dec 2010	• Extension till Jun 2011	• Extension Dec 2011 • Budget changed • EUR 35 B	• Extension till Jun 2012	• Extension till Dec 2012	• Extension 30 Jun 2013
Recapitalisation Scheme		• Scheme approved till Nov 2009 • EUR 4 B		• Extension till Jun 2010 • Budget changed • EUR 3 B*	• Extension till Dec 2010	•Extension till Jun 2011	• Extension Dec 2011 • Budget changed • EUR 12 B		• Extension till Dec 2012	• Extension 31 Dec 2013
	Law nº 60-A/2008	Law nº 63-A/2008	Law nº 3-B/2010				Law nº 48/2011 Law nº 4/2012			

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

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

Portuguese banks went through the financial crisis without any State support in terms of recapitalisation…

State Support Scheme used until end of June 2011

Scheme	Budget		Use	Operations
Recapitalisation (Equity)	EUR 3 billion		Not used*	
Guarantees	EUR 9.15 billion	Σ= EUR 4.95 B	> EUR 1,000 M	3 operations in 2008
			< EUR 1,000 M > EUR 100 M	2 operations in 2009
			< EUR 100 M	1 operation in 2008, 2 operations in 2009

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.

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

… meanwhile, the public debt crisis lead to the increase in the usage of guarantees from the State.

State Support Scheme used since July 2011

Recapitalisation (Equity) | EUR 12 billion

Σ= EUR 5.6 B*

- 3 operations*

Guarantees | EUR 35 billion

Σ= EUR 16.5 B

- > EUR 1,000 M — 10 new operations
- < EUR 1,000 M > EUR 100 M — 3 new operations
- < EUR 100 M — 3 new operations

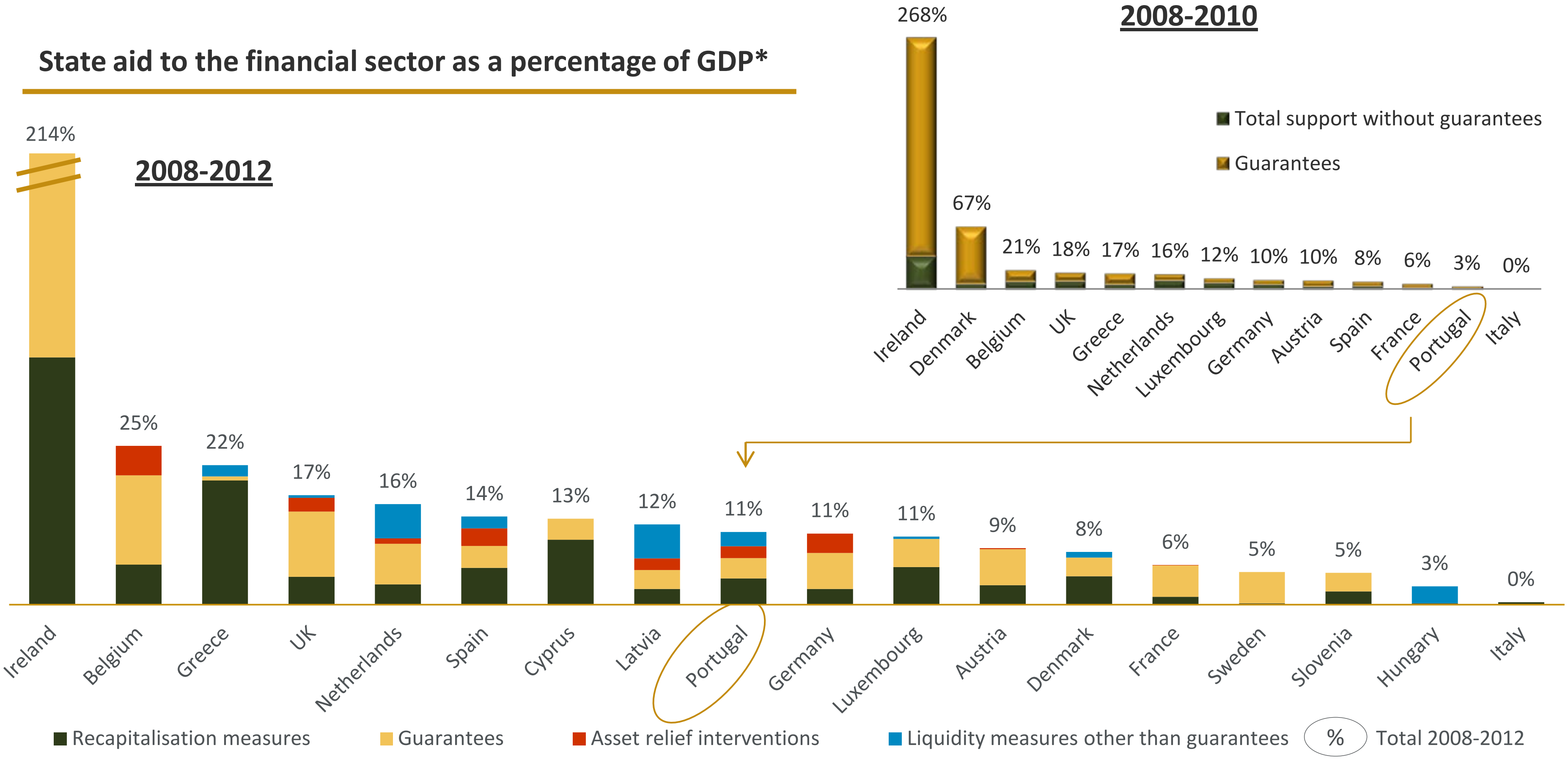
- Since July 2011:
  - 6 banks used the State guarantee scheme for new operations;
  - New operations amounted to EUR 16,525 M, which corresponds to 47.2% of the budget.
- As of the end of May 2014, EUR 2.175 B of the recapitalisation funds used had been repaid. The outsanding amount at that date was EUR 3.425 B.

* Does not include the recapitalization of CGD, in June 2012, that amounted to EUR 1.65 billion.

Source: APB, European Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

Until 2010, Portuguese banks usage of state aid was 3% of the GDP.

State aid to the financial sector as a percentage of GDP*



* Data for guarantees and other liquidity measures refer to 2009, year when the use of these instruments by EU countries hit its peak.

Source: European Commission

PORTUGUESE BANKING SECTOR OVERVIEW

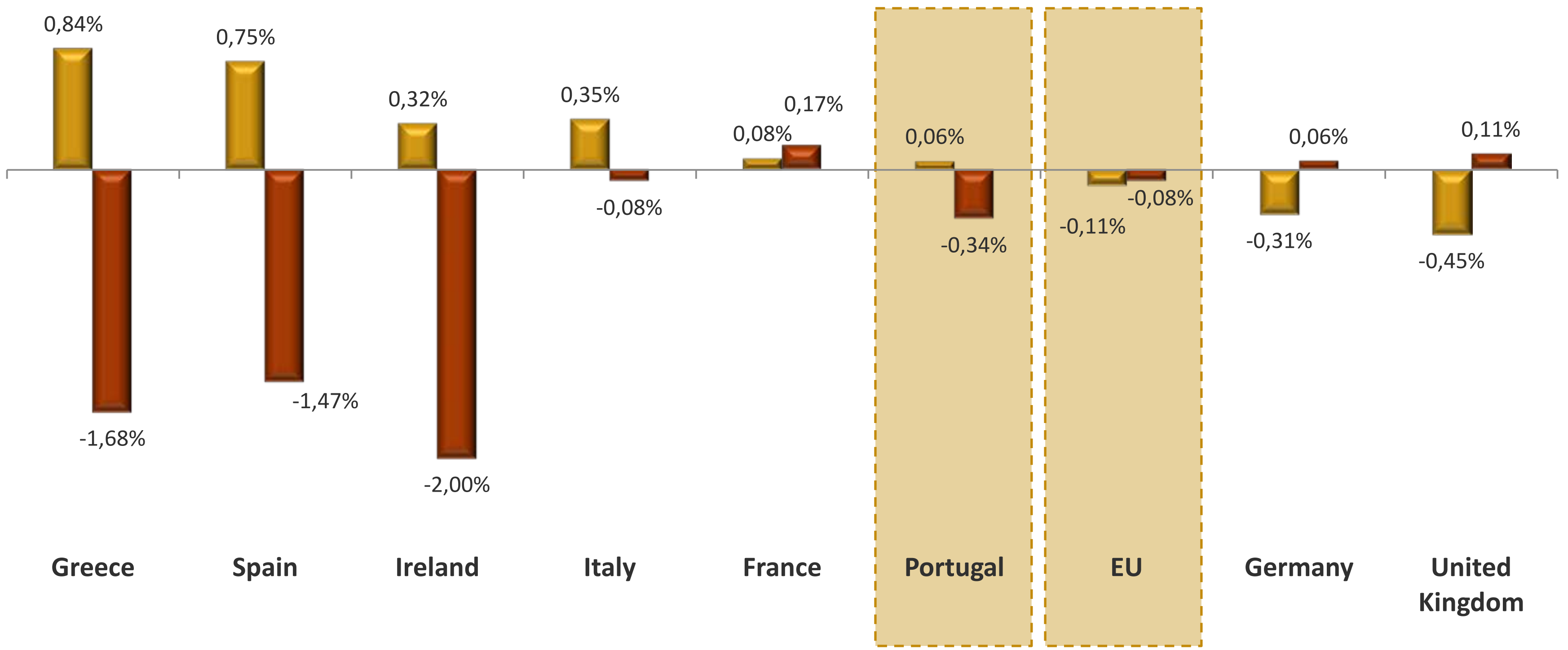
VI. Profitability

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014

As occurred throughout several European countries, the return on Portuguese's banking assets decreased over the past few years.

Return on Assets* (2008 vs. 2012)

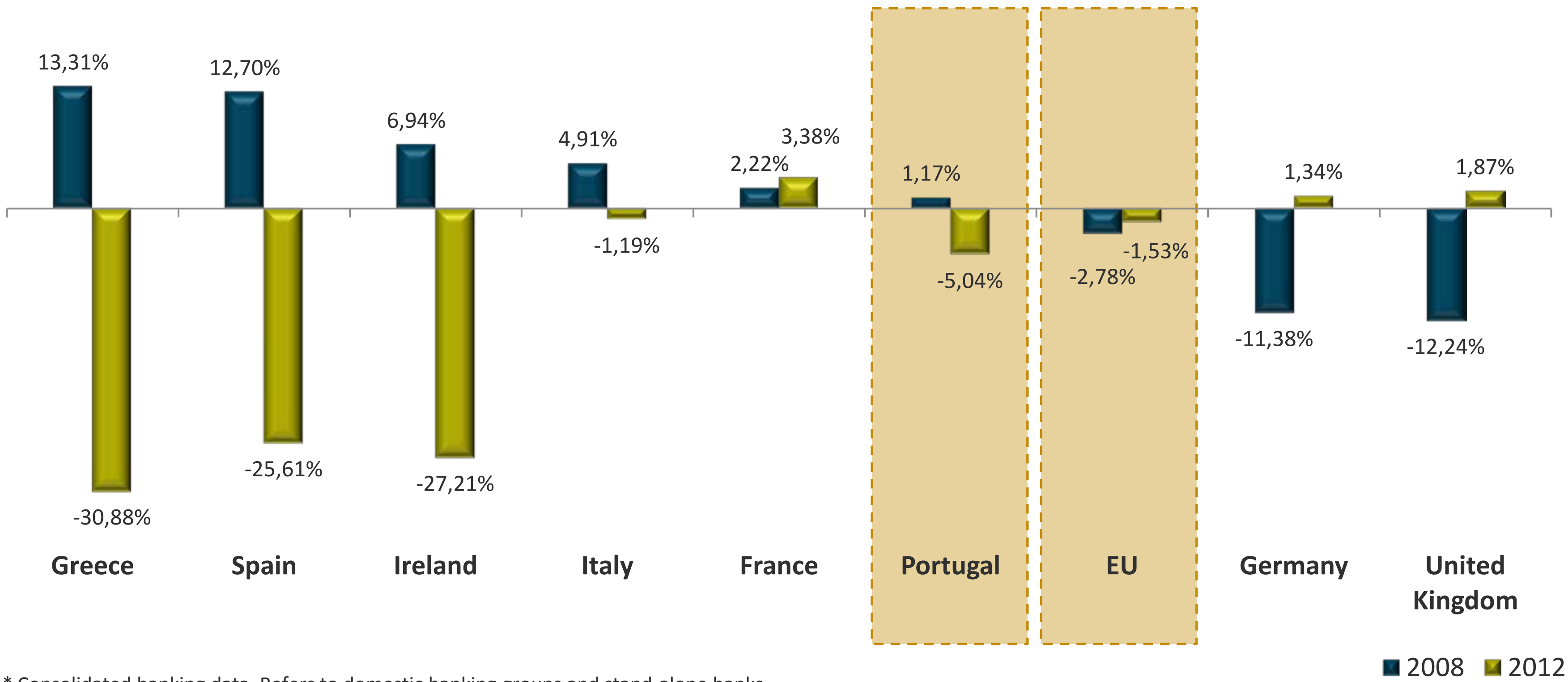


* Consolidated banking data. Refers to domestic banking groups and stand-alone banks.

Source: ECB

A similar scenario is observed when assessing the return on equity of Portuguese and several European banks.

Return on Equity* (2008 vs. 2012)

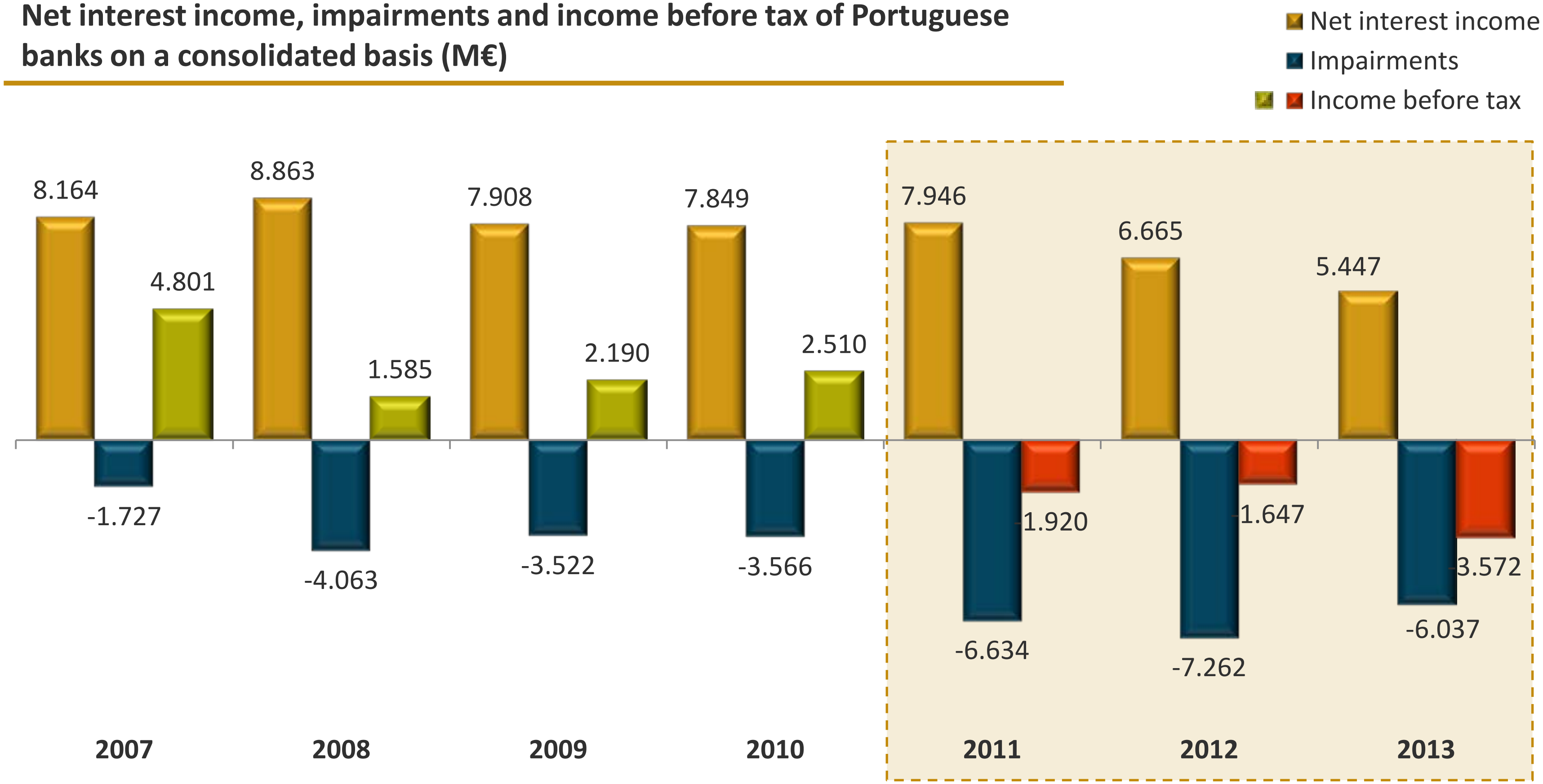


* Consolidated banking data. Refers to domestic banking groups and stand-alone banks.

Source: ECB

The growth of credit risk in Portugal lead to an increase of impairments recorded by banks, which affected their results.

Net interest income, impairments and income before tax of Portuguese banks on a consolidated basis (M€)



Source: Banco de Portugal

Since 2011, Banco de Portugal has conducted several inspections to the largest Portuguese banks to assess they have an adequate level of impairments.

	1st Exercise 2nd semester 2011	2nd Exercise 2nd semester 2012	3rd Exercise Jun-Jul 2013	4th Exercise Out 2013 - Mar 2014
Reference date:	30 June, 2011	30 June, 2012	30 April, 2013	30 September, 2013
Aim:	▪ Credit portfolio assessment (EUR 281 Bi - 72% to 100% of each bank total credit portfolio) ▪ Credit risk capital requirements validation ▪ Assessment of the parameters and methodologies used in the stress-test exercises	▪ Credit portfolio assessment – exposures to the construction and real estate sectors in Portugal and Spain (56% of the population analyzed – EUR 69 Bi).	▪ Credit portfolio assessment (EUR 93 Bi analyzed)	▪ 12 economic groups (EUR 9.4 Bi)
Results:	▪ Impairment reinforcement needs: EUR 596 M ▪Increase of total capital requirements: 0.6% ▪Impact on Tier 1 ratio: from 9.1% to 8.8%	▪ Impairment reinforcement needs: EUR 474 M	▪ Impairment reinforcement needs: EUR 1,127 Bi (reinforced by 30 June, 2013)	▪ Impairment reinforcement needs: EUR 1,003 Bi

Source: Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

ASSOCIAÇÃO PORTUGUESA DE BANCOS

JUNE 2014