PORTUGUESE BANKING SECTOR OVERVIEW

APB ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015

PORTUGUESE BANKING SECTOR (I/II)

Main indicators in March 2015

69 credit institutions	EUR 465.2 billion in assets	Loan-to-Deposit ratio: (Dec 14) 107.4%	Common Equity Tier 1 ratio (Dec 14): 11.3%
5,469 branches*	EUR 229.5 billion in loans to customers	Credit at risk ratio – NPLs (Dec 14): 12%	Tier 1 ratio (Jun 14): 10.1%
53,589 employees*	EUR 217.9 billion in deposits from the non-monetary sector	Borrowing from ECB: EUR 28.178 billion	Total Solvency Ratio (Dec 14): 12.3%

* Data from June 2014 for APB member institutions. Unless otherwise indicated, all the data on the Portuguese banking sector refer to the entire system.

PORTUGUESE BANKING SECTOR (II/II)

Recent developments (September 2014 to March 2015)

- Reduction in sector's total assets of (-3.61%) and amount of loans (-1.38%).
- Deposits from the non-monetary sector showed a slight downward trend (-0.3%), though the Portuguese banks still remained the main source of funding.
- The amount of borrowing from the ECB by the Portuguese banking sector continued to fall.
- Risk-weighted assets continued their downward trend of recent years. The Portuguese banks continued to exceed the minimum capital ratios, and showed an increase in Common Equity Tier 1 ratio in the second half of 2014.
- Profitability continued to be a challenge for the Portuguese banks.
- Preparation for entry into force of the 2015 Basel III and other regulatory requirements.
- Preparation for the start of the Single Supervisory Mechanism (SSM).

AGENDA

PORTUGUESE BANKING SECTOR OVERVIEW

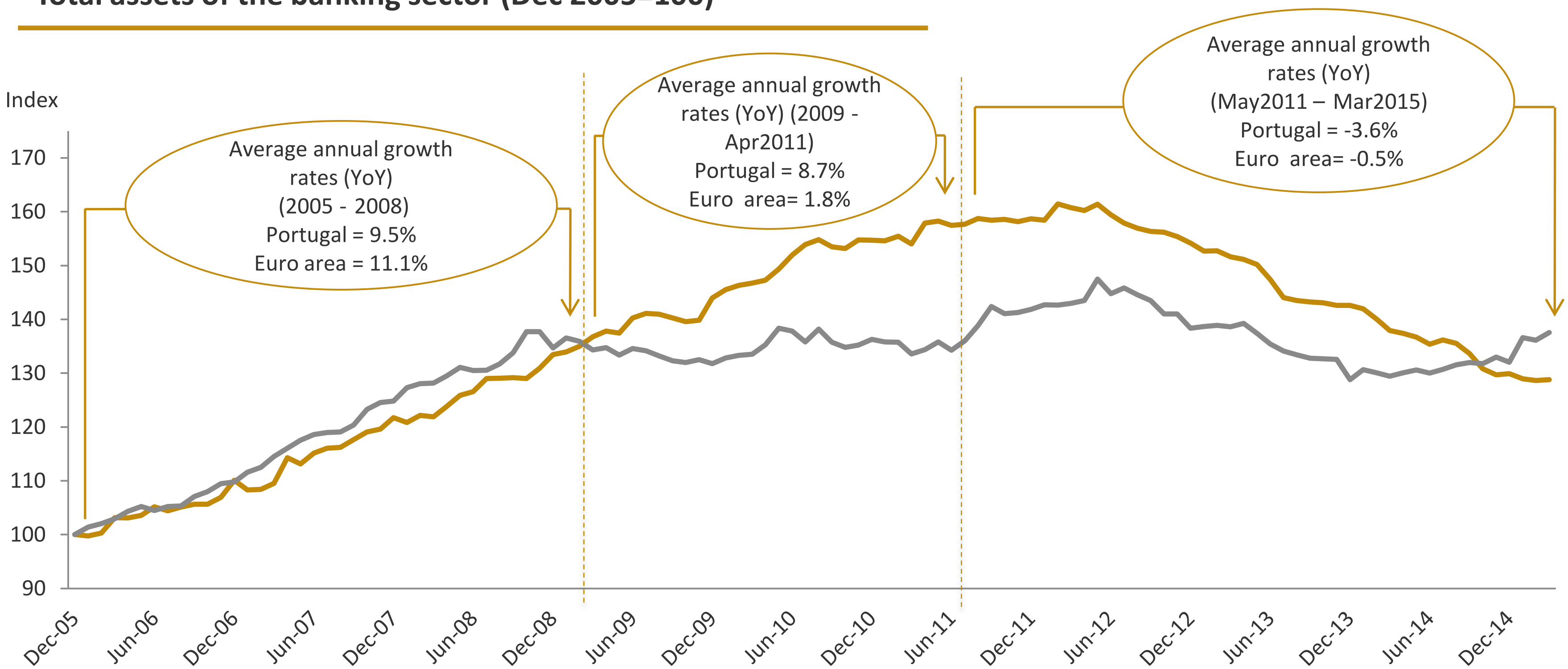
I. Importance of the Banking Sector for the Economy

ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015

Contrary to the rest of the euro area, growth in assets of Portuguese banks continued after the 2008-2010 financial crisis and only began to fall after the sovereign debt crisis.

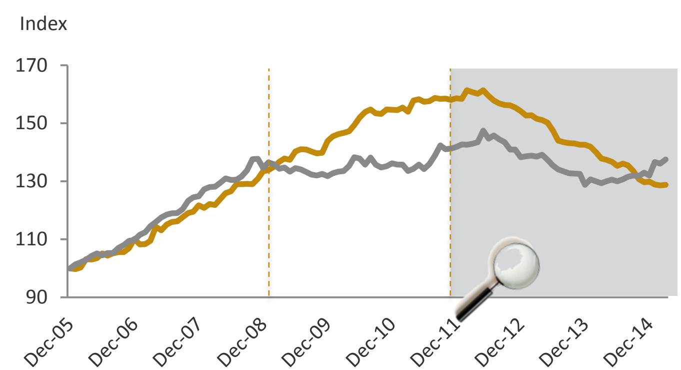
Total assets of the banking sector (Dec 2005=100)



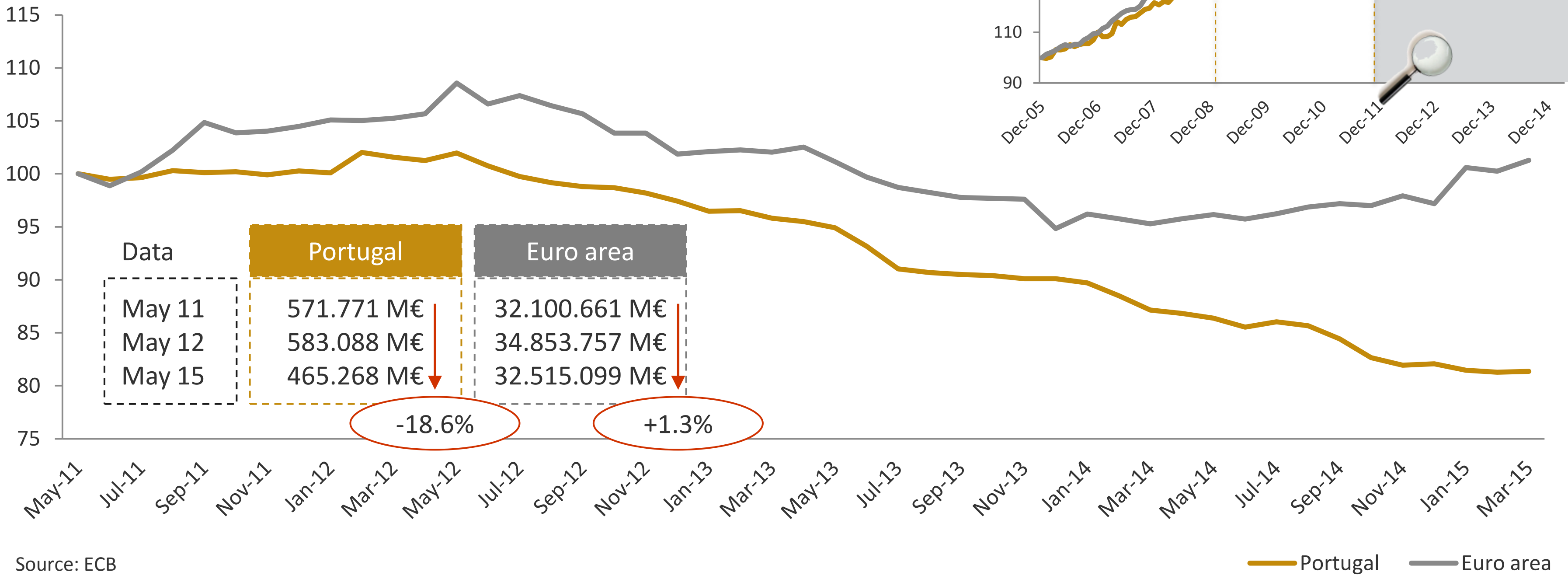
Source: ECB

The deleveraging process began after the introduction of the Economic and Financial Assistance Programme (EFAP). It effects were visible after May 2012.

Total assets of the banking sector (Dec 2005=100)



Total assets of the banking sector (May 2011=100)

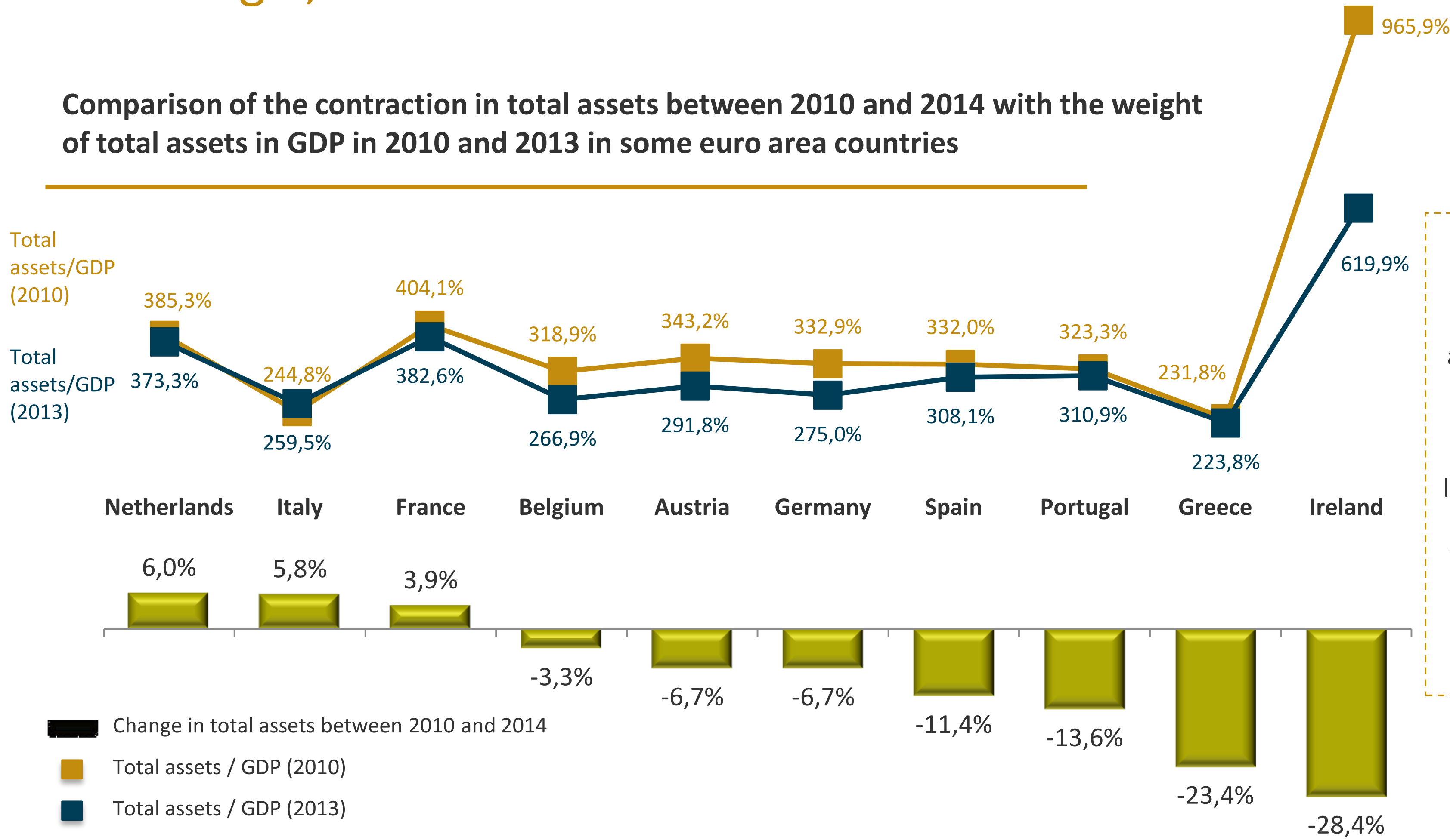


Data	Portugal	Euro area
May 11	571.771 M€	32.100.661 M€
May 12	583.088 M€	34.853.757 M€
May 15	465.268 M€	32.515.099 M€

Source: ECB

The resizing of the banking sector took place not only in Portugal, but also in most of the euro area countries.

Comparison of the contraction in total assets between 2010 and 2014 with the weight of total assets in GDP in 2010 and 2013 in some euro area countries

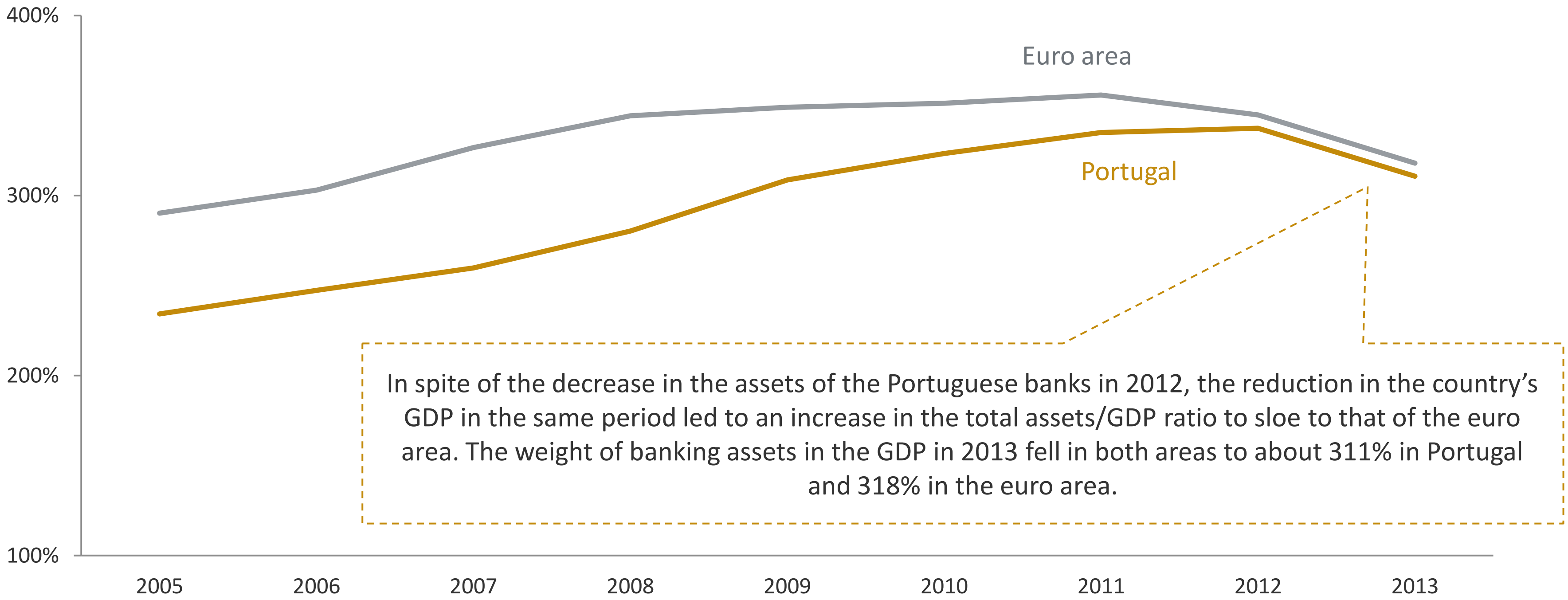


The contraction in total assets in the banking sector contributed largely to the reduction in their weight in each country's GDP.

Source: ECB, Eurostat

The Portuguese banking sector plays an important role in the economy. The weight of its assets in Portugal's GDP is similar to that in the rest of the euro area.

Total assets of the banking sector in proportion to GDP*in Portugal and Euro area

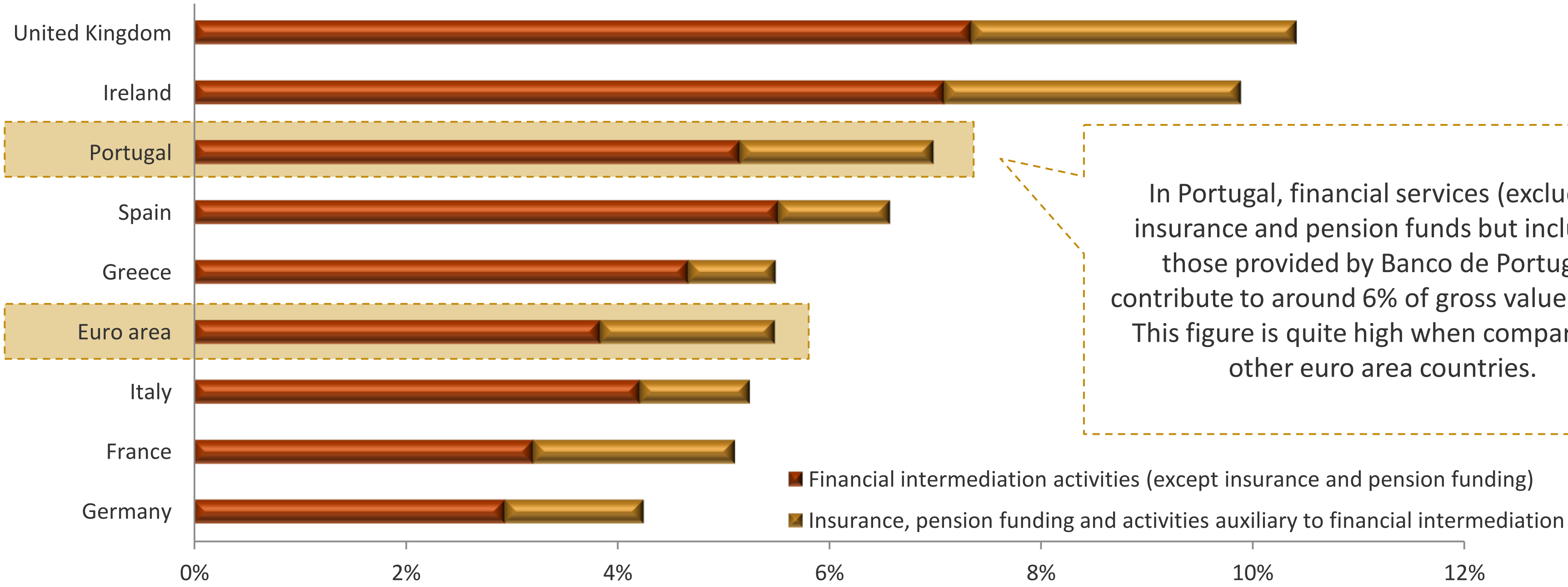


* Nominal Gross Domestic Product.

Source: ECB

The contribution of financial services to gross value added in Portugal is above the figures in the euro area.

GVA of the financial services in proportion to total GVA in Portugal and other EU countries (2009)



In Portugal, financial services (excluding insurance and pension funds but including those provided by Banco de Portugal) contribute to around 6% of gross value added. This figure is quite high when compared to other euro area countries.

Source: Eurostat, INE, Central Statistics Office Ireland

PORTUGUESE BANKING SECTOR OVERVIEW

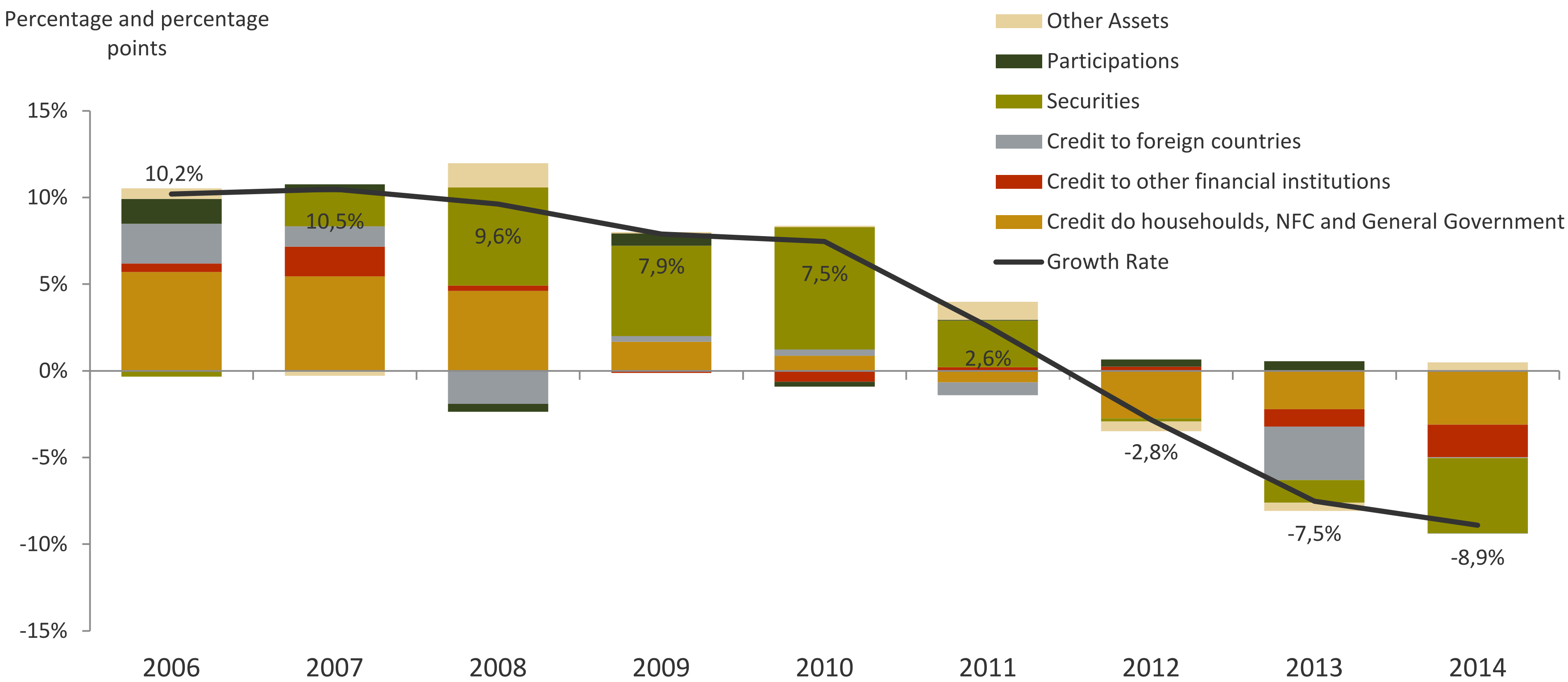
II. Lending activity

ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015

The contraction of credit and securities portfolios were the main reason for the total reduction in assets in 2014.

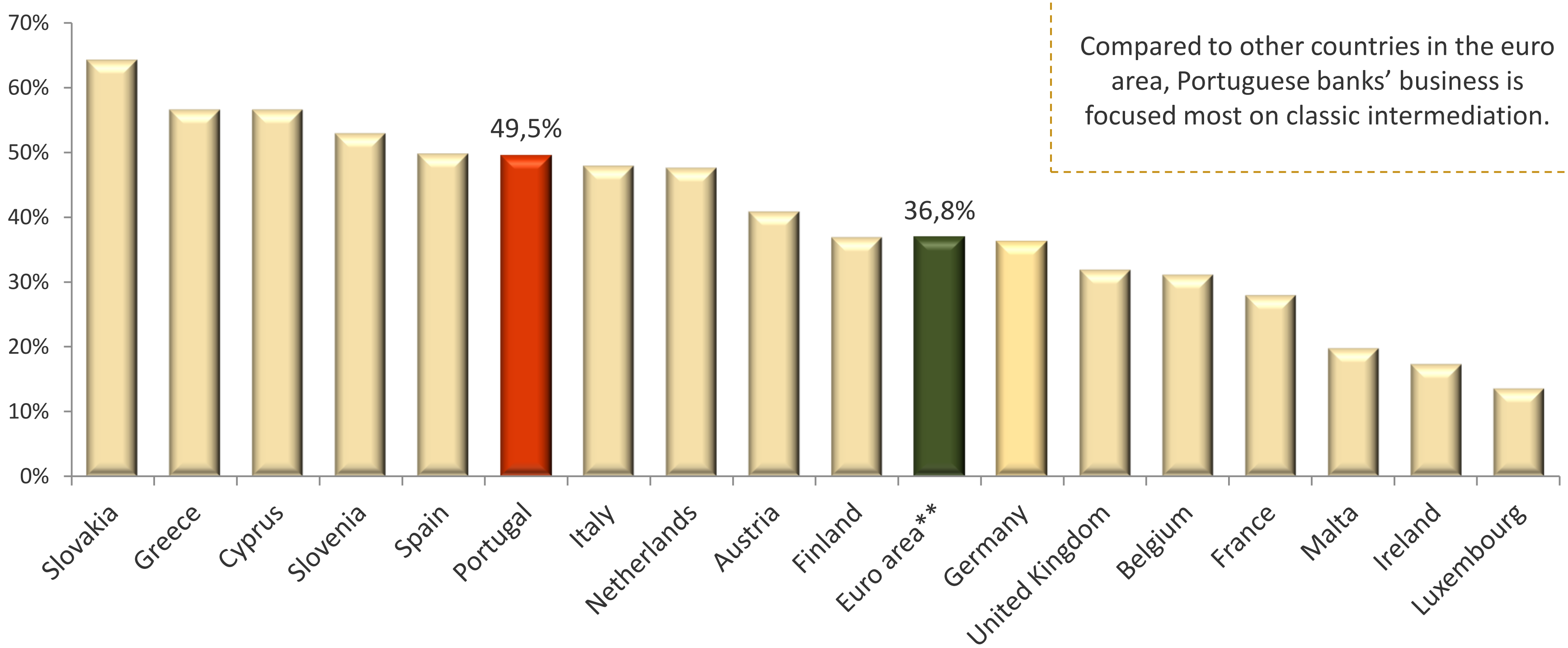
Contribution of each assets item to the annual aggregate variation



Source: Banco de Portugal

In spite of the contraction, loans to customers continues to absorb almost 50% the Portuguese banks' assets.

Loans to customers* in proportion to total assets (February 2015)



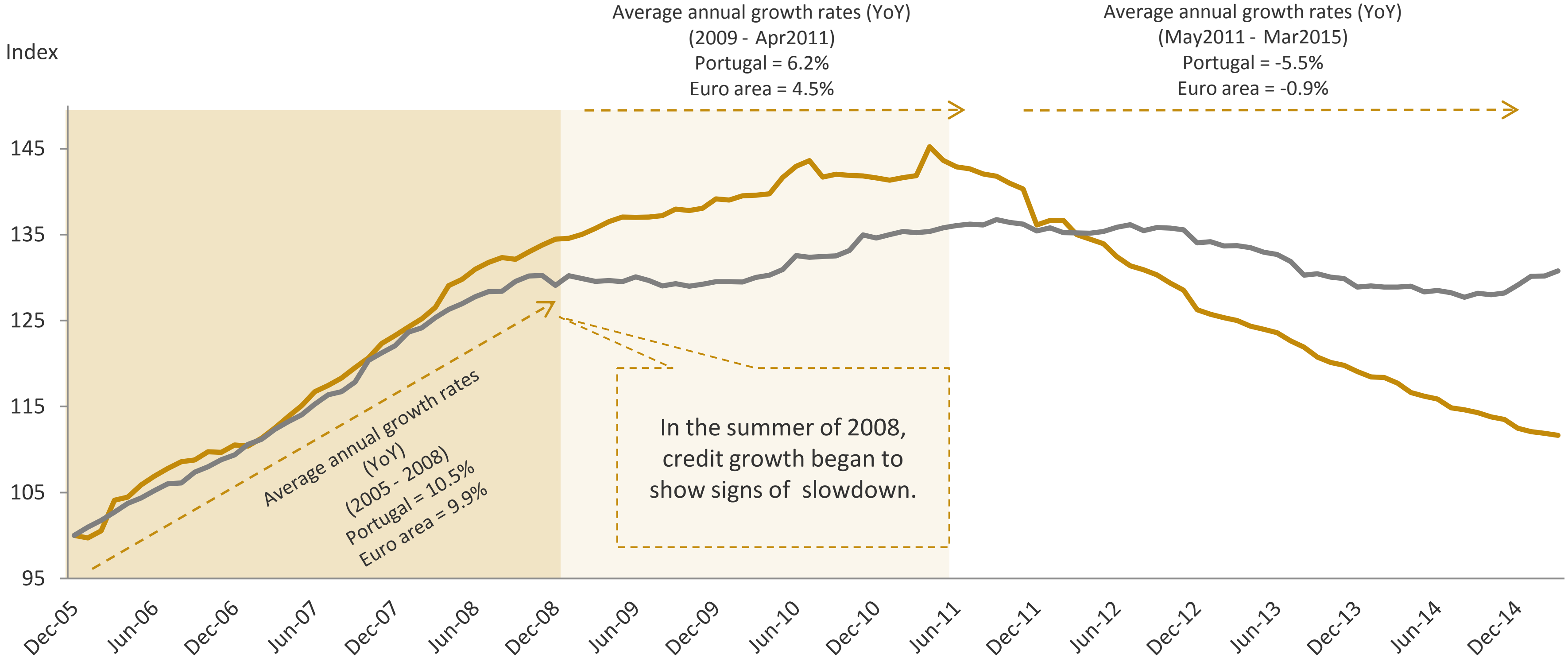
Compared to other countries in the euro area, Portuguese banks' business is focused most on classic intermediation.

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

Source: ECB

In the period prior to the financial crisis, lending was showing a strong upward trend in Portugal and the euro area.

Loans* in Portugal and in the euro area (Dec 2005=100)

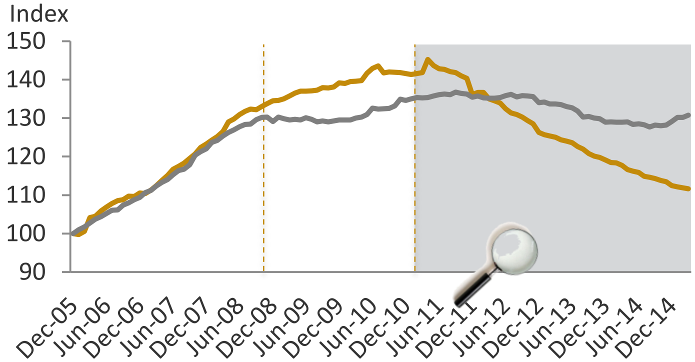


* Loans to the non-monetary sector (gross outstanding amounts at the end of period)

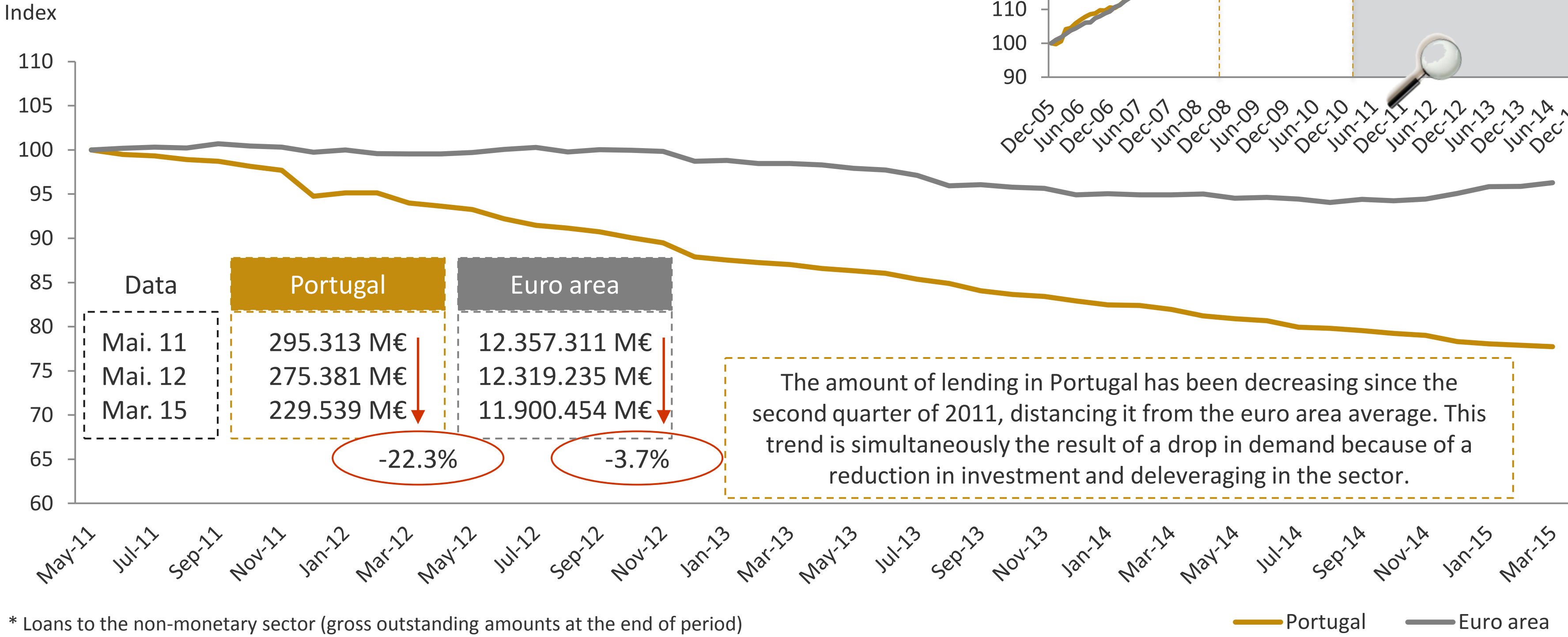
Source: ECB

After the sovereign debt crisis affected Portugal, the amount of loans fell more than in the euro area and was the main reason for the reduction of assets in the sector.

Loans* in Portugal and the euro area (Dec 2005=100)



Loans* in Portugal and the euro area (May 2011=100)



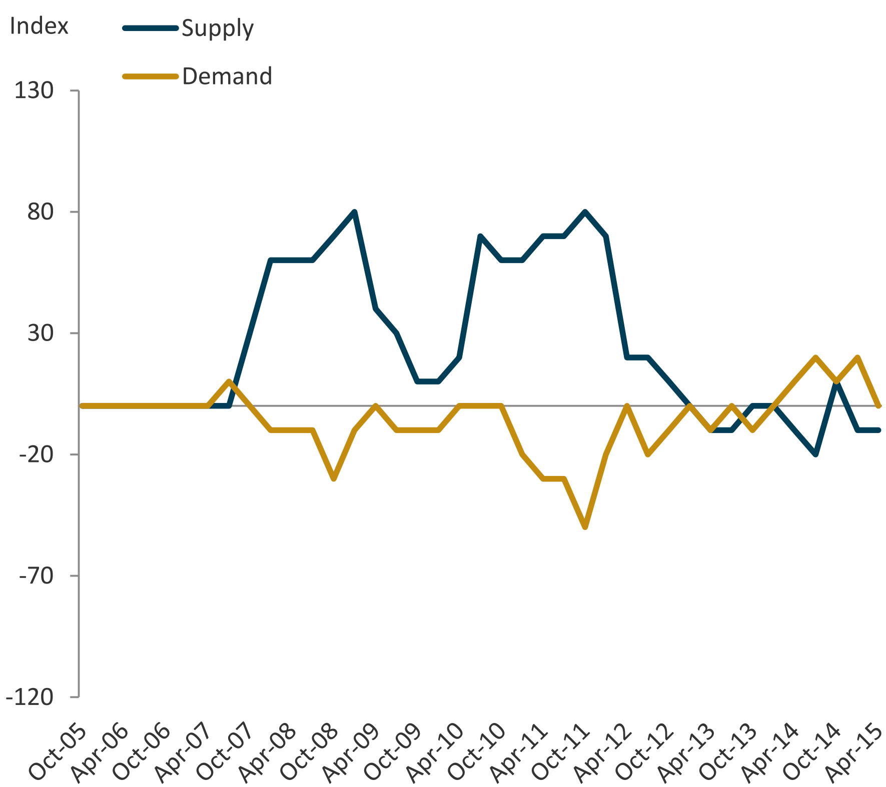
Data	Portugal	Euro area
Mai. 11	295.313 M€	12.357.311 M€
Mai. 12	275.381 M€	12.319.235 M€
Mar. 15	229.539 M€	11.900.454 M€
	-22.3%	-3.7%

The amount of lending in Portugal has been decreasing since the second quarter of 2011, distancing it from the euro area average. This trend is simultaneously the result of a drop in demand because of a reduction in investment and deleveraging in the sector.

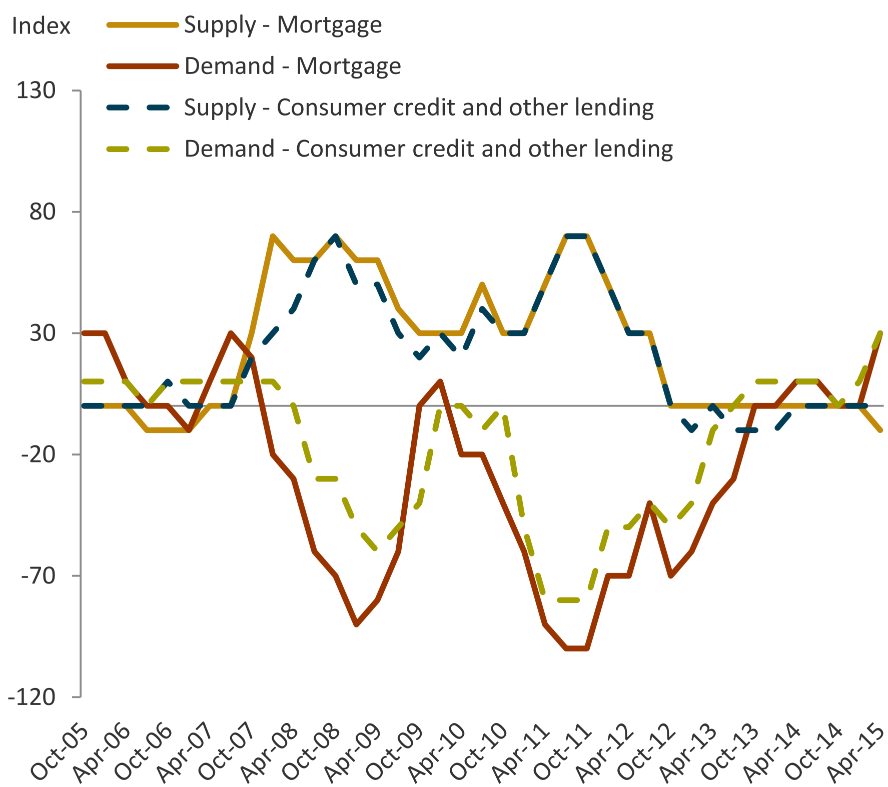
* Loans to the non-monetary sector (gross outstanding amounts at the end of period)
Source: ECB

The demand for credit has slowed down recently, while it has grown in the private customer segment

Diffusion index reflecting supply and demand of loans to businesses in Portugal



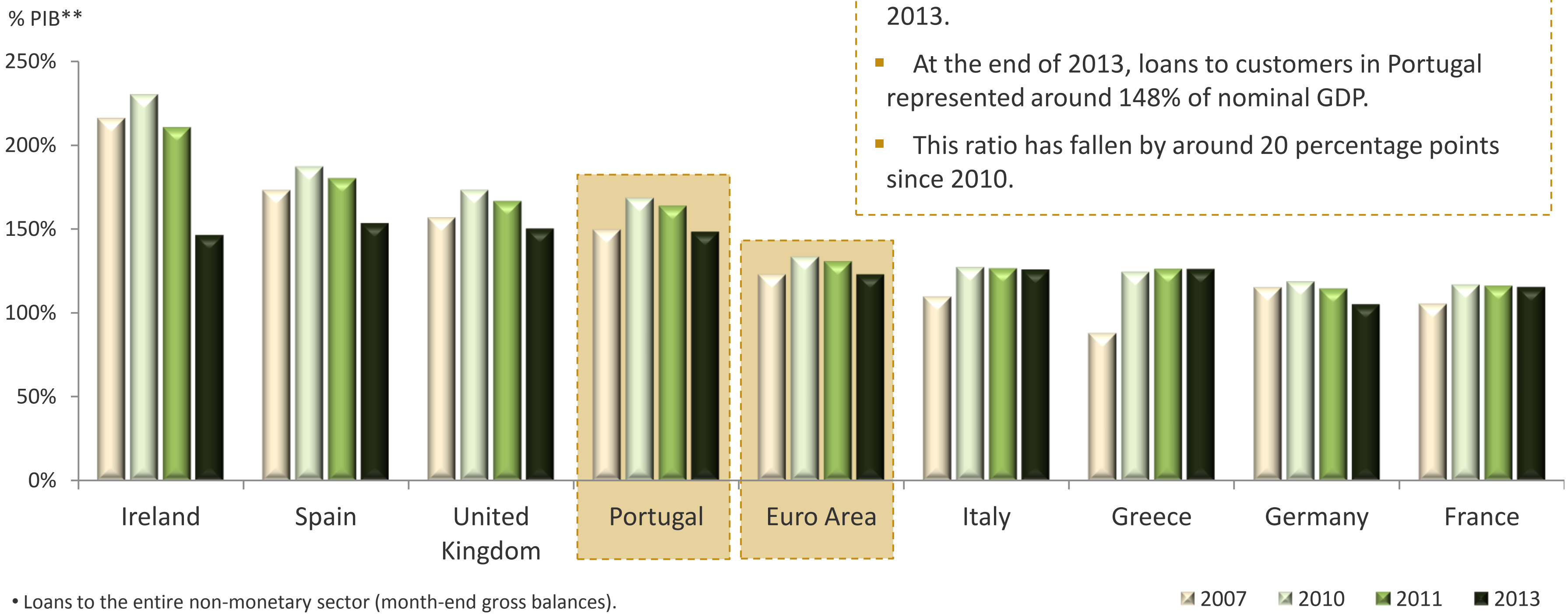
Diffusion index reflecting supply and demand of loans to private customers in Portugal



Source: Banco de Portugal (Bank Lending Survey)

In the spite of the reduction in credit / GDP ratio since 2010, bank borrowing in the Portuguese economy is still higher than the rest of Europe.

Loans to customers* / GDP ratio**



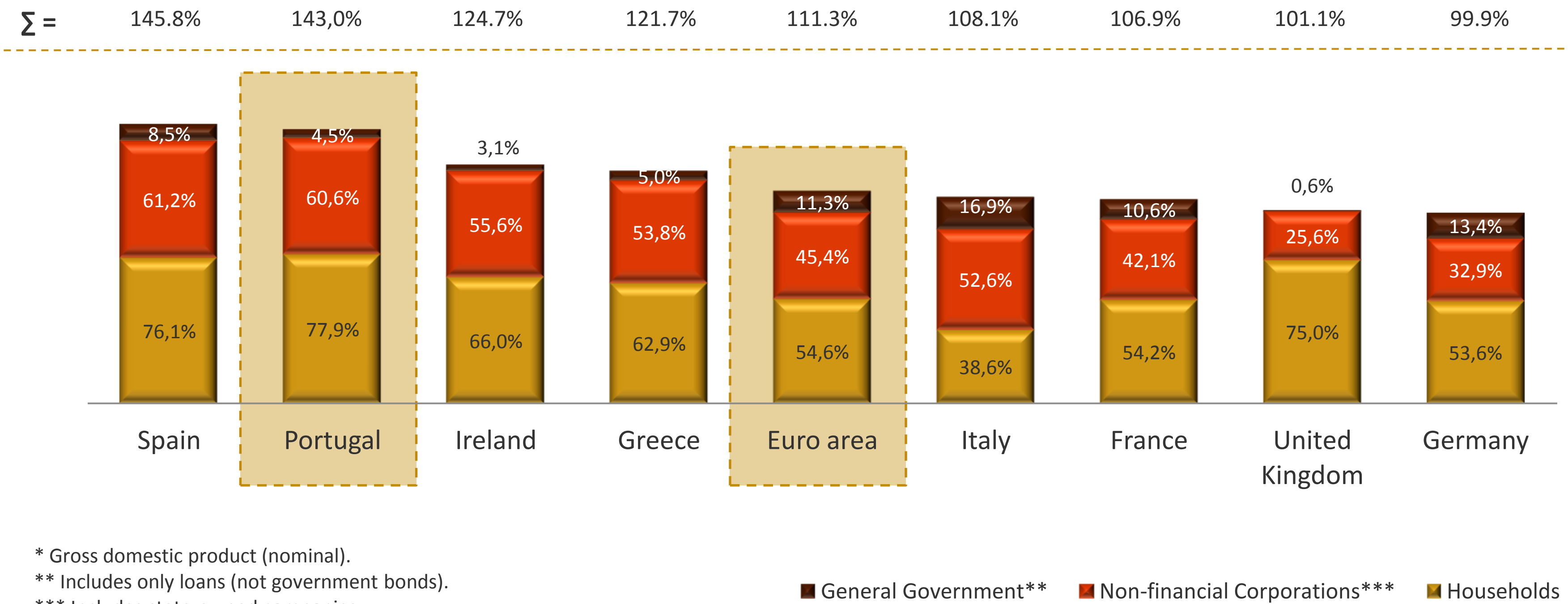
- The Portuguese banks' deleveraging plus sluggish demand for loans led to a reduction of almost 10 percentage points in the customer loan / GDP ratio in 2013.
- At the end of 2013, loans to customers in Portugal represented around 148% of nominal GDP.
- This ratio has fallen by around 20 percentage points since 2010.

• Loans to the entire non-monetary sector (month-end gross balances).
** Nominal gross domestic product

Source: ECB, Eurostat

Private customers and non-financial corporations (NFCs) are more dependent on bank loans than in the rest of 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)

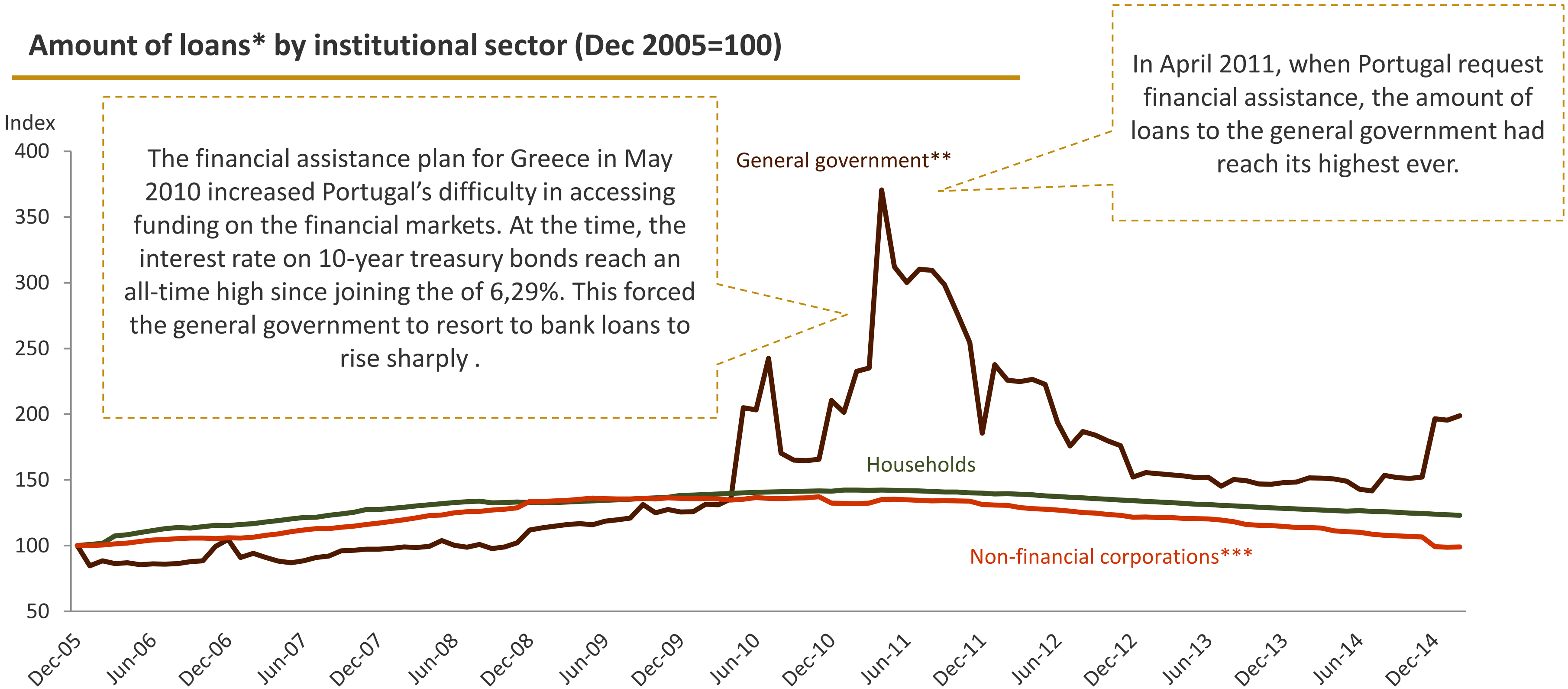


* Gross domestic product (nominal).
** Includes only loans (not government bonds).
*** Includes state-owned companies.

Source: Ameco, ECB

Stocks of loans to private customers and non-financial corporations have performed differently to loans to the general government.

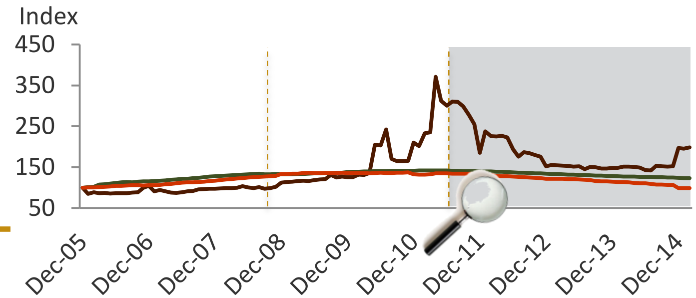
Amount of loans* by institutional sector (Dec 2005=100)



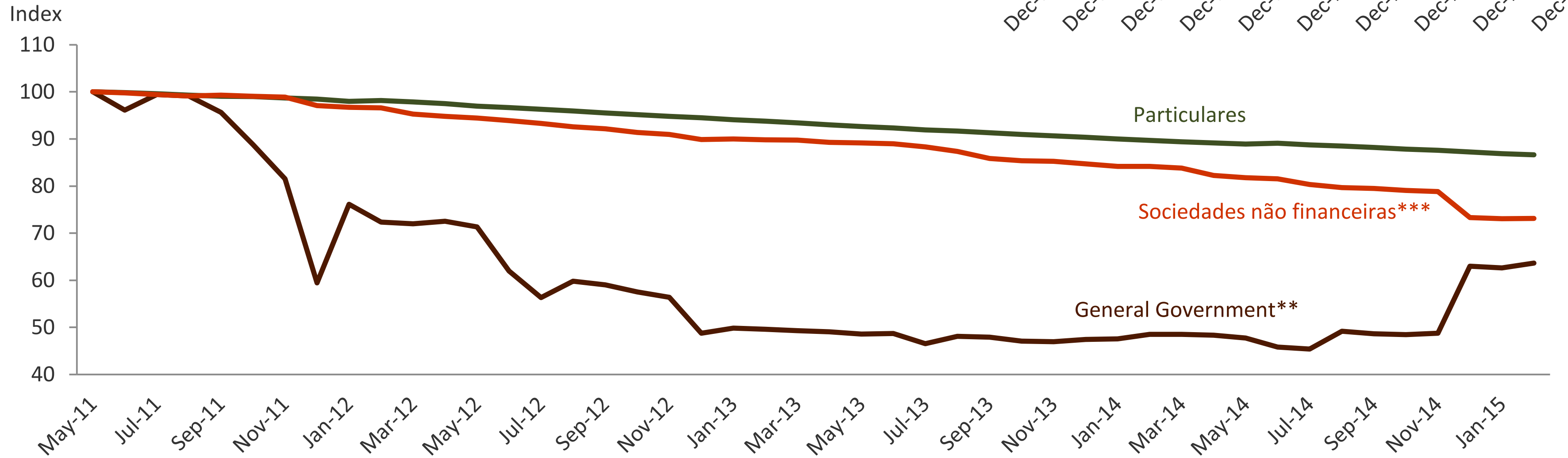
* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.
Source: Banco de Portugal

Since the beginning of the EFAP, the stock of loans to the general government has fallen faster than that to private customers and non-financial corporations.

Amount of loans* by institutional sector (Dec 2005=100)



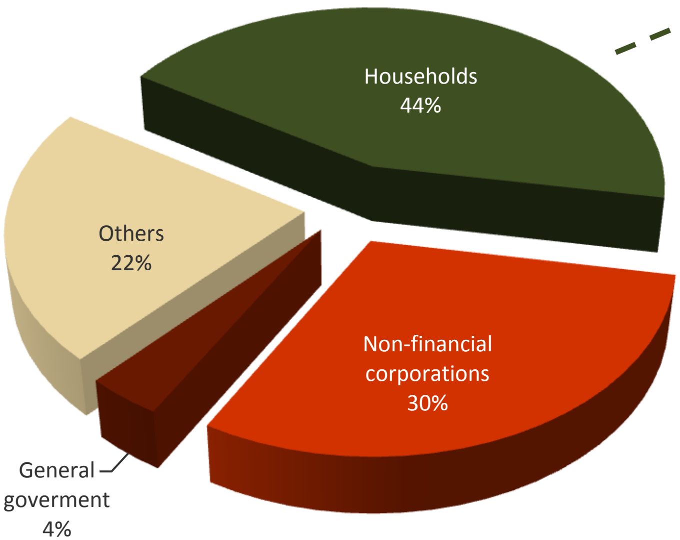
Amount of loans* by institutional sector (May 2011=100)



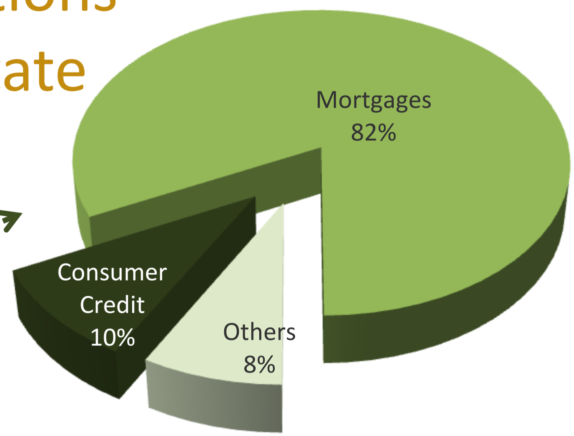
* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.
Source: Banco de Portugal

While loans to private customers are mainly mortgages, those to non-financial corporations are mainly to the construction and real-estate sectors.

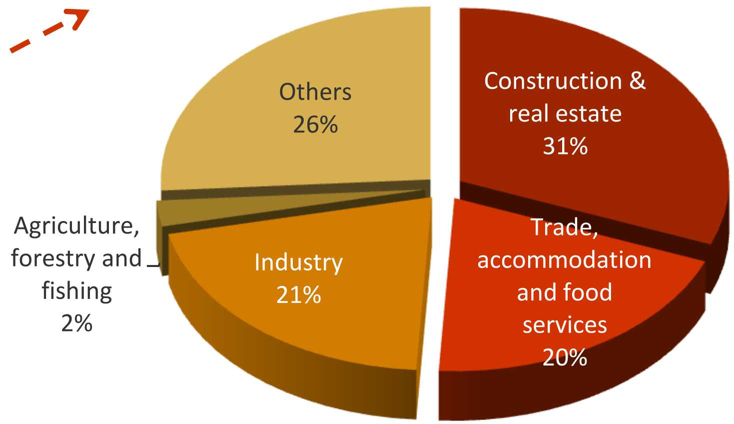
Loans* (February 2015)



Loans to private customers



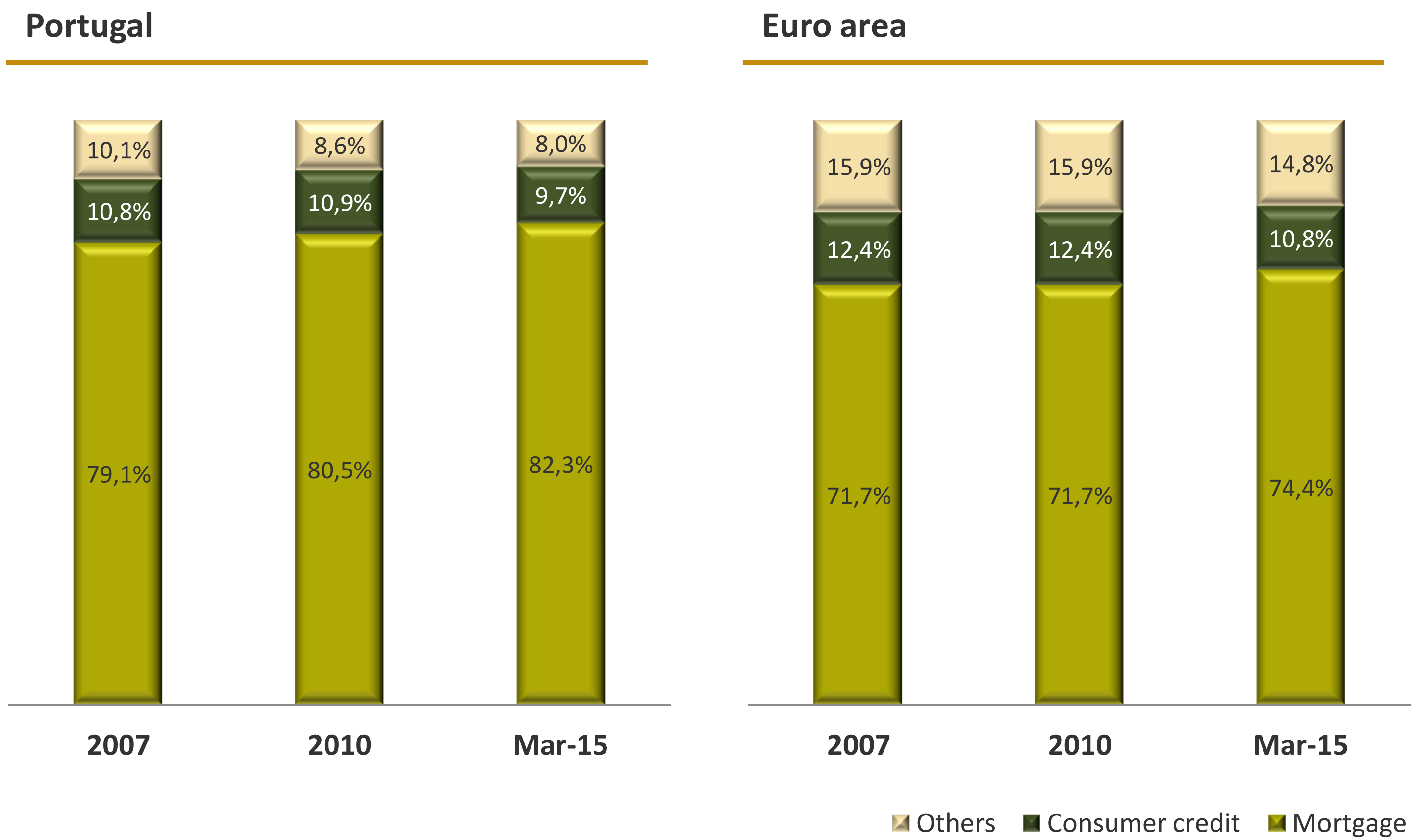
Loans to non-financial corporations



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

Source: Banco de Portugal

The proportion of mortgages in total loans to private customers in Portugal is higher than in the rest of the euro area.

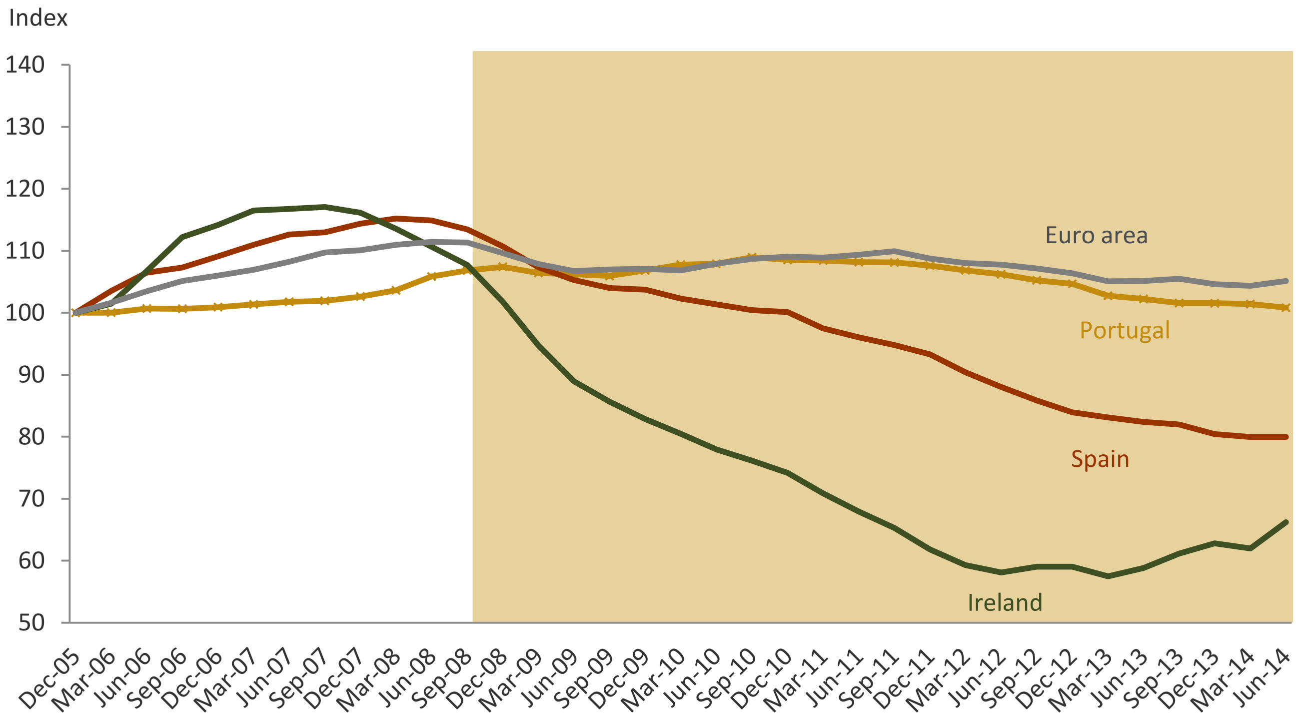


The weight of consumer credit in total loans granted to private customers has been falling in Portugal and in the euro area. This type of credit is less important in Portugal, however.

Source: ECB

Housing prices have remained relatively stable in comparison to other countries in the euro area.

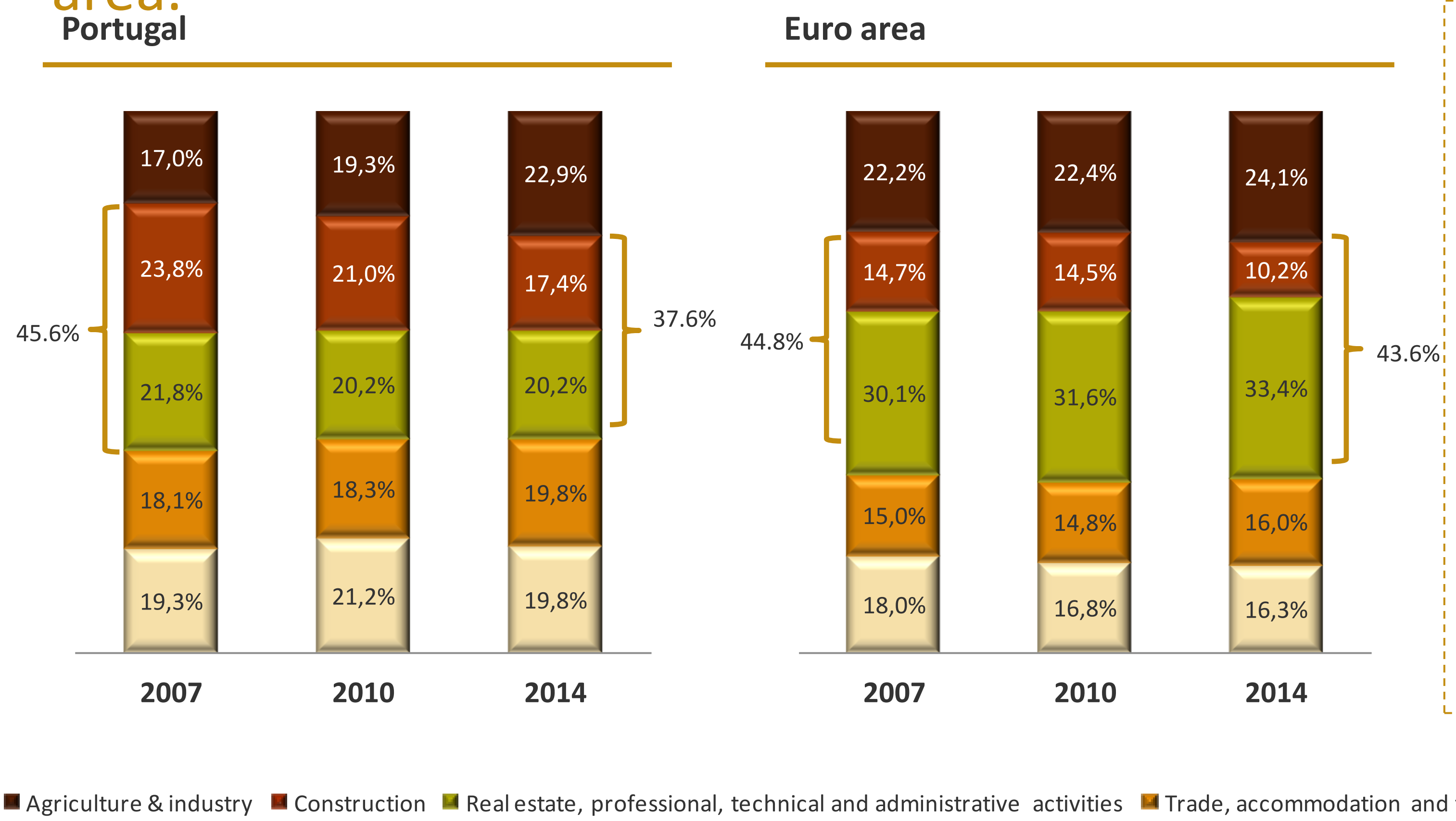
Housing price index in Portugal and other euro area countries (Dec 2005=100)



In spite of the sub-prime crisis, housing prices in Portugal remained relatively constant. The real-estate sector did not experience a speculation boom, contrary to happened in Spain and Ireland.

Source: ECB

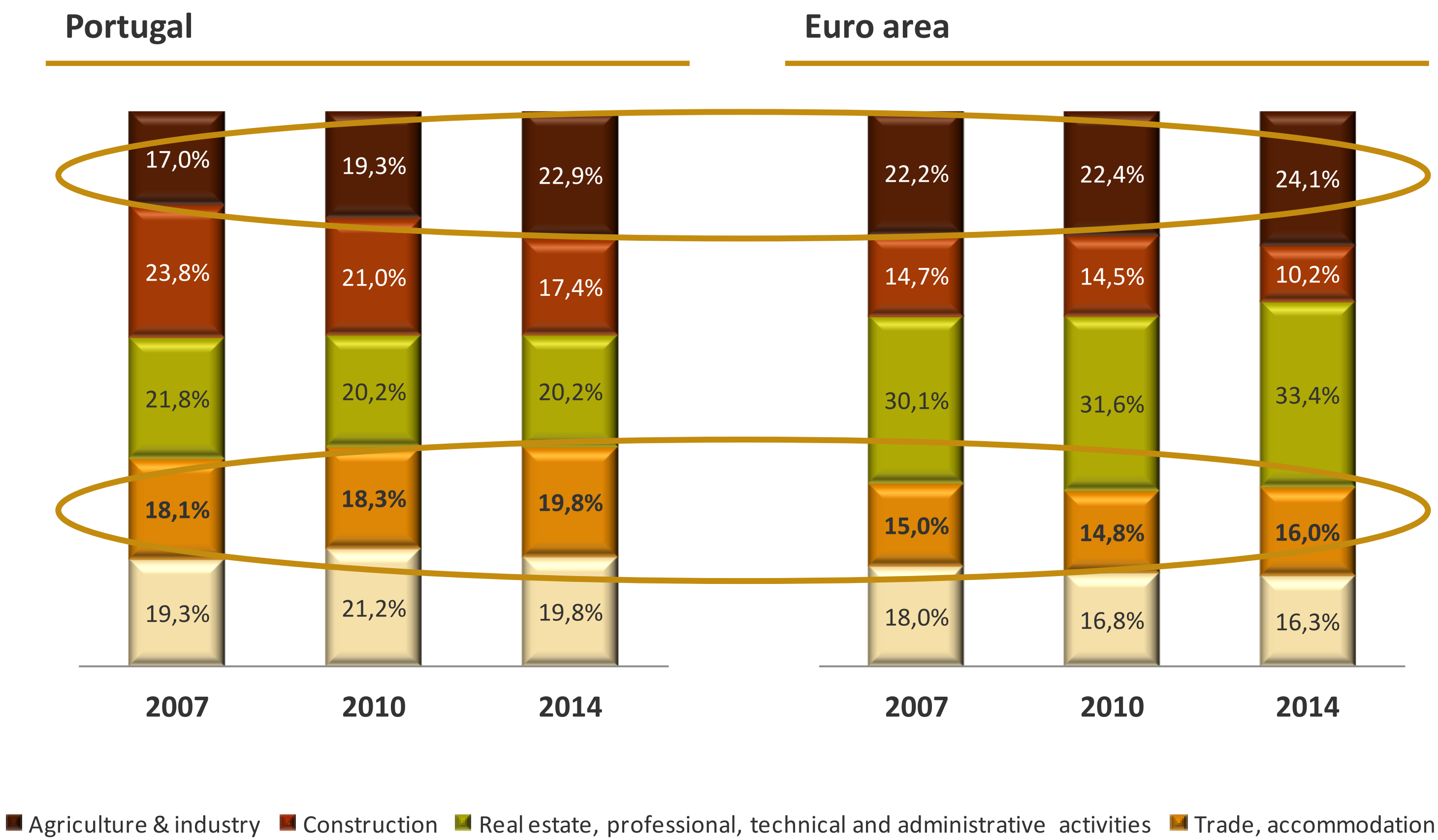
The real-estate sector in Portugal is not particularly important in loans to non-financial corporations, unlike the rest of the euro area.



In Portugal, the aggregate weight of the construction and real estate sectors has been falling since 2007. On the other hand, in the euro area, the proportion of these sectors increased until 2012 due to the real-estate business. This trend was reversed recently due to a reduction in construction.

Source: Banco de Portugal, ECB

The trade, accommodation and food services sectors account for a larger share of loans to NFCs in Portugal than in the euro area.

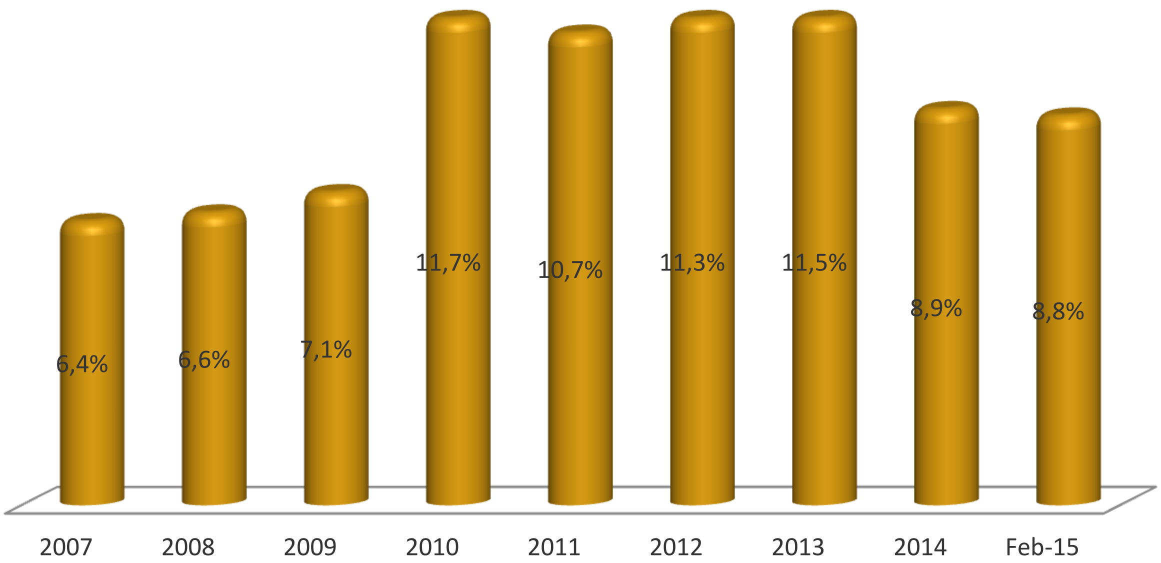


Loans to the agriculture and industry sectors are higher in the euro area than in Portugal. However, this segment's share in total loans to NFCs has increased substantially in Portugal in the last seven years.

Source: Banco de Portugal, ECB

Publicly owned companies account for around 9% of the total debt of non-financial corporations to the resident financial sector.

Debts of non-financial publicly owned companies to the financial sector in Portugal*



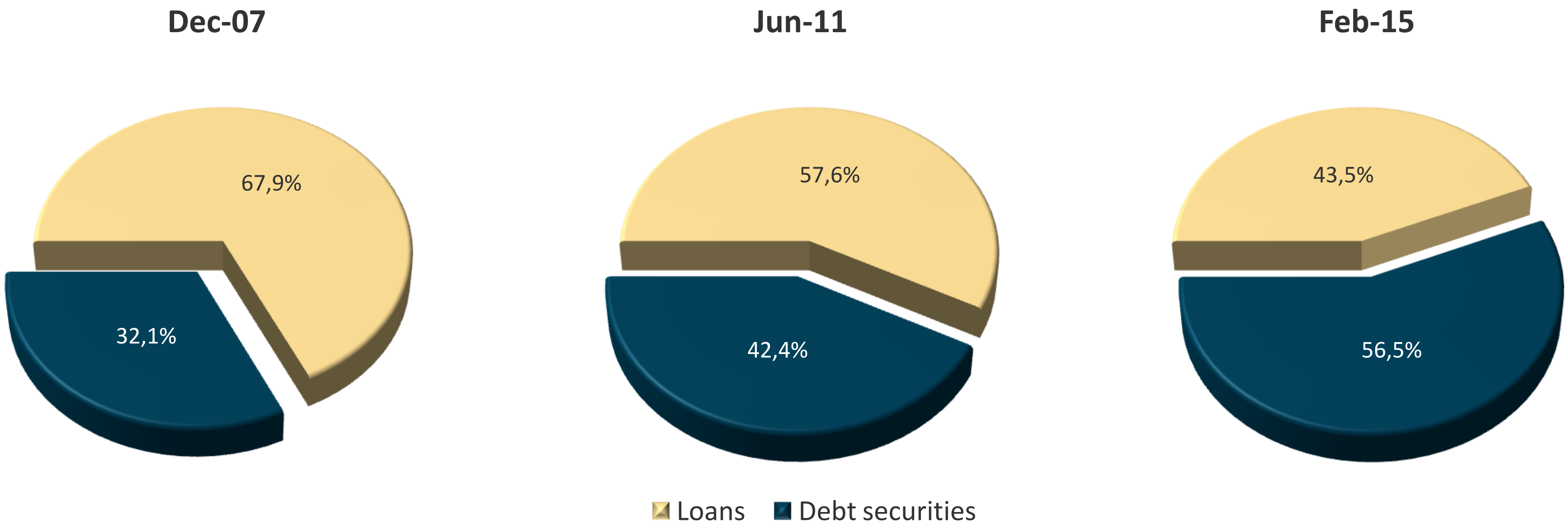
The debt of the state-owned business sector accounts for a substantial part of the total loans to non-financial companies. The amount has grown considerably since 2009, due to the sovereign debt crisis. In spite of a reduction in 2014, it is still higher than before 2010.

* Percentage of balances of loans obtained and bonds issued by non-financial corporations against the resident financial sector. The concept of resident financial includes not only banks but also other financial institutions.

Source: Banco de Portugal

Debts of state-owned companies to the financial sector in the form of securities have been growing in importance against loans.

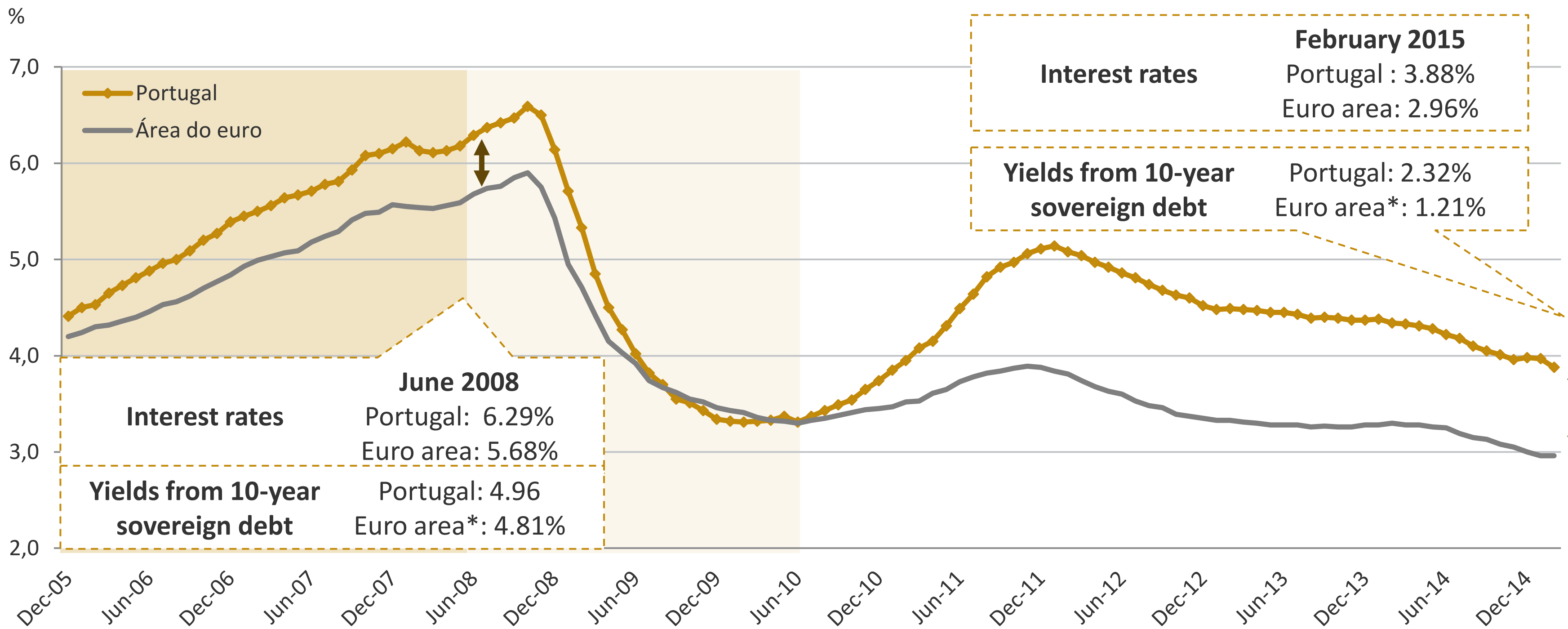
Debts of state-owned non-financial companies to the financial sector in Portugal, by instrument



Source: Banco de Portugal

The gap between the average interest rates on loans to NFCs in Portugal and the euro area increased after the onset of the sovereign debt crisis.

Average interest rates on loans from monetary financial institutions (stock on the balance sheet) to non-financial companies in Portugal and the euro area



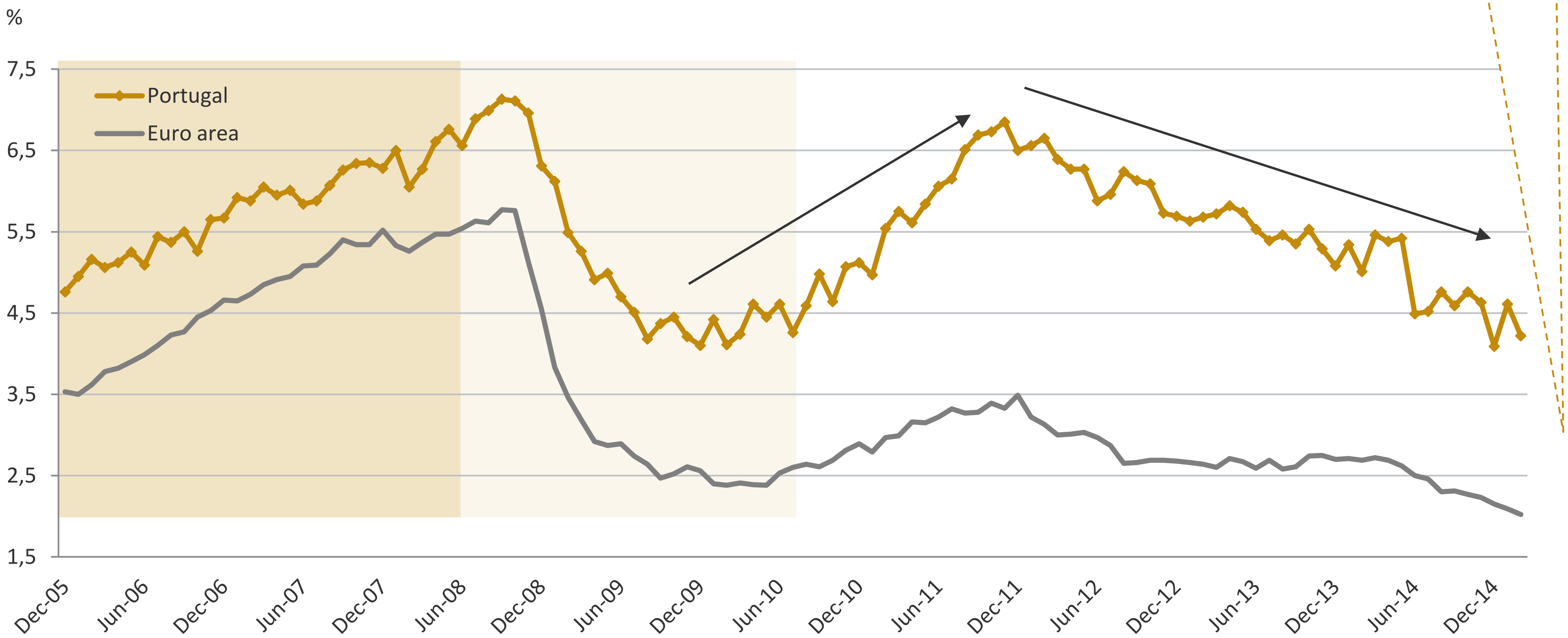
* Euro area benchmark bond – Changing Composition. Calculated as a weighted average of the sovereign debt yields of euro area countries, using the outstanding amounts of 10-year sovereign debt as weights.

Source: ECB

Interest rates on new loans to NFCs in Portugal began rising in mid-2009, but have been falling since early 2012.

Average interest rates on loans from monetary financial institutions (new operations) to non-financial companies in Portugal and the euro area

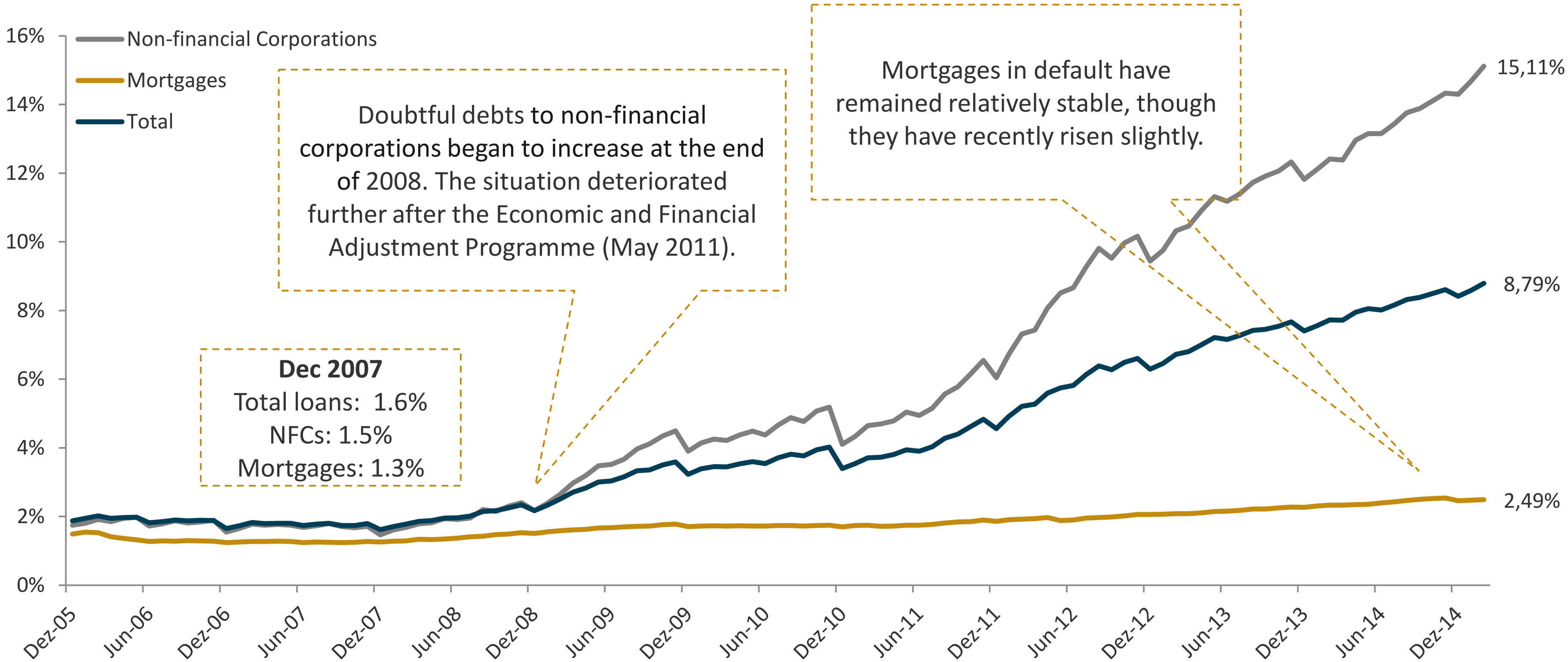
February 2015
Portugal: 4.22%
Euro area: 2.02%



Source: ECB

Doubtful debts have increased since 2008, especially in the business segment.

Doubtful debts* as a percentage of total corresponding debt (up to February 2015)



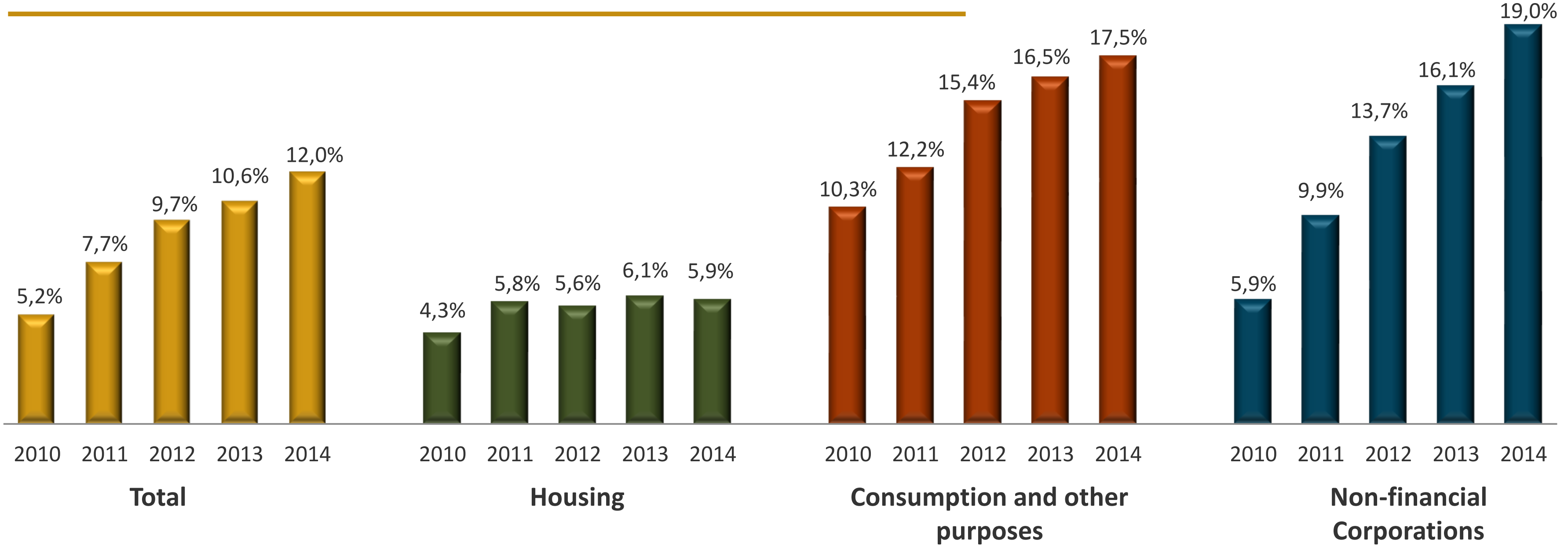
*Amounts outstanding of credit overdue for at least 30 days and doubtful loans recorded in the balance sheet of monetary financial institutions.

Source: Banco de Portugal

In 2011, as required by the EFAP, Banco de Portugal introduced a ratio of NPLs, in line with international practices.

The new ratio includes all credit in default and not just the amount overdue.

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



*It 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

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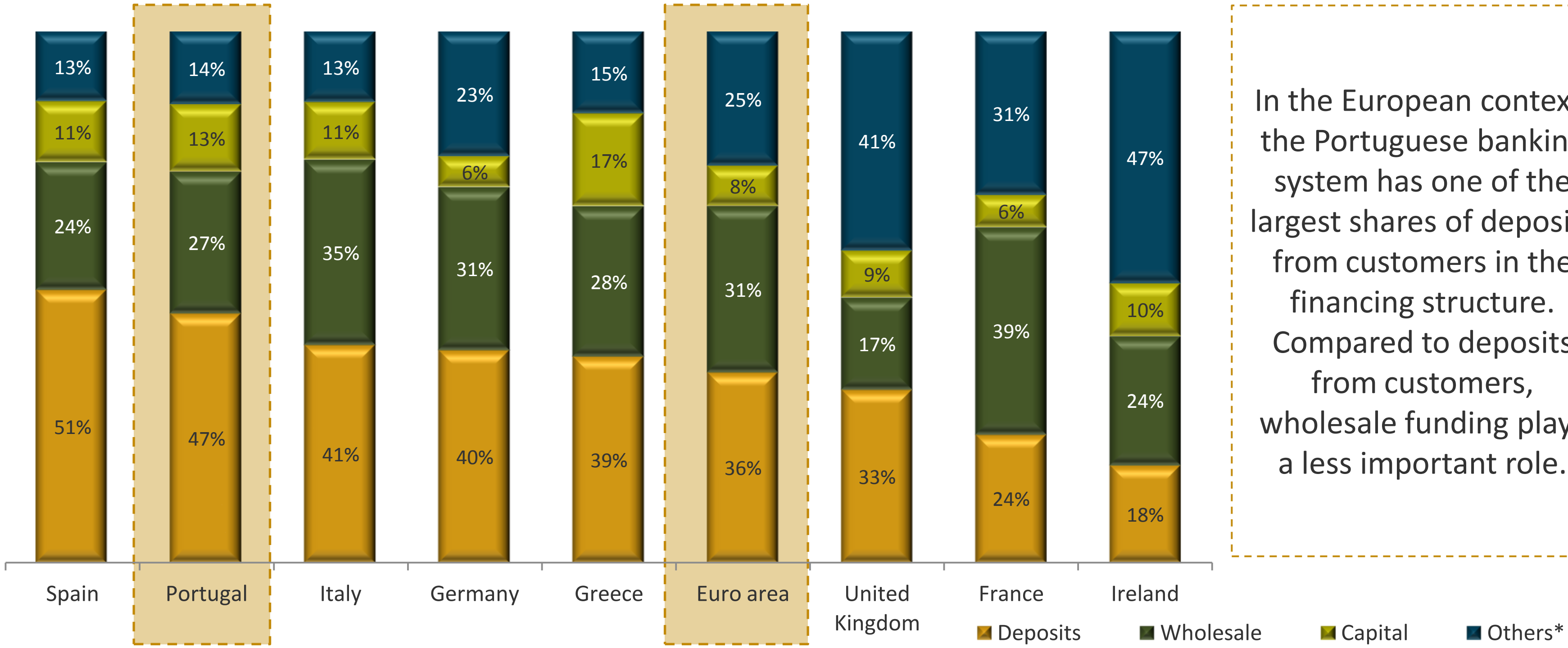
MAY 2015

Customer deposits are the most important source of finance for Portuguese banks.

Comparison of the financing structure of Portuguese banks and those in other EU countries (February 2015)



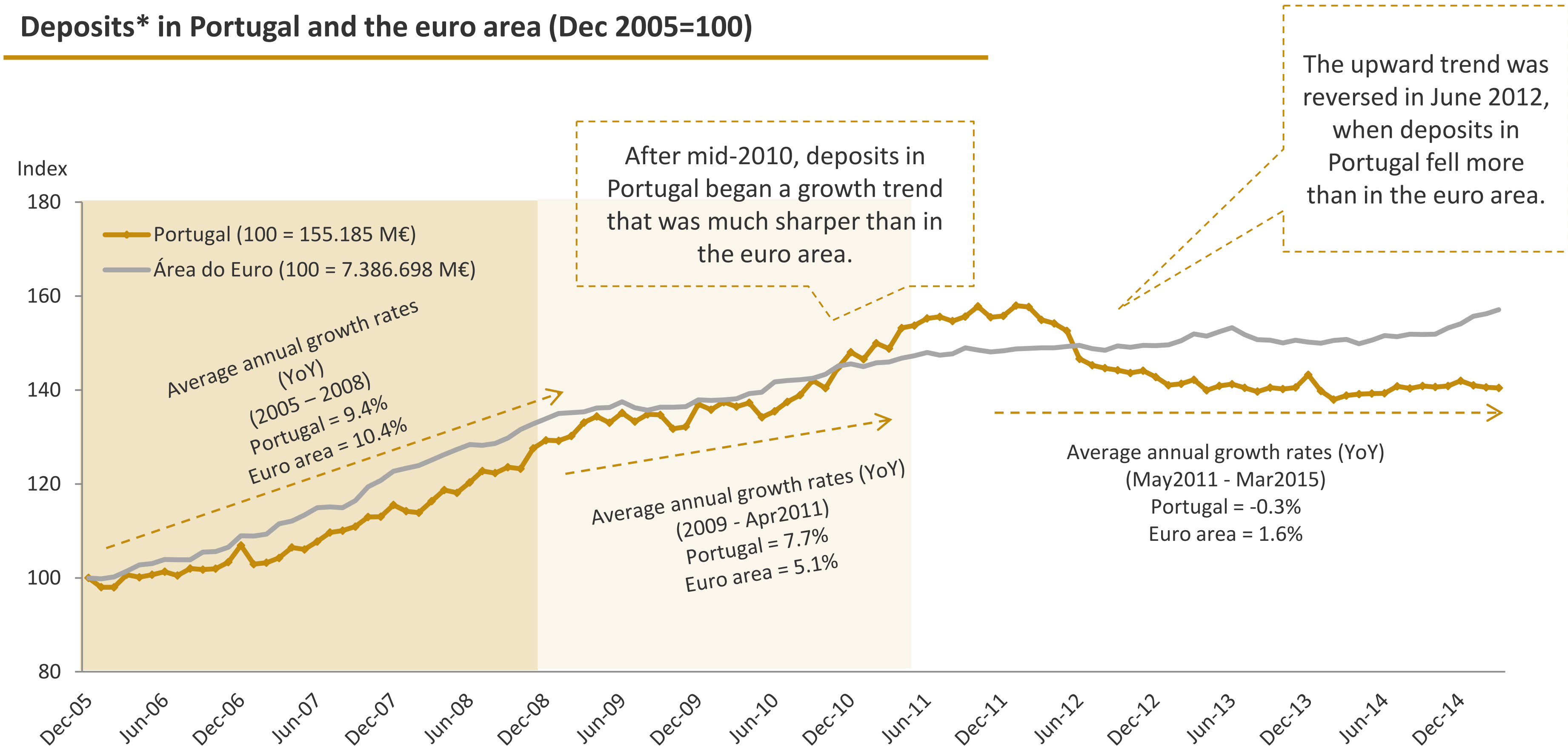
In the European context, the Portuguese banking system has one of the largest shares of deposits from customers in the financing structure. Compared to deposits from customers, wholesale funding plays a less important role.

* Includes liabilities to entities non-resident in the euro area, except for the United Kingdom, for which it includes liabilities to non-residents in the country.

Source: ECB

The growth trend in deposits has been more stable in the euro area than in Portugal.

Deposits* in Portugal and the euro area (Dec 2005=100)

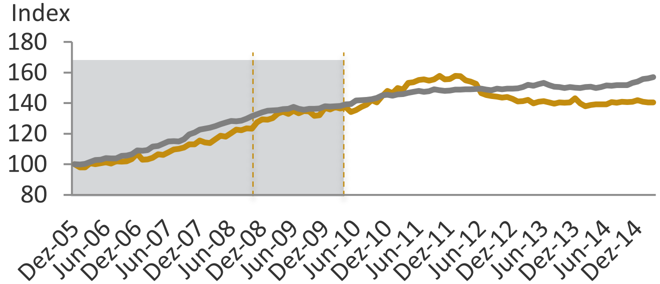


* Deposits from the non-monetary sector (balances at end of period).

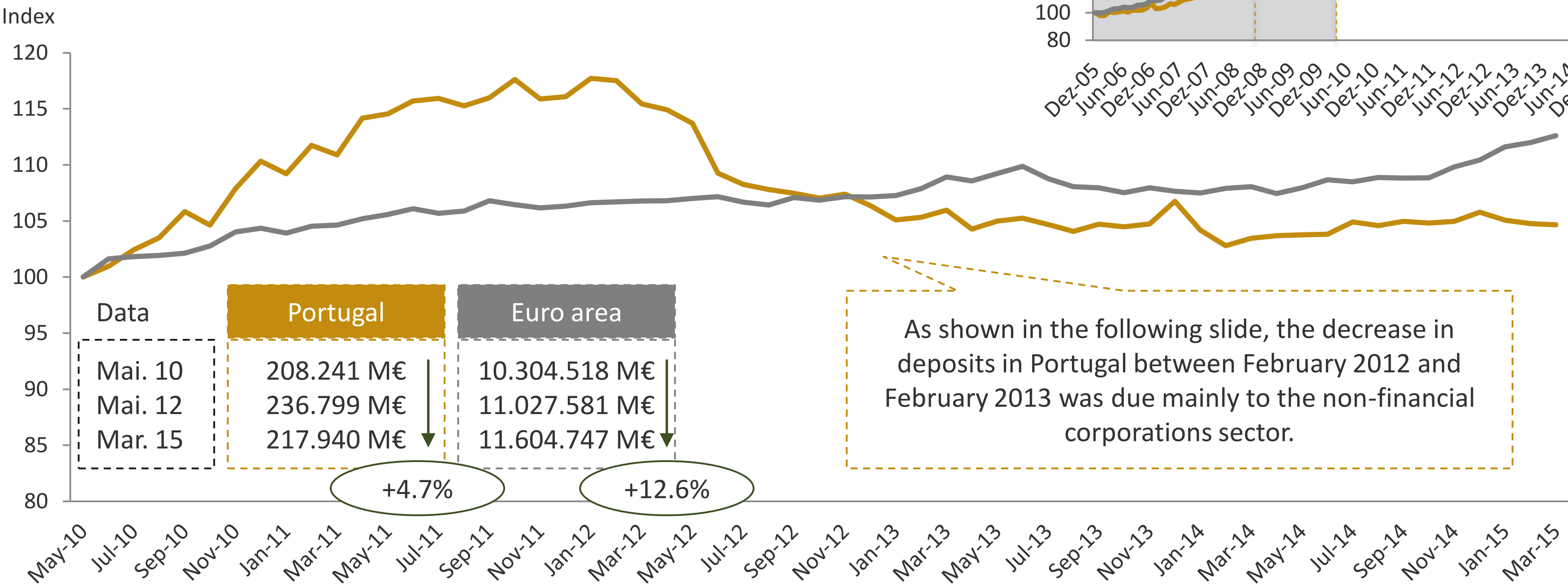
Source: ECB

More recently, deposits in the euro area and Portugal have remained relatively constant.

Deposits* in Portugal and the euro area (Dec 2005=100)



Deposits* in Portugal and the euro area (May 2010=100)



Data	Portugal	Euro area
Mai. 10	208.241 M€	10.304.518 M€
Mai. 12	236.799 M€	11.027.581 M€
Mar. 15	217.940 M€	11.604.747 M€

As shown in the following slide, the decrease in deposits in Portugal between February 2012 and February 2013 was due mainly to the non-financial corporations sector.

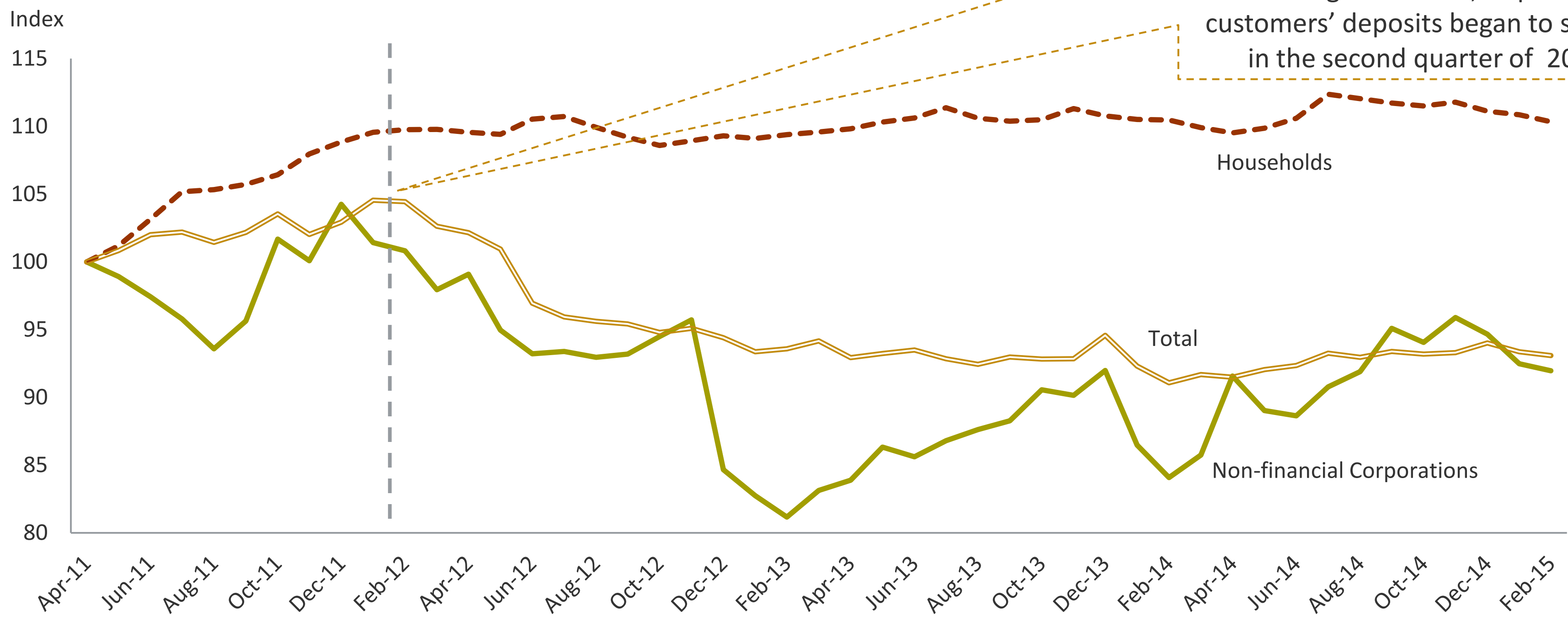
* Deposits from the non-monetary sector (balances at end of period).

Source: ECB

In spite of the austerity imposed by the EFAP in Portugal, households' deposits continued to grow up to a year after the start of the programme.

Since the beginning of 2012, Portuguese non-financial corporations have been reducing their deposits because of the financial difficulties that they have been facing. This trend has resulted in a reduction in deposits at Portuguese banks, as private customers' deposits began to stabilise in the second quarter of 2012.

Deposits* in Portugal by institutional sector (Apr 2011 = 100)

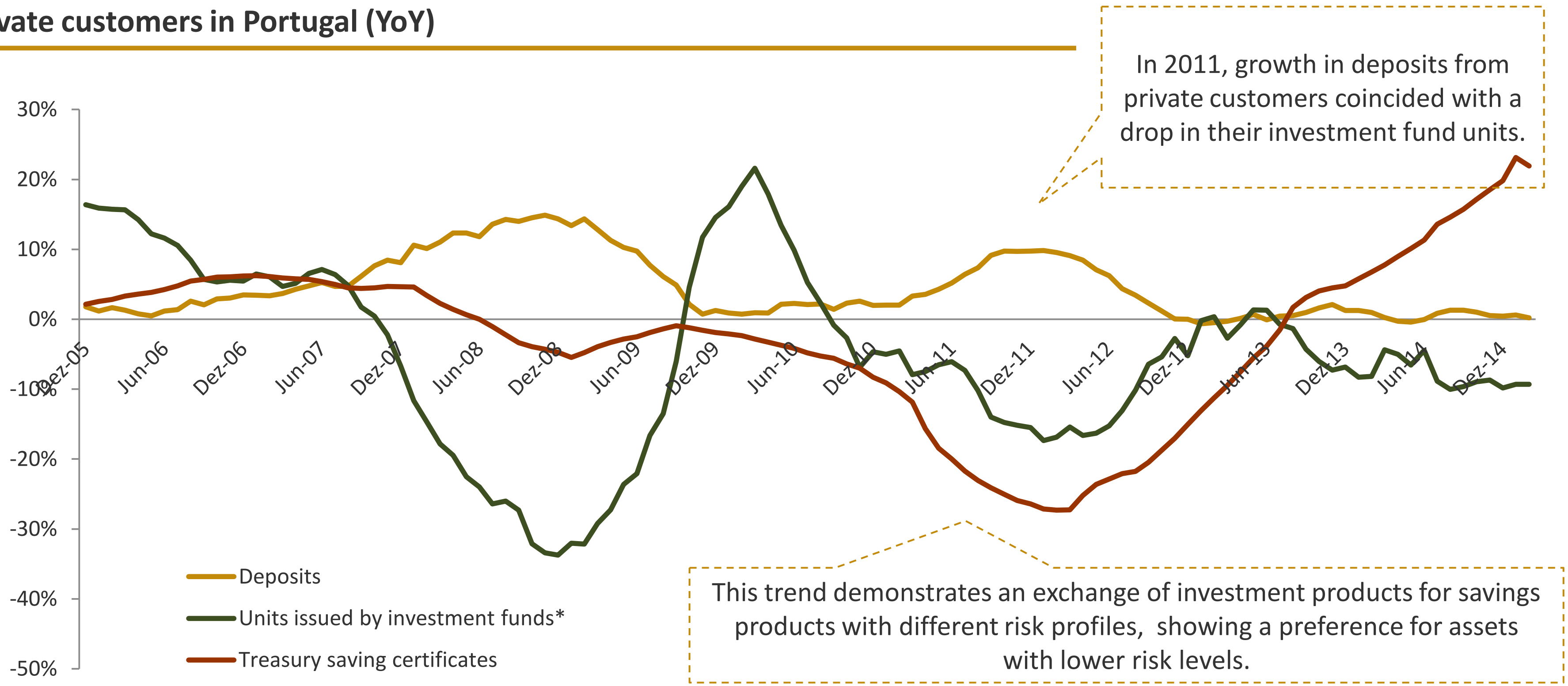


* Deposits from the non-monetary sector (balances at end of period).

Source: Banco de Portugal

Attractive returns on savings certificates have stimulated their growth since 2013, coinciding with a reduction in units in investment funds.

Growth rate in deposits, investment fund units and savings certificates held by private customers in Portugal (YoY)

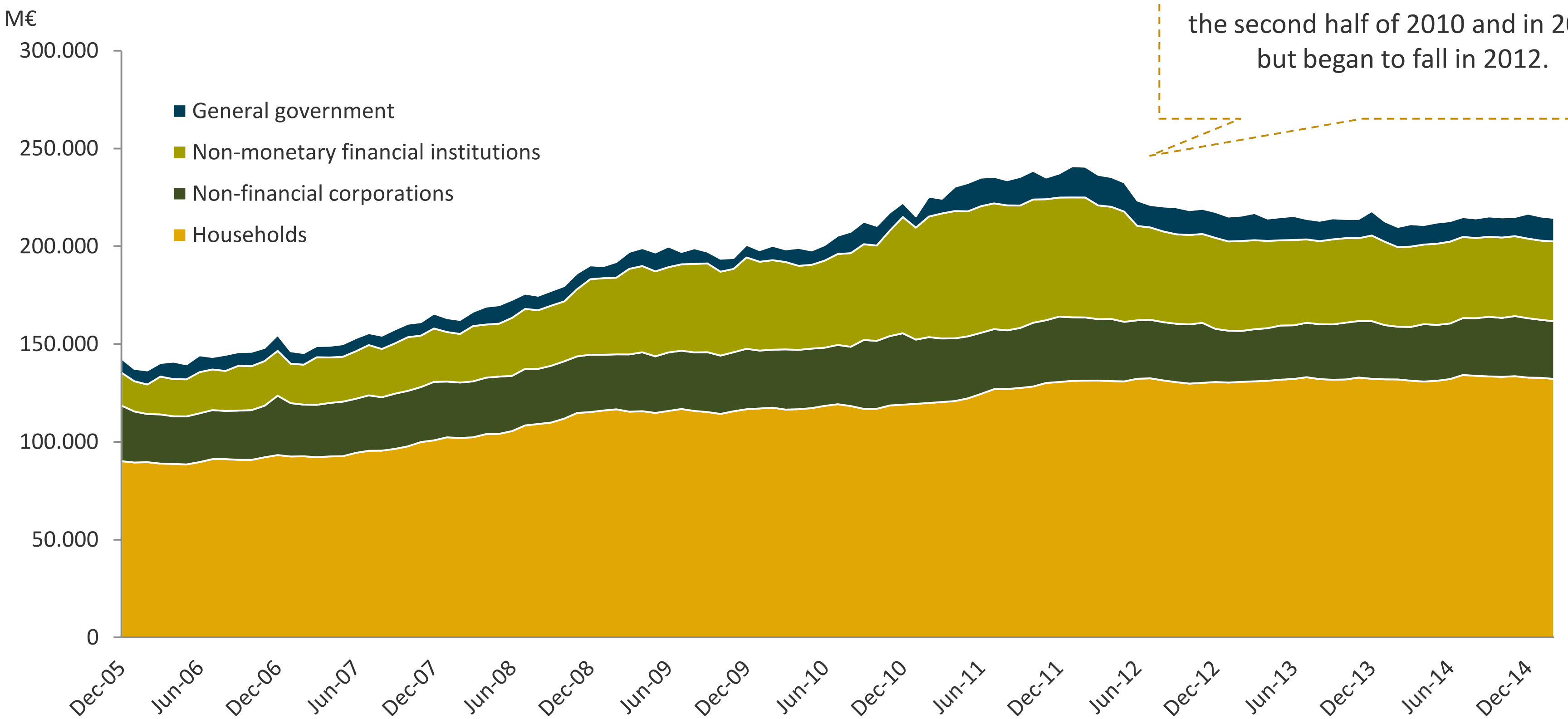


* Includes stock funds, bond funds, treasury funds, money market funds, retirement savings funds, funds of funds and mixed funds.

Source: Banco de Portugal

Deposits in Portugal are mainly held by private customers and their weight has been increasing.

Deposits* in Portugal by institutional sector (February 2015)



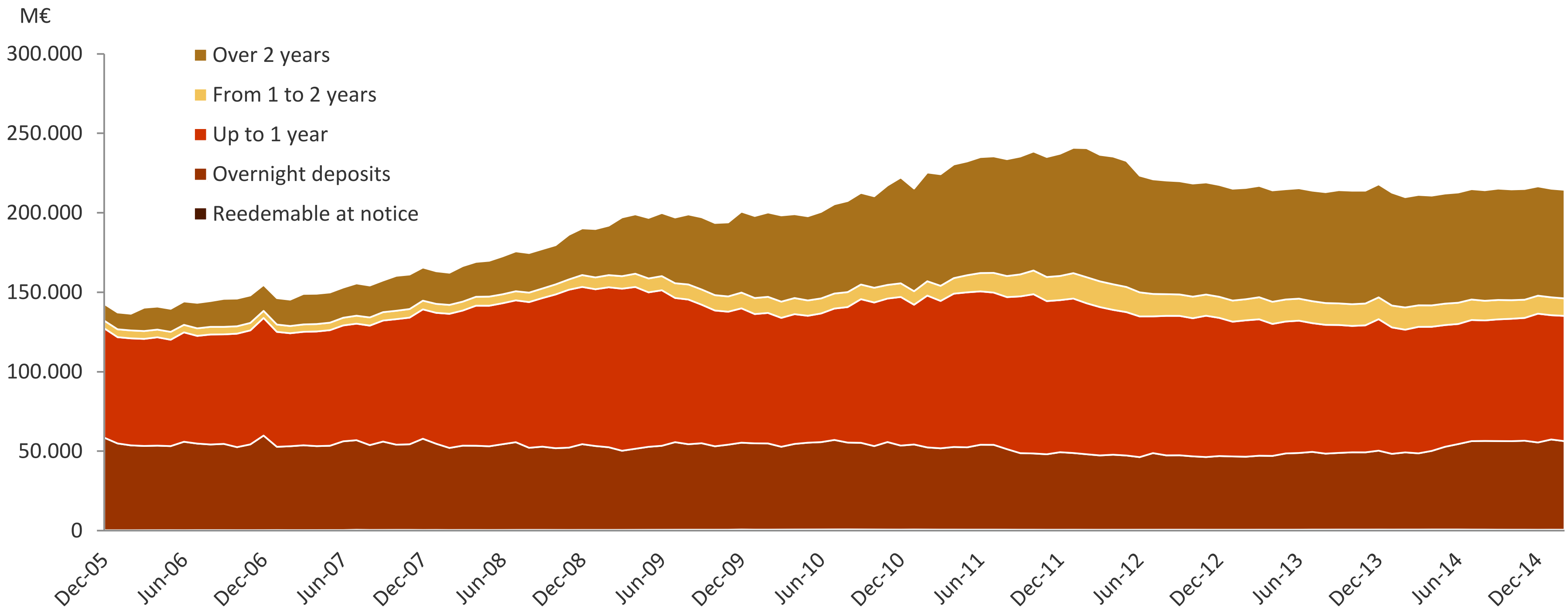
The weight of non-monetary financial institutions increased considerably in the second half of 2010 and in 2011, but began to fall in 2012.

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

Source: Banco de Portugal

Deposits with maturities of less than one year are the largest, in spite of recent growth in deposits with longer maturities.

Deposits* in Portugal by maturity

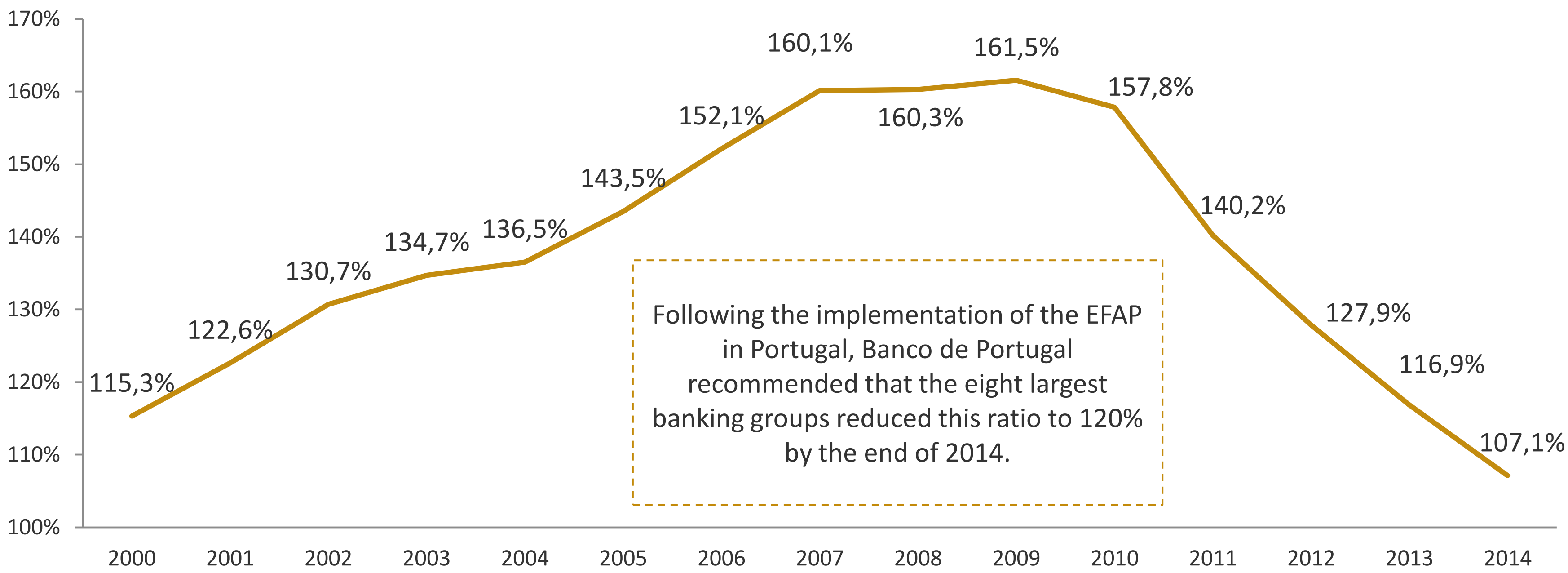


* Deposits from the non-monetary sector (balances at end of period).

Source: Banco de Portugal

The reduction in the loan to deposit ratio reflects the deleveraging conducted by the Portuguese banking system

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



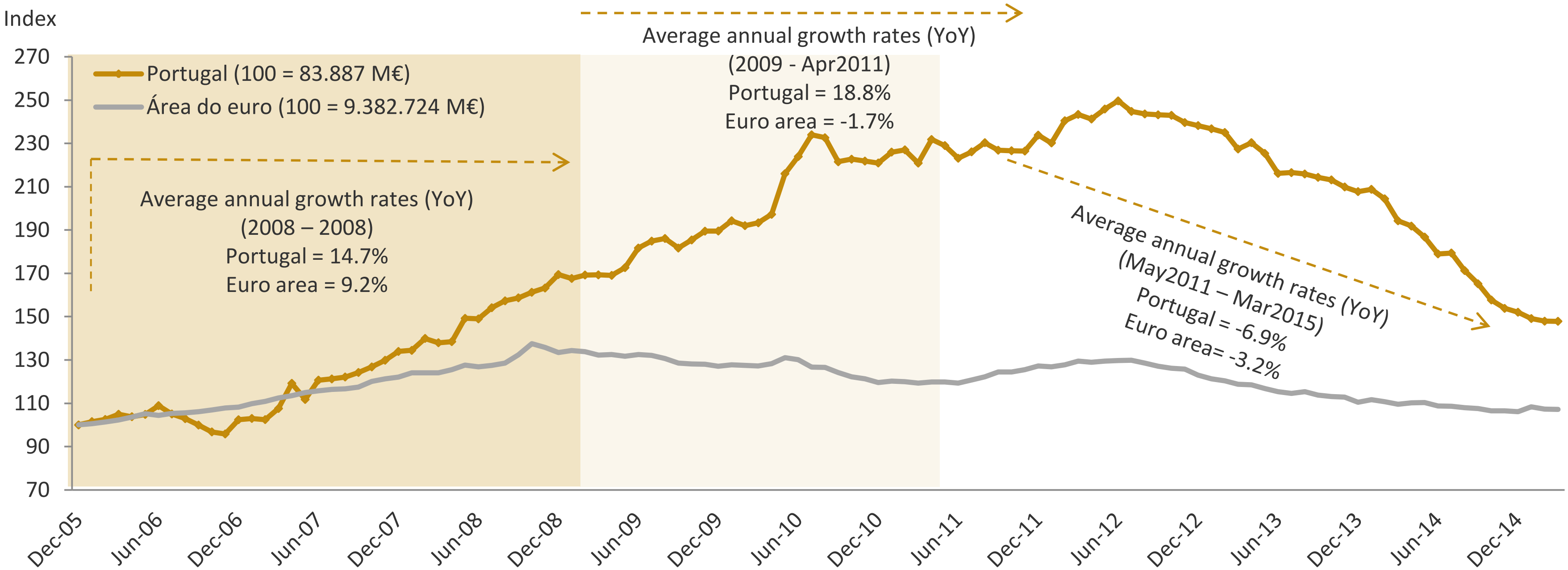
* Credit net of impairments (including certificated and unrecognised credits). End of period balances.

Source: Banco de Portugal

Recourse to wholesale funding by the Portuguese banks grew much faster than in the euro area, though this trend has reversed in recent years.

The growth in deposits in Portugal was not sufficient to offset growth in the national banks' assets and led to greater dependence on wholesale finance.

Wholesale* finance in Portugal and the euro area (Dec 2005=100)

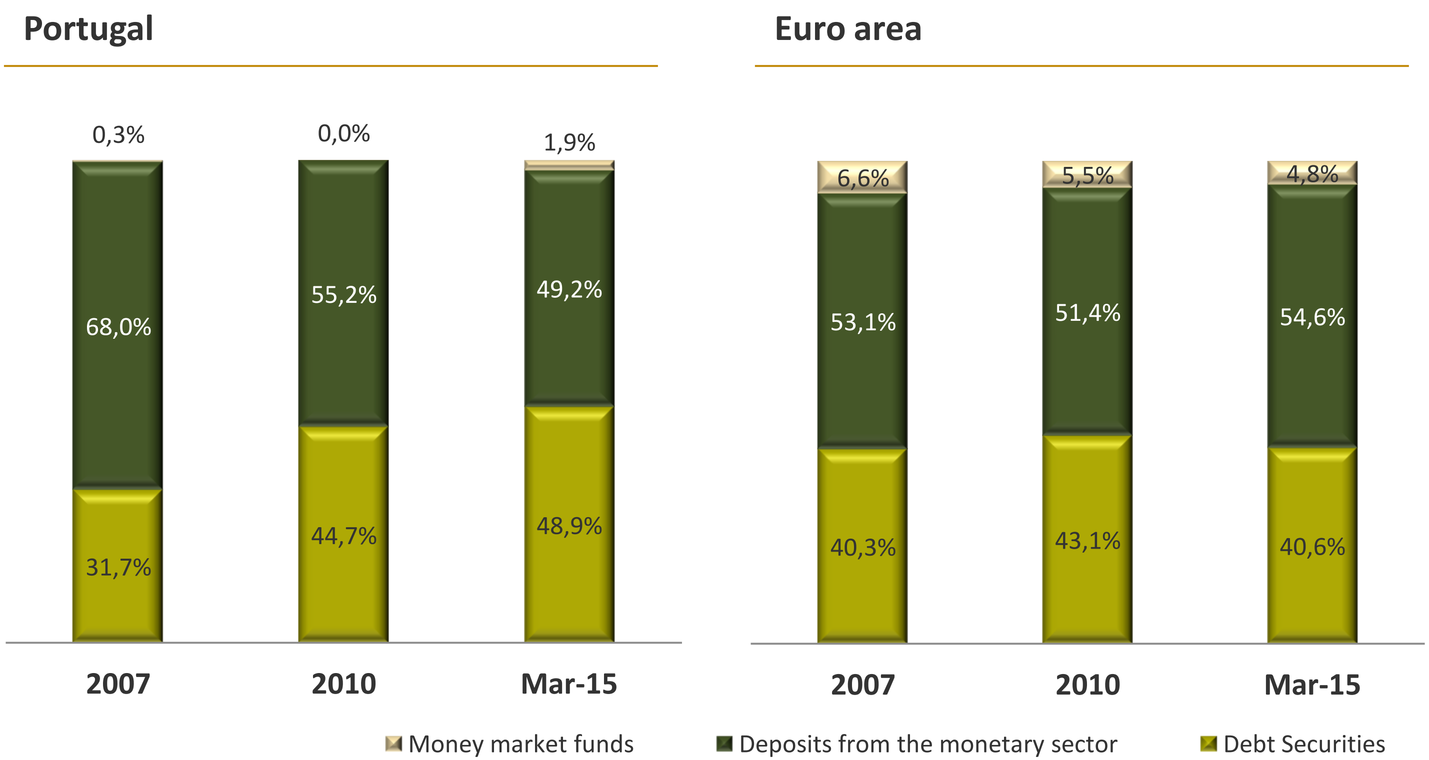


* Wholesale finance includes deposits from the monetary sector, debt securities and money market funds (end of period balances).

Source: ECB

Both in Portugal and the euro area, deposits from the monetary sector are the main component of wholesale funding for the banking sector.

Wholesale finance structure by type of instrument



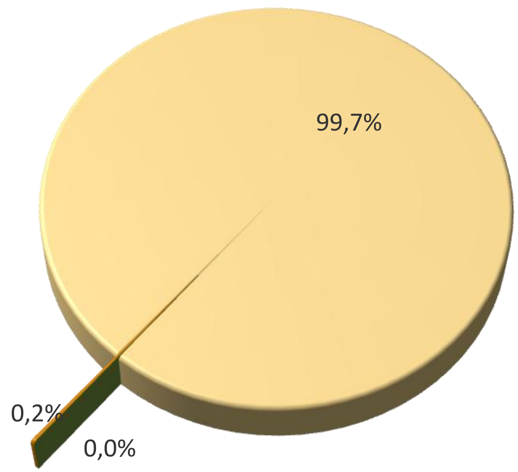
Source: ECB

However, the weight of the debt securities market in Portugal increased against 2007. This source of finance is much larger for the Portuguese banks than for those in the euro area.

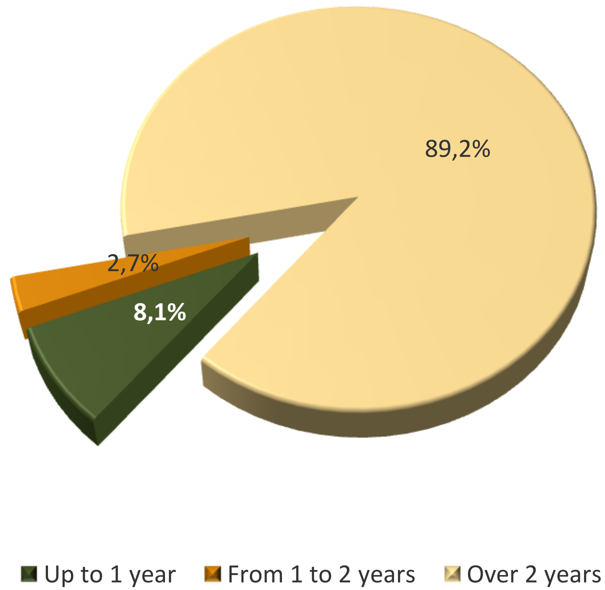
In Portugal and the euro area, debt securities issued by banks are predominantly long term.

Debt securities structure by maturity on date of issue (March 2015)

Portugal



Euro area

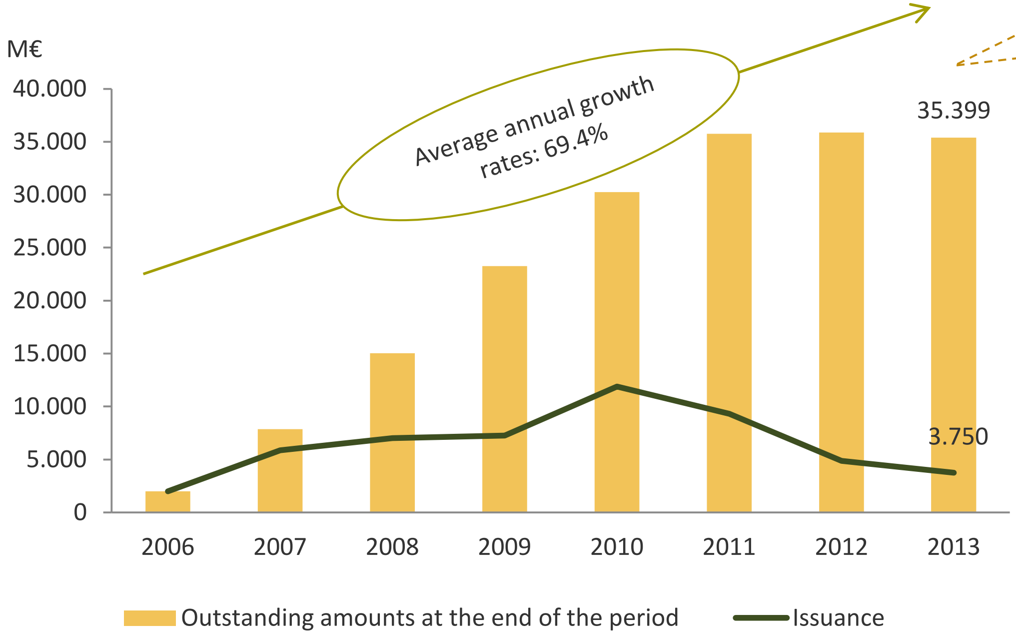


Even so, the issue of short-term debt securities plays an more important role in the euro area than the Portuguese banking sector.

Source: ECB

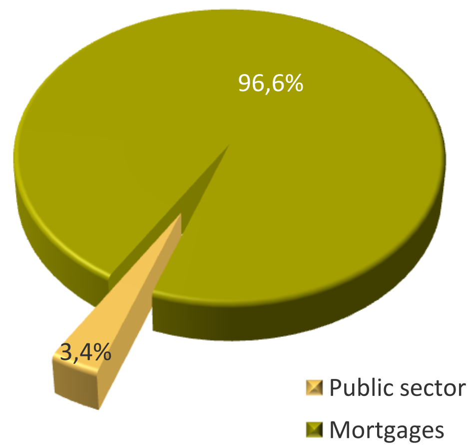
Until 2011, covered bonds were important as a source of funding for the Portuguese banks. The amounts issued have been falling recently, however.

Issue and balances of covered bonds in Portugal



At the end of 2013, the balance of *covered bonds* accounted for around 6.9% of Portuguese banks' finance.

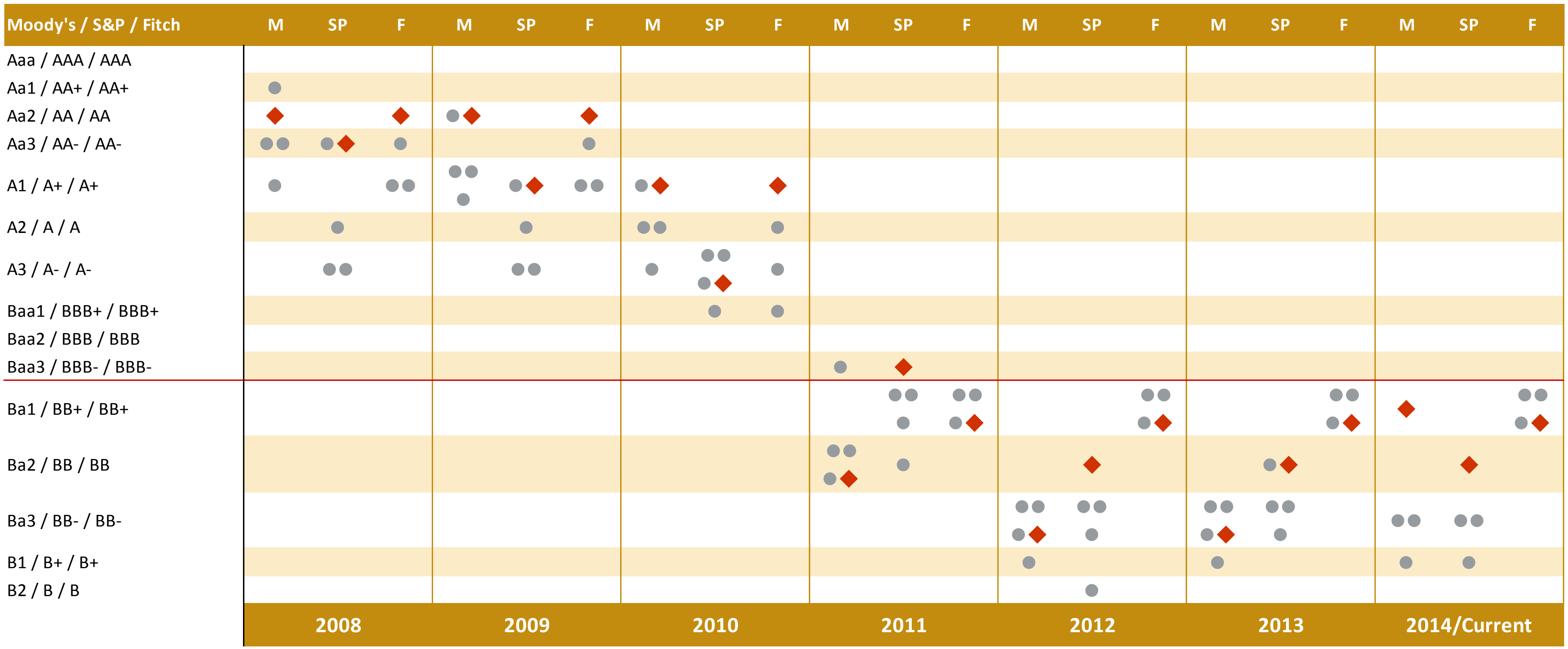
Covered bonds by type of underlying asset (2013)



Source: ECB, European Covered Bond Council, Factbook, 2014

The downgrades of Portugal's sovereign risk had a negative effect on the Portuguese banks' ratings*.

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



Portuguese Republic
Portuguese Banks

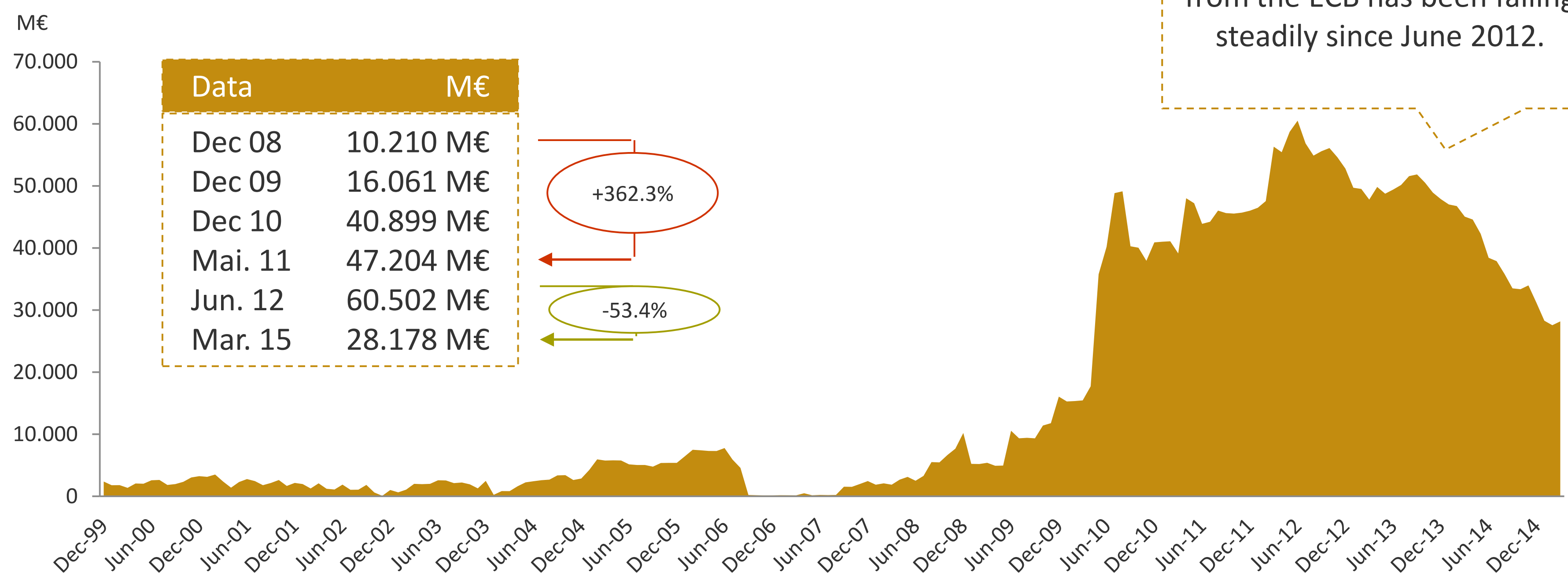
* End of period.

The Portuguese banks' portfolio of eligible collateral enabled them to increase their dependence on the ECB, which softened the impact of restrictions on access to the interbank markets.

The amount of borrowing from the ECB has been falling steadily since June 2012.

Borrowing from the European Central Bank*

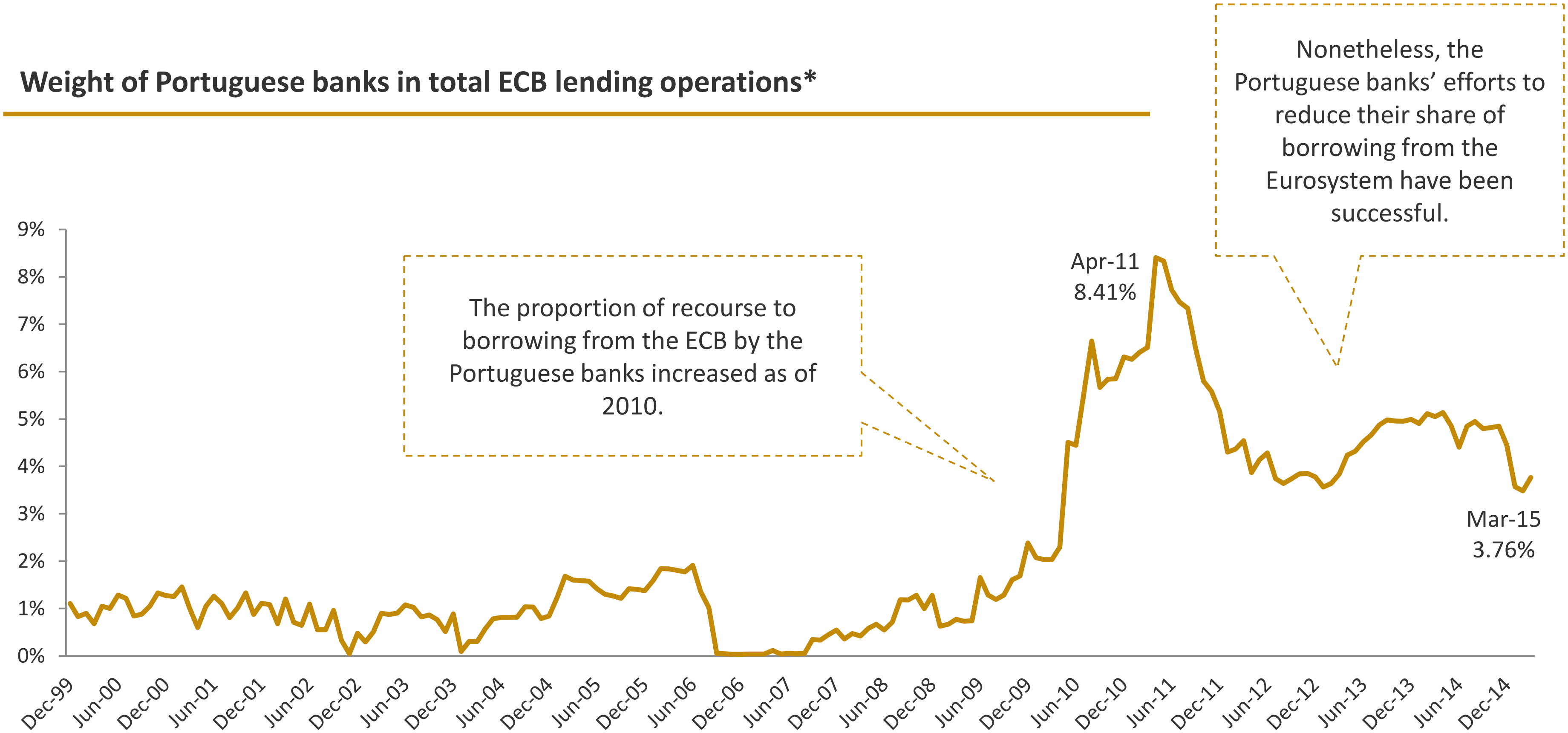
Data	M€
Dec 08	10.210 M€
Dec 09	16.061 M€
Dec 10	40.899 M€
Mai. 11	47.204 M€
Jun. 12	60.502 M€
Mar. 15	28.178 M€



* Outstanding amounts at the end of the period.
Source: Banco de Portugal

More recently, a reduction in finance needs has decreased Portugal's weight in total finance granted by the ECB.

Weight of Portuguese banks in total ECB lending operations*



* Lending to Portuguese banks as a percentage of the total granted by the Eurosystem to all countries in the euro area (balances at end of period).
Source: Banco de Portugal, ECB

PORTUGUESE BANKING SECTOR OVERVIEW

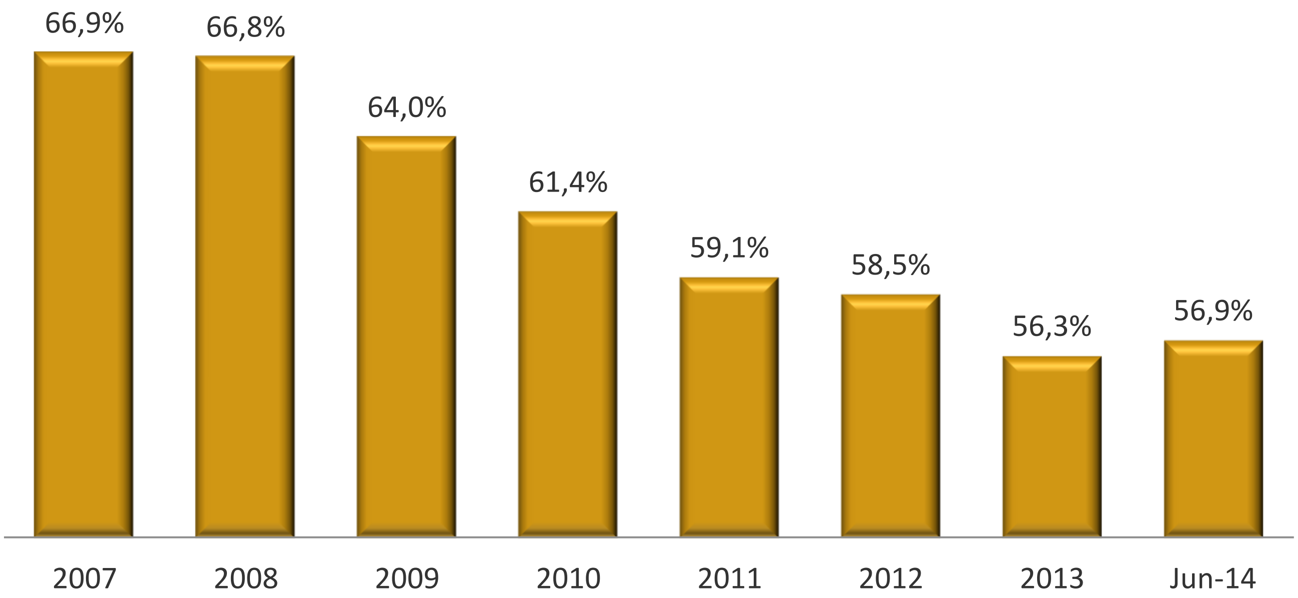
IV. Solvency

ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015

The degree of risk of Portuguese banks' assets has been falling in recent years.

Risk-weighted assets in proportion to total assets*



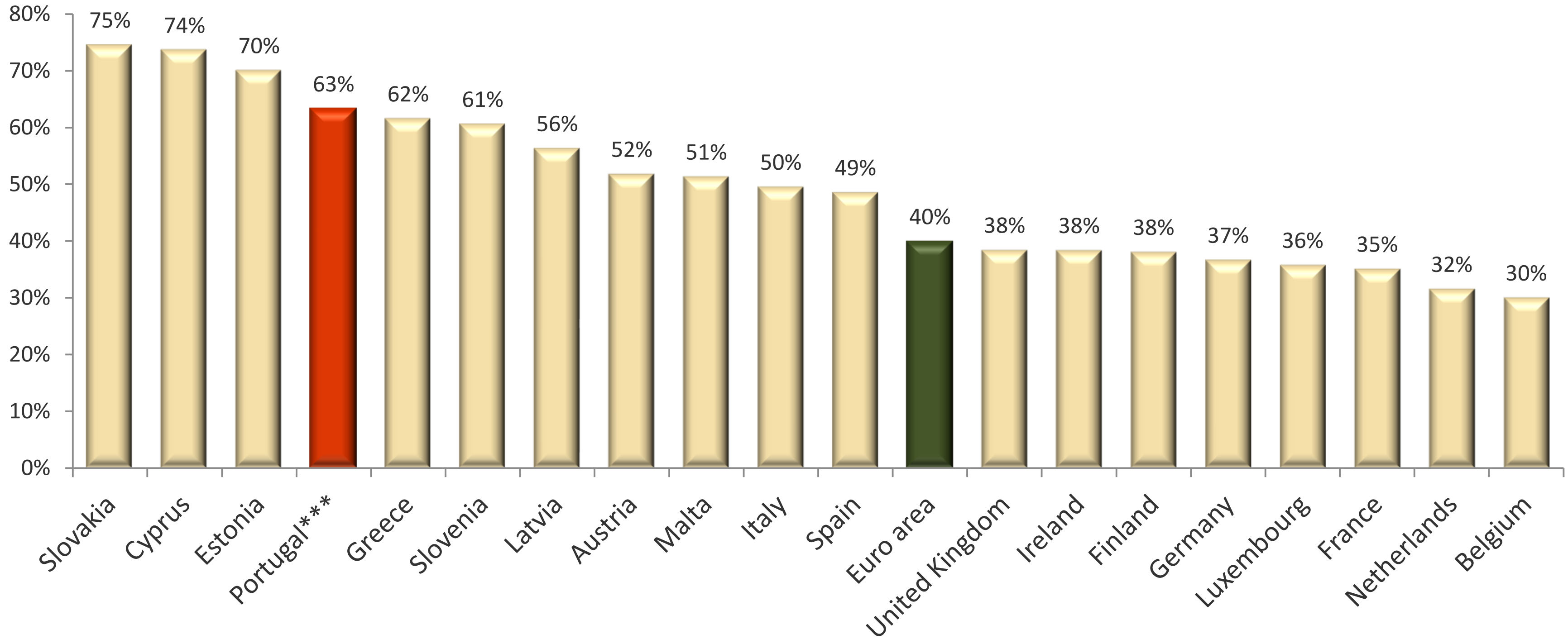
Risk-weighted assets to total assets ratio of the Portuguese banks has fallen considerably in recent years. This trend increased after the EFAP and reflects a reduction in the average risk of assets making up the Portuguese banks' balance sheets. In the first half of 2014 it rose slightly as a result of changes in the calculation of RWAs introduced by CRD IV / CRR.

* Risk-weighted assets include off-balance-sheet items.
Consolidated data.

Source: Banco de Portugal

The risk-weighted assets to total assets ratio in higher than the euro area average.

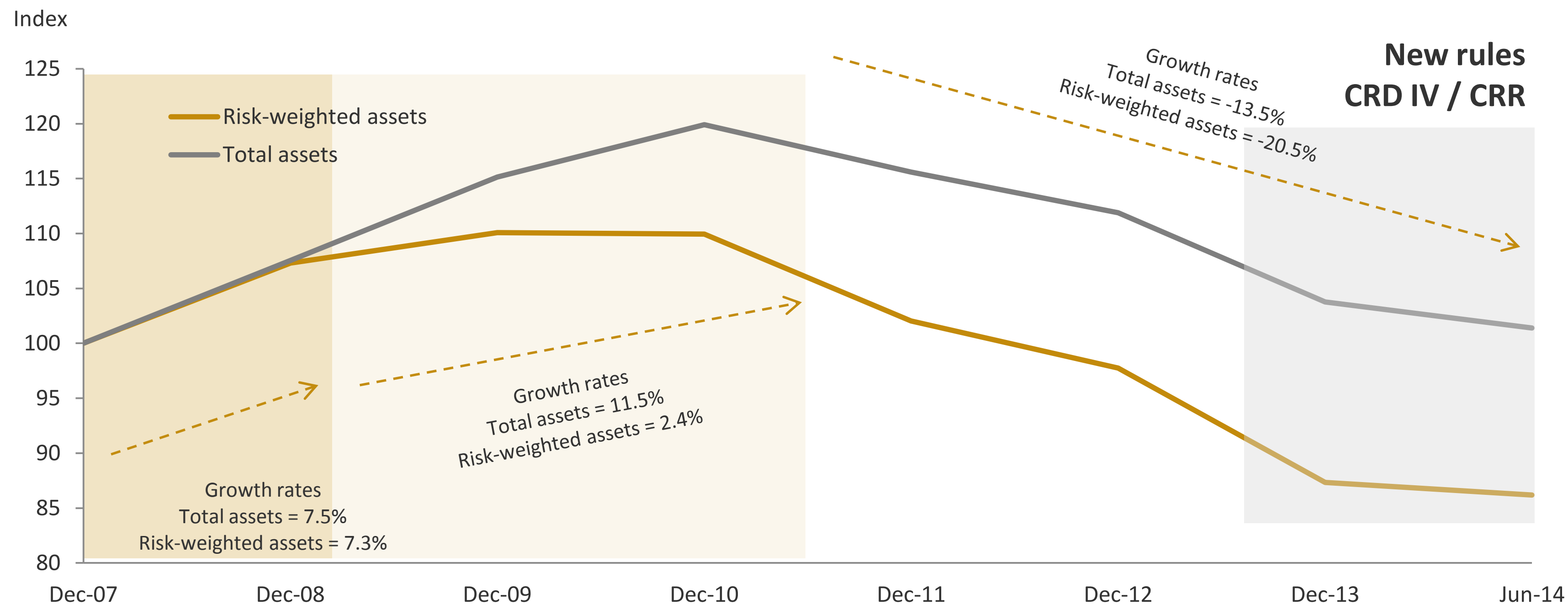
Risk-weighted assets in proportion of total assets* (June 2014)



* Risk-weighted assets include off-balance sheet items. The data are different from those in the previous slide because they refer only to bank groups and domestic banks on a consolidated basis.
** Euro area com 18 countries.
*** The data for Portugal are different from those in the previous slide due to slight differences in the methods used by Banco de Portugal and the ECB.
Source: ECB

Total assets have decreased at a slower rate than risk-weighted assets thanks to the optimisation of exposure to risk by the Portuguese banks.

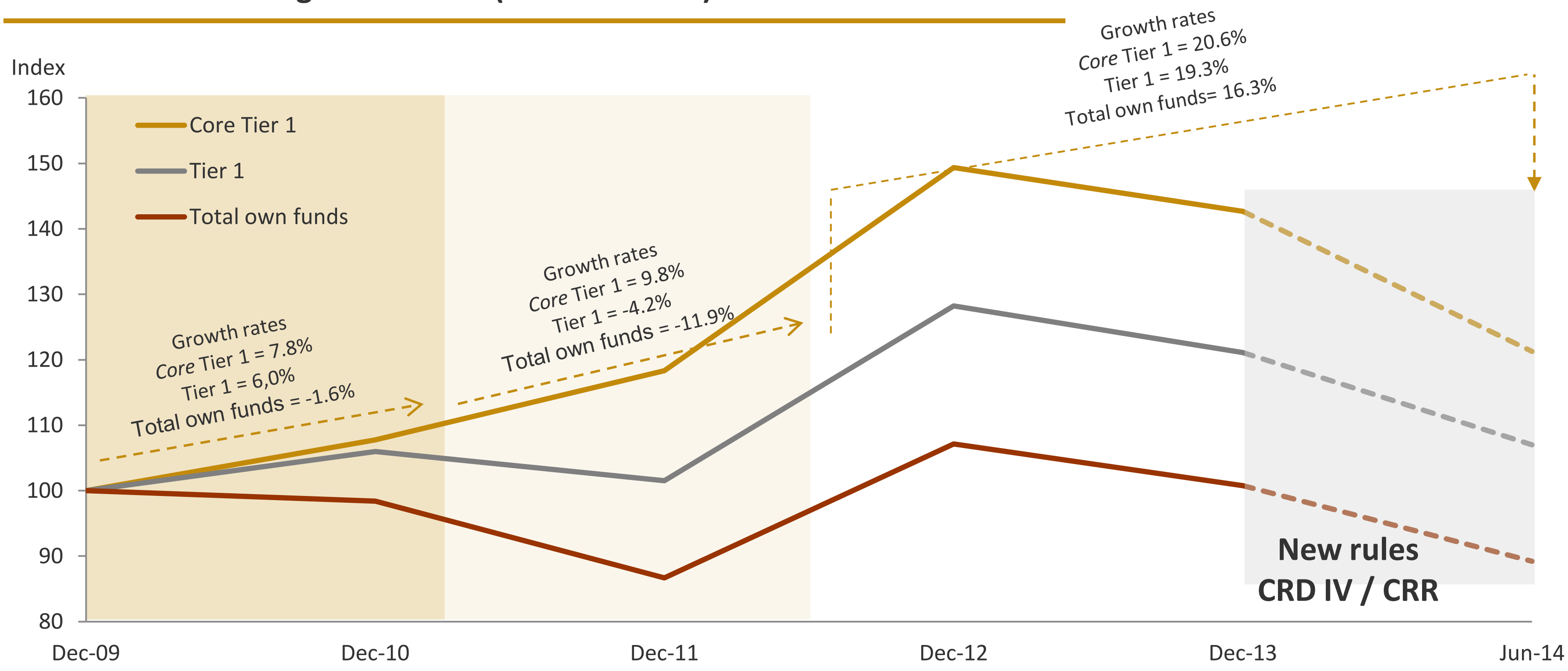
Risk-weighted assets and total assets of Portuguese banks* (Dec 2007=100)



* Data from bank groups and domestic banks on a consolidated basis, excluding insurance.
Source: ECB

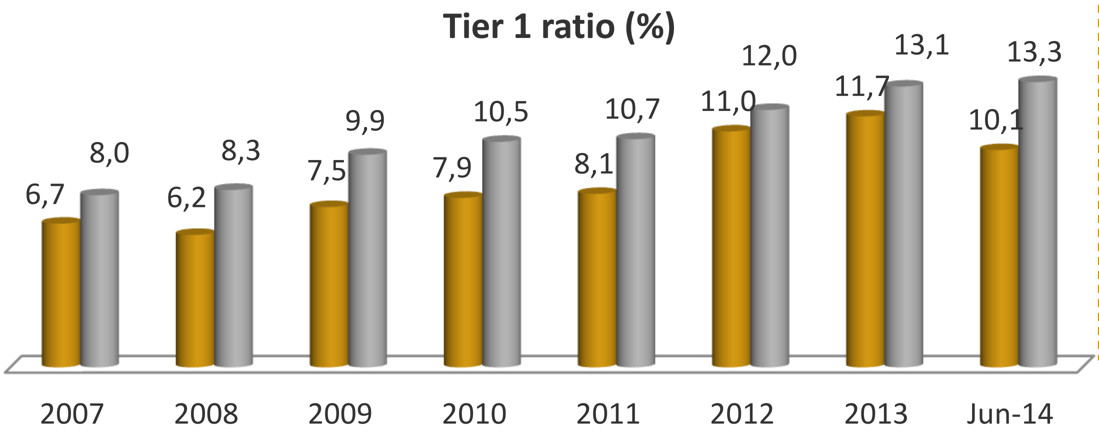
Better quality own funds of Portuguese banks, core Tier 1, have grown significantly since 2009.

Own funds of Portuguese banks* (Dec 2009=100)

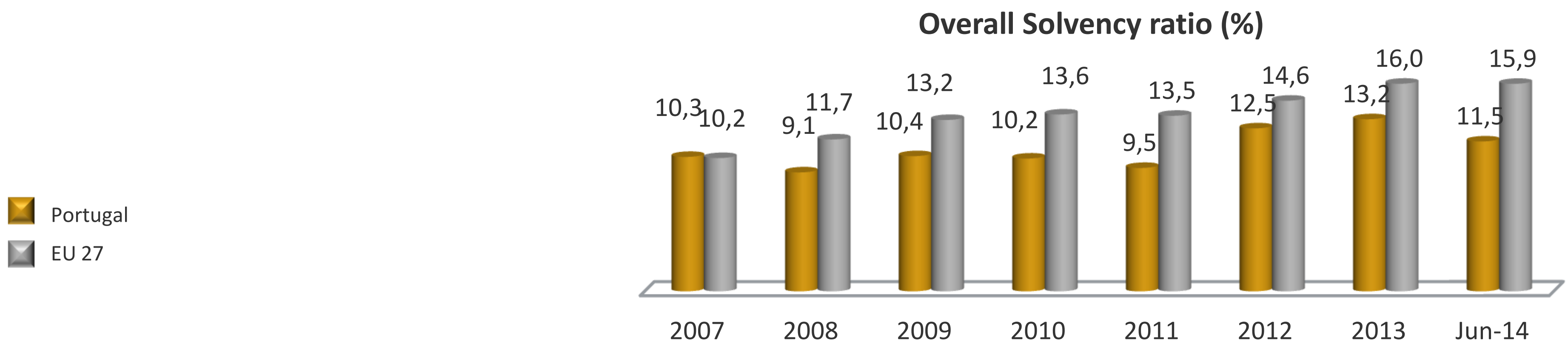


* Data from bank groups and domestic banks on a consolidated basis, excluding insurance.
Source: Banco de Portugal

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



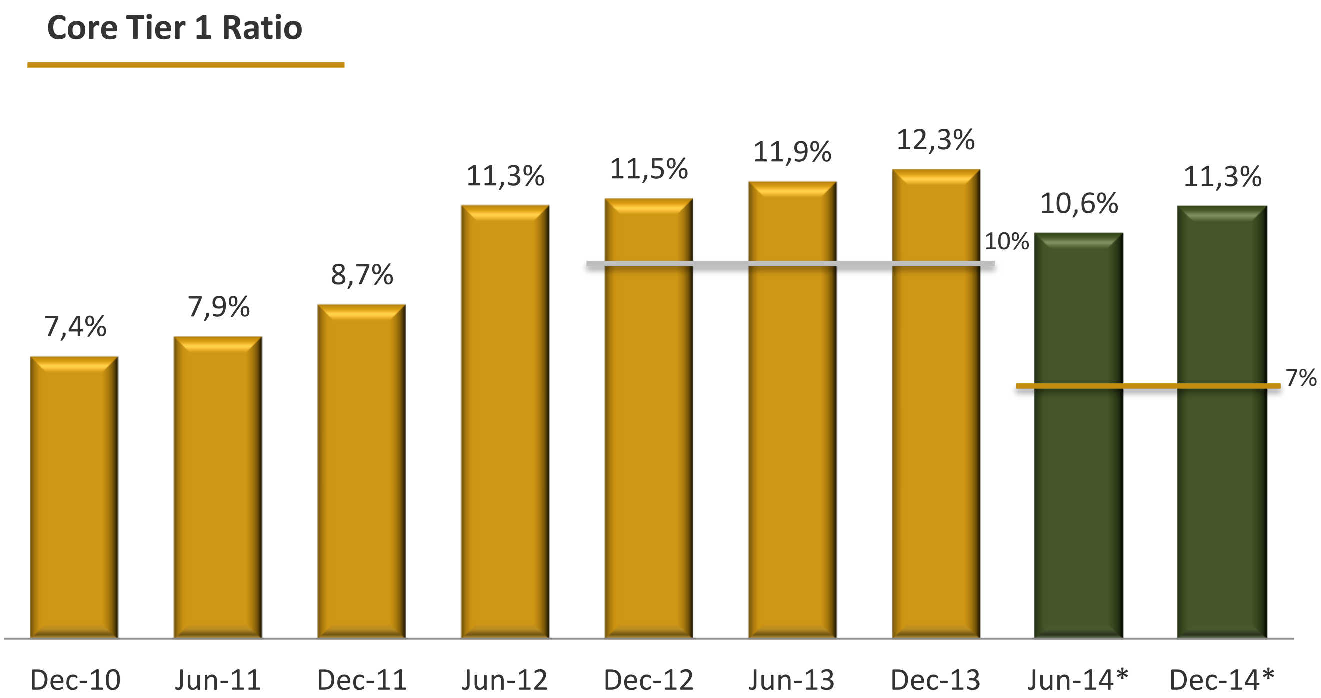
Basel II required the Tier 1 ratio of financial institutions to be 4% or more and their solvency ratio to be no less than 8%. The new regulatory framework adopted following Basel III, which has been in effect since the beginning of 2014, focuses on *the Common Equity* Tier 1 ratio. In 2014, in accordance with the transitional CRD IV/CRR, the requirement goes up to 6% for the Tier 1 ration and 8% for the solvency ratio.



* Data from bank groups and domestic banks on a consolidated basis, excluding insurance.

Source: ECB

The Portuguese banks’ solvency situation has improved considerably since 2011 and placed the new CET 1 ratio comfortably above the minimum requirements.



Since early 2014, the Portuguese banks have had to comply with the new transitional regime for adapting own funds implemented by CRD IV/CRR, which requires a Common Equity Tier (CET) 1 ratio of 7%. Up to the end of 2013, the Portuguese banks were obliged by Banco de Portugal to satisfy a Core Tier 1 ratio of no less than 10%.

• CET 1 ratio calculated in accordance with the new transitional regime established in the CRD IV/CRR.

Source: Banco de Portugal

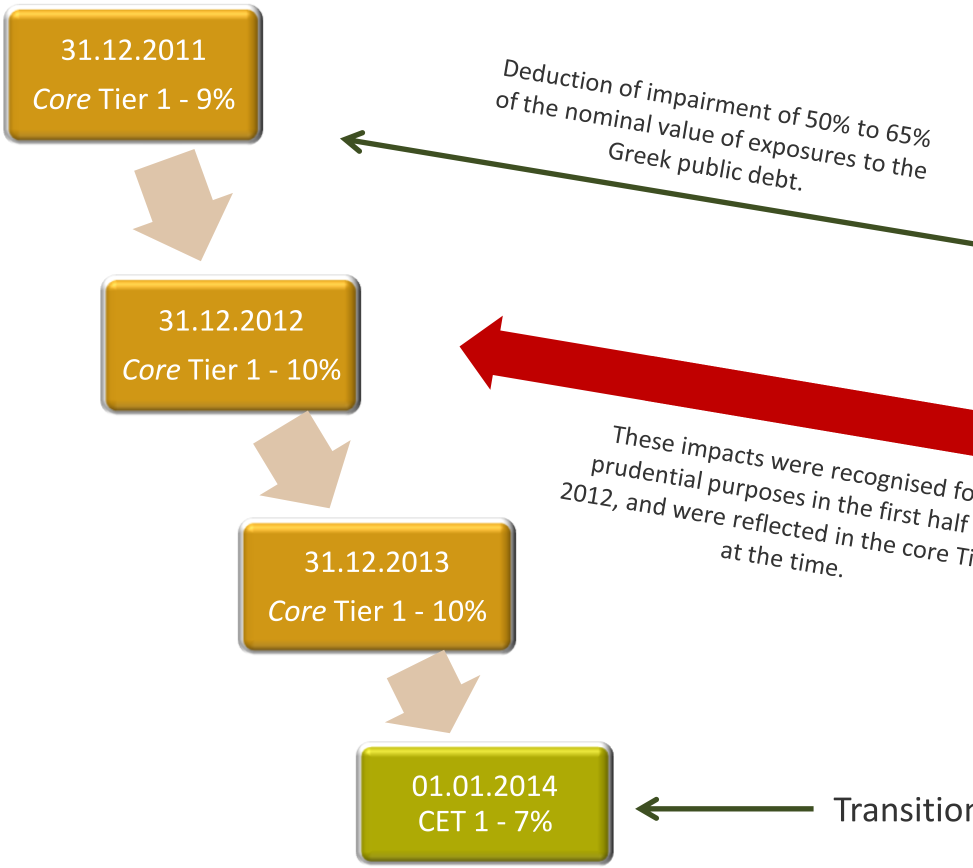
In the recent past the banking sector has had to deal with new regulatory requirements…

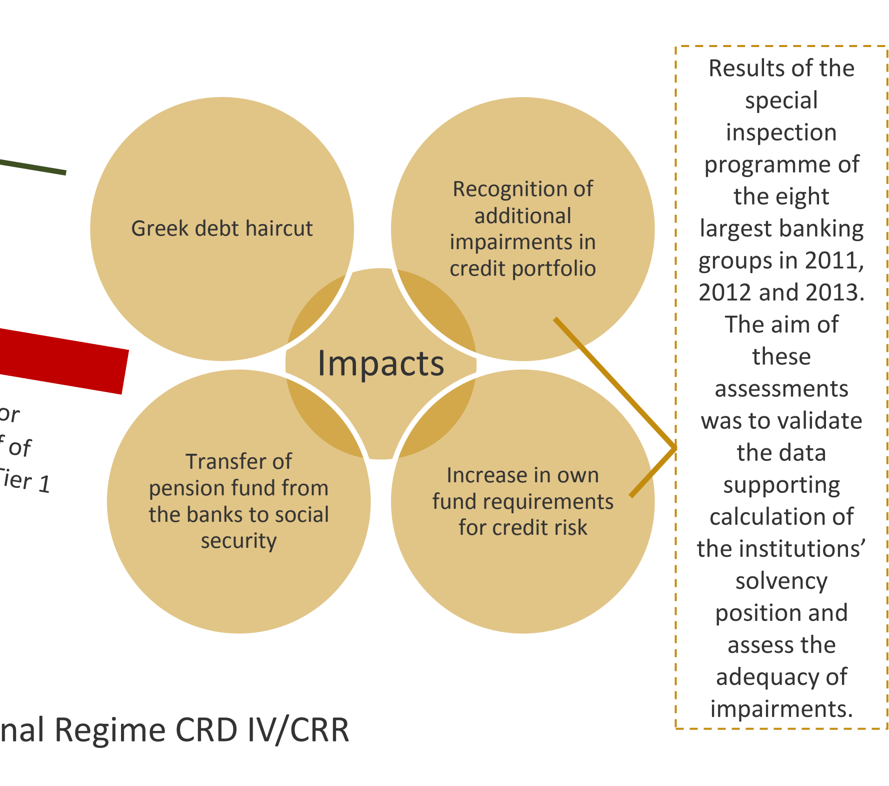
	Basel I 1992	Basel II 2004	Basel 2.5 2009	Basel III 2014
Capital require-ments	• Definition of Tier 1 and Tier 2 • Requirements: Tier 1 – 4%; Own funds – 8%	• Same requirements as Basel I		• New definition of capital • New buffers • Leverage ratio • Systemic risk
RWA require-ments	• Pillar 1 – market risk (change made in 1997) • Pillar 1 – Credit risk • Requirement: 8%	• New Pillar 1 – Credit risk • Pillar 2 – ICAAP • Pillar 3 – Disclosures • Requirements same as Basel I	• Revisions of securitisation instruments and trading book	• Counterparty risk • Requirements: CET – 4.5%; Tier 1 – 6% Tier 1 + Tier 2 – 8%
Liquidity require-ments				• Liquidity coverage ratio (LCR) • Net stable funding ratio (NSFR)

All values refer to the full implementation of the Basel accords.
Source: BIS, PwC

… with special focus on capital requirements

In addition to new values for the core Tier 1 ratio to be met, there are other factors that increase the capital needs of Portuguese banks, such as:





Source: APB, Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

V. Public recapitalisation and personal guarantees by the state for credit institutions

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MAY 2015

Timelines of public recapitalisation and personal guarantees from the state for credit institutions before the EFAP

	Oct. 2008	May 2009	Feb 2010	Mar. 2010	Jul. 2010	Jan. 2011
Guarantee Scheme	Regime approved up to Dec 2009 €20 bn	Budget amended €16 bn	Prorogued until Jun 2010 Budget amended € 9.150 M		Prorogued until Dec 2010	Prorogued until Jun 2011
Recapitalisation Scheme		Regime approved until Nov 2009 € 4 bn		Prorogued until Jun 2010 Budget amended € 3 bnb	Prorogued until Dec 2010	Prorogued until Jun 2011
	Law 60-A/2008	Law 63-A/2008	Law 3-B/2010			

* Use of both regimes cannot exceed EUR 9.150 bn.

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

Timelines of public recapitalisation and personal guarantees from the state for credit institutions during the EFAP

	Jun. 2011	Dec 2011	May / Jun. 2012	Dec 2012	Aug. 2013	Dec 2013	Jun. 2014
Guarantee Scheme	Prorogued until Dec 2011 Budget amended € 35.000 M	Prorogued until Jun 2012	Prorogued until Dec 2012	Prorogued until Jun 2013	Prorogued until Dec2013	Prorogued until Jun 2014	Prorogued until Dec 2014
Recapitalisation Scheme	Prorogued 31 Dec 2011 Budget amended € 12 bn		Prorogued until Dec 2012	Prorogued until Dec 2013			
	Law 48/2011 Law 4/2012						

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

The Portuguese banks got through the financial crisis with no state support in terms of recapitalisation…

State support schemes used until end of June 2011

Recapitalisation (Equity) | EUR 3 bn → Not used*

Guarantees | EUR 9.15 bn → **Σ= EUR 4.95 bn**

> 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

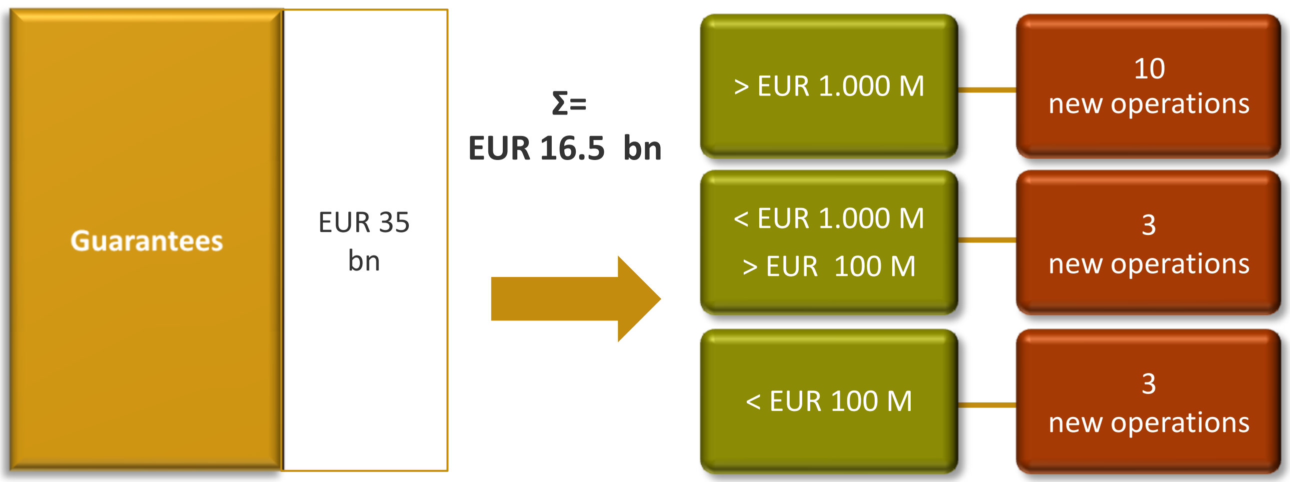
By the end of June 2011:

- 6 banks (including CGD) had used the guarantee scheme
- 2 operations to the amount of EUR 75 m had been amortised (one in 2009, the other in 2010)
- The amount of guarantees in effect totalled EUR 4.875 bn, i.e. 53% of existing 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 recapitalization scheme budget.
Source: APB, European Comission– DGCOMP, Portuguese Ministry of Finance (DGTF)

… meanwhile, the public debt crisis led to an increase in use of state guarantees.

Use of state guarantees since July 2011



- Since 2011:
  - **6 banks** have used the guarantee scheme in new financing operations.
  - The new operations totalled **EUR 16.525 bn**, i.e. **47.2%** of the existing budget.

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

Use of the Recapitalisation Scheme was made later to comply with the rules imposed by Banco de Portugal and the EBA.

Use of recapitalisation scheme

Recapitalisation

EUR 12 bn

Σ= EUR 5.6 bn*

3 operations between June 2012 and the beginning of 2013

Σ= EUR 3.9 bn*

1 loan to the Resolution Fund in August 2014

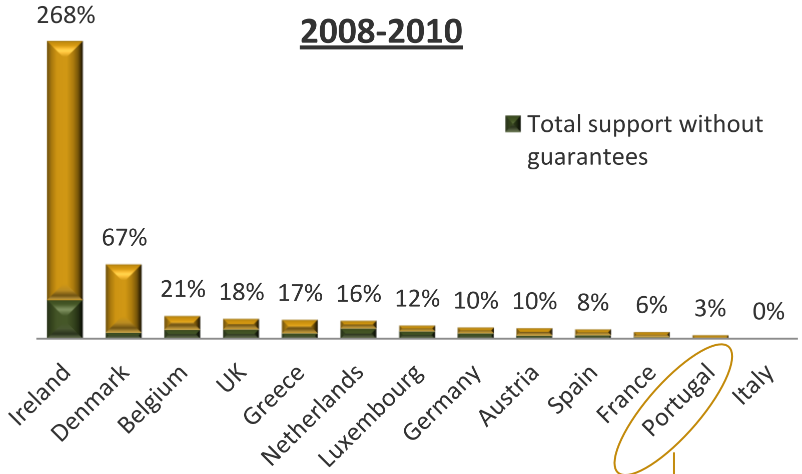
- **At the end of December 2014, the banks that had used the Recapitalisation Scheme had repaid EUR 4.025 bn.** The amount used to date was EUR 1.575 bn.

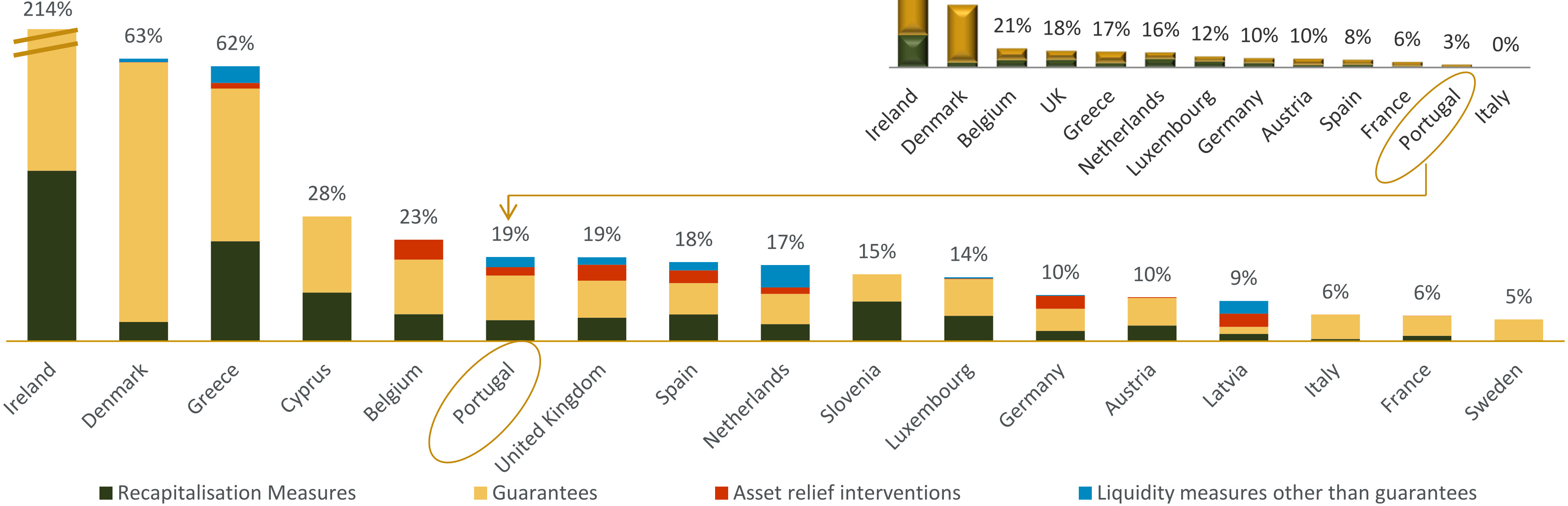
* Not including recapitalisation of CGD in June 2012 to the amount of EUR 1.65 million.

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

State aid used by the Portuguese banks up to 2010 was 3% of GDP, rising to 19% in 2013.

State aid to financial sector as a percentage of GDP*

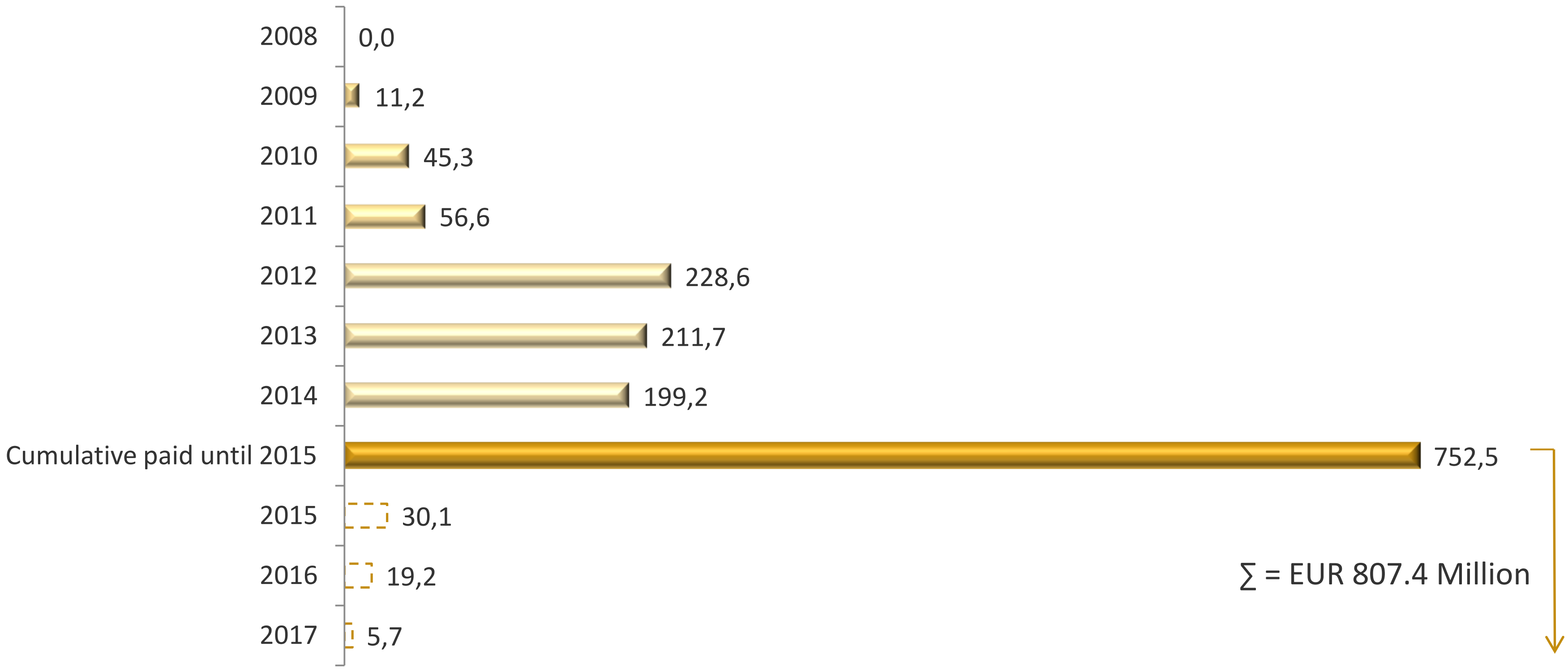




* The data on guarantees and injections of liquidity refer to 2009, at the peak of use of these instruments in Europe.
Source: European Comission

Guarantee commissions paid and payable by credit institutions.

Commissions paid and due annually * (EUR millions)



* Estimates.

Source: APB, Portuguese Ministry of Finance (DGTF)

PORTUGUESE BANKING SECTOR OVERVIEW

VI. Profitability

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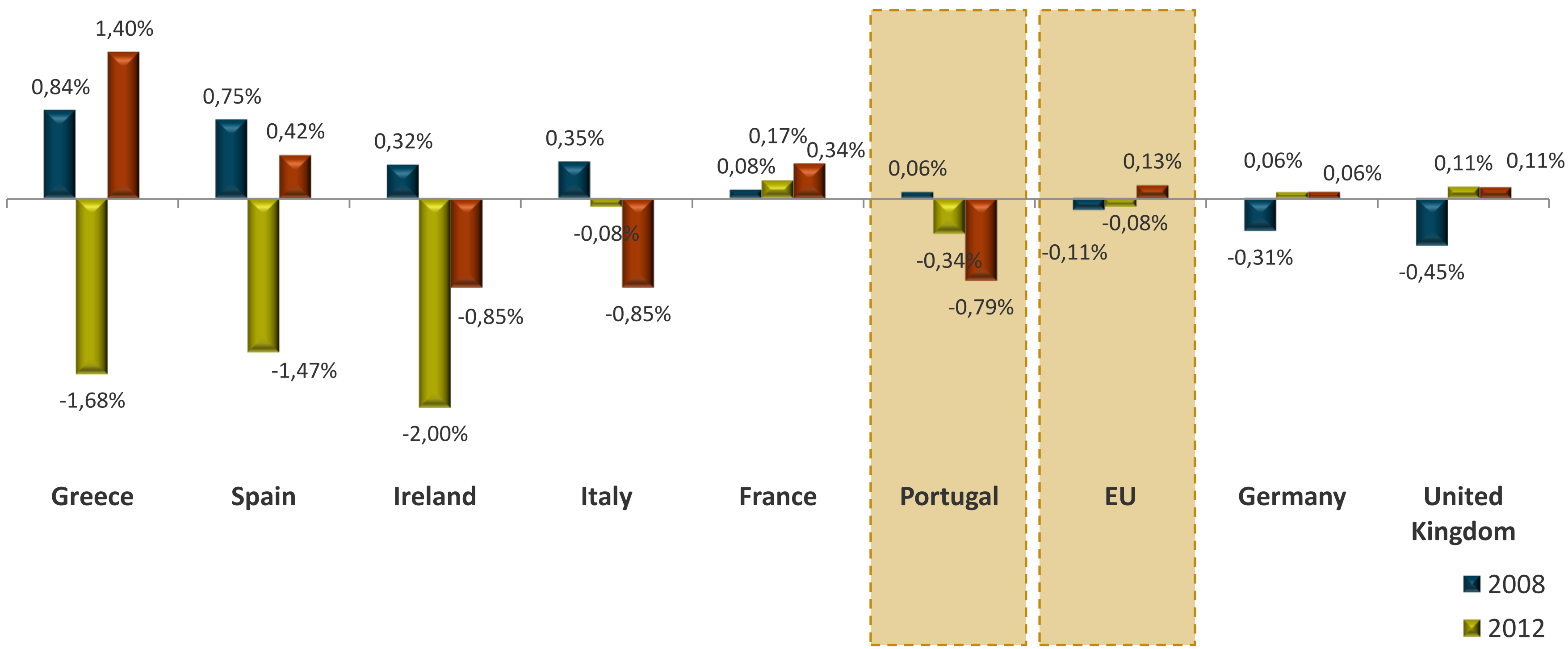
The return on Portuguese banks' assets has fallen in recent years and has not accompanied the European climate of recovery.

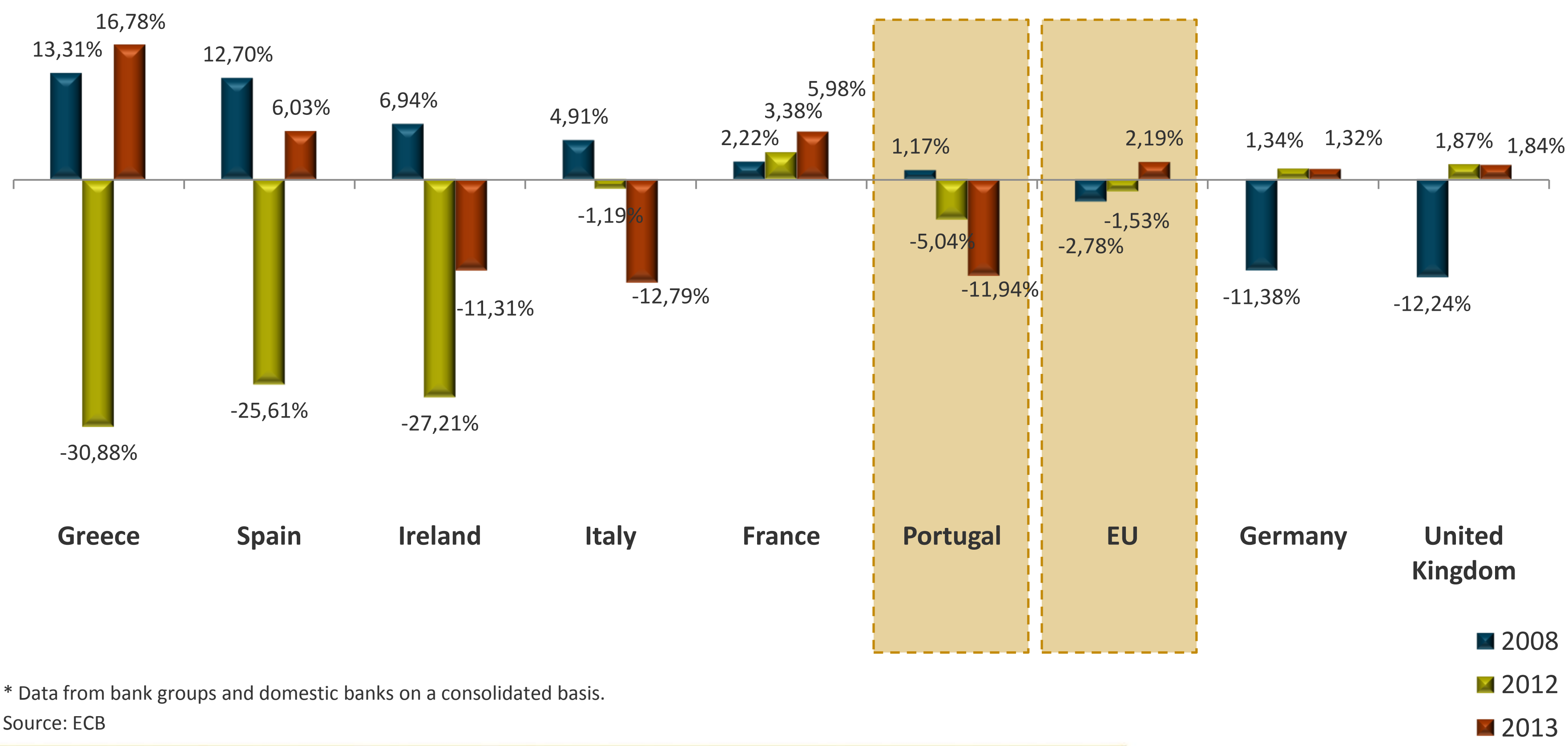
ROA - Return on Assets*



* Data from bank groups and domestic banks on a consolidated basis.
Source: ECB

We find a similar performance in an analysis of return on equity.

ROE - Return on Equity*

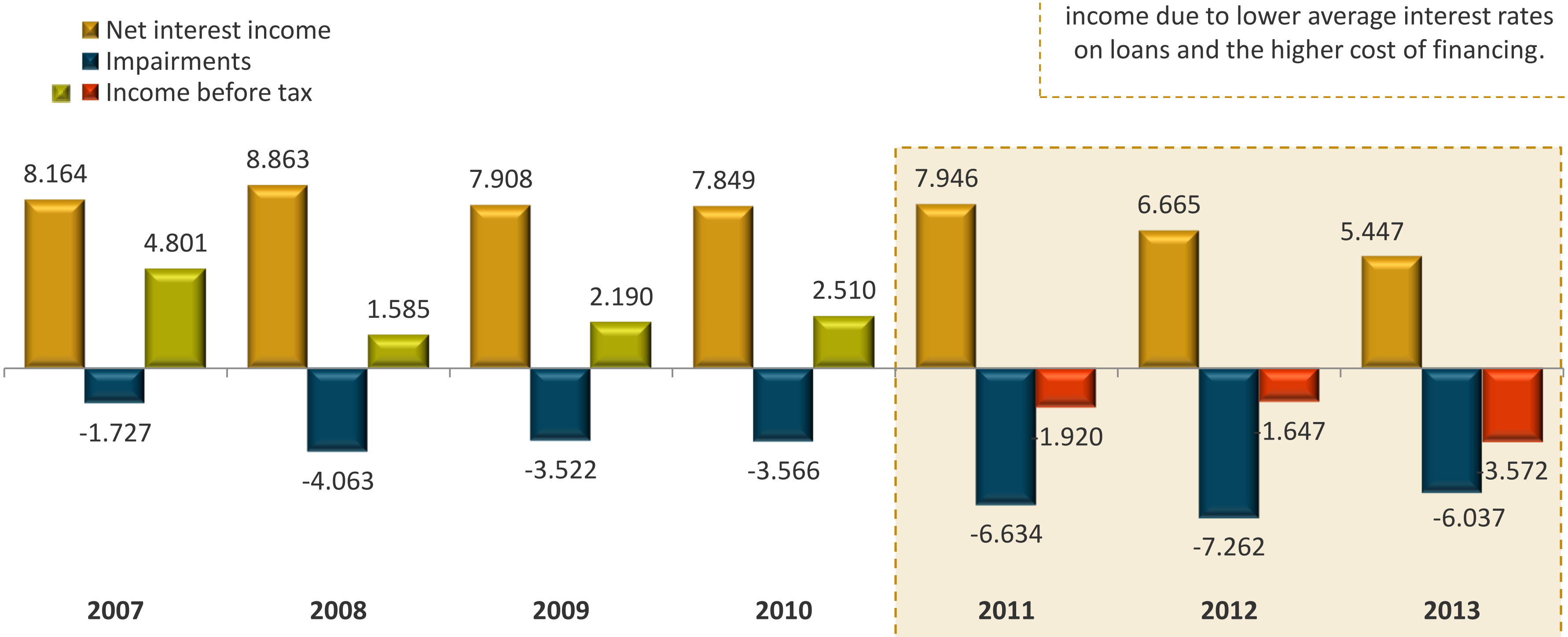


* Data from bank groups and domestic banks on a consolidated basis.
Source: ECB

The increase in credit risk in Portugal led to a rise in banks' impairments, which affected their profits.

The profits of the Portuguese banking sector have fallen in recent years, not only because of the increase in impairments but also due to a reduction in net interest income due to lower average interest rates on loans and the higher cost of financing.

Net interest income, impairments and profit before tax of Portuguese banks on a consolidated basis (EUR million)



Source: Banco de Portugal

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Since 2011, Banco de Portugal has conducted several inspections of the largest Portuguese banking groups to assess whether their impairments were adequate.

	1st Exercise 2nd half 2011	**2nd Exercise** 2nd half 2012	**3rd Exercise** Jun – Jul 2013	**4th Exercise** Oct 2013 – Mar 2014
Reference date:	30 June 2011	30 June 2012	30 April 2013	30 September 2013
Scope:	▪ Assessment of credit portfolio (EUR 281 bn - 72% to 100% of each bank's total portfolio) ▪ Validation of credit risk capital requirements ▪ Assessment of parameters and methods used in stress test.	▪ Assessment of credit portfolio – exposure to construction and real estate sectors in Portugal and Spain (56% of population analysed – EUR 69 bn).	▪ Assessment of credit portfolio (EUR 93 bn analysed)	▪ 12 business groups (EUR 9.4 bn)
Results:	▪ Need to reinforce impairments: EUR 596 m ▪ Increase in capital requirements: 0.6% ▪ Impact on Tier 1 ratio: 9.1% to 8.8%	▪ Need to reinforce impairments: EUR 474 m	▪ Need to reinforce impairments: EUR 1.127 bn (reinforced by 30 June 2013)	▪ Need to reinforce impairments : EUR 1.003 bn

Source: Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

Annex I: Comprehensive Assessment

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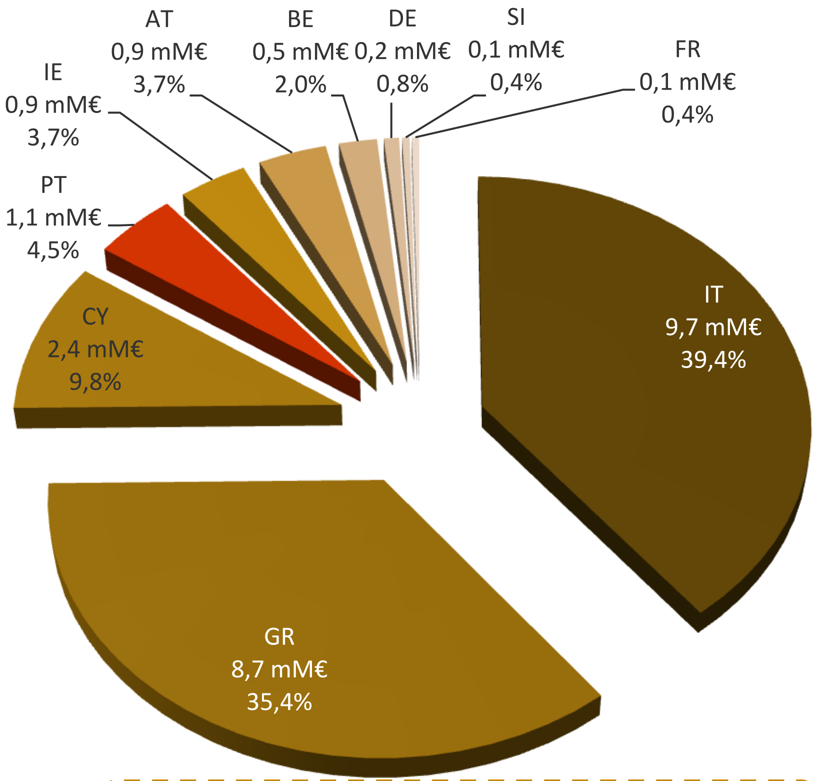
The results of the Comprehensive Assessment showed deficits in own funds for 25 European banks to a total of €24.6 bn.



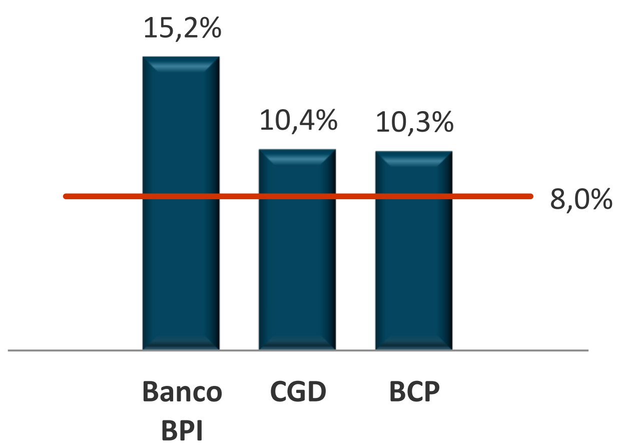
∑ = 24.6 bn euros

Source: APB, EBA

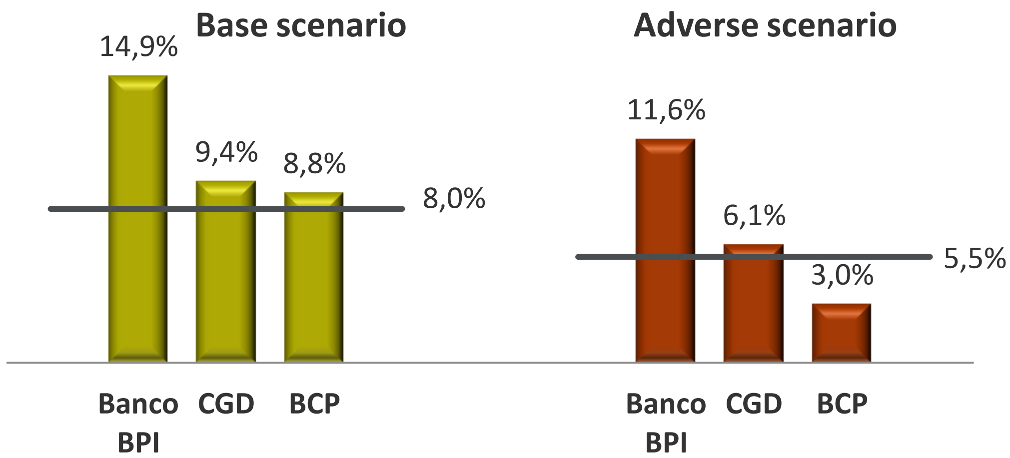
- In October 2014, the European Banking Authority published the results of the comprehensive assessment of 130 European banks, which at the end of 2013 accounted for 81.6% of total assets of the banking sectors in the participating countries in the single supervision mechanism.
- The Comprehensive Assessment consisted of two components:
  - AQR - Asset Quality Review
  - Stress tests – assessment of banks' resilience in unfavourable macroeconomic scenarios (base and adverse scenario).
- The shortfall of own funds identified in the Comprehensive Assessment was 24.6 bn euros.

In Portugal, the assessment covered three bank groups who successfully completed the AQR and showed resilience in the base scenario of the stress tests.

CET 1 ratio as at 31.12.2013, adjusted by impairments arising from AQR*



CET 1 ratio projected to 31.12.2016 in base and adverse scenarios of stress tests*



The assumptions of the test were especially punishing for the Portuguese banks, as the reference base was already highly unfavourable due to the macroeconomic context in Portugal.

In 2014, BCP took measures to meet the capital needs detected in the adverse scenario and now exceeds the minimum requirements, though they were not considered in the test for methodological reasons.

* Of the Portuguese banks included in the exercise.

Source: APB, Banco de Portugal, EBA

PORTUGUESE BANKING SECTOR OVERVIEW

Annex II:
Methodology

ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015

Methodology

- Unless otherwise expressly indicated, all the balance sheet data are aggregates from the entire banking system of the country in question.
- The balance sheet data analysed in this publication are mostly on an individual basis aggregated for the entire banking system.
- The item credit balance includes the following financial instruments:
    - Loans, certificates of deposit, repurchase agreements, securitised credit operations, overdue loans and doubtful debts.
- The solvency analyses are based on consolidated data from the financial institutions.

PORTUGUESE BANKING SECTOR OVERVIEW

ASSOCIAÇÃO PORTUGUESA DE BANCOS

MAY 2015