

# PORTUGUESE BANKING SECTOR OVERVIEW

# CONTENTS

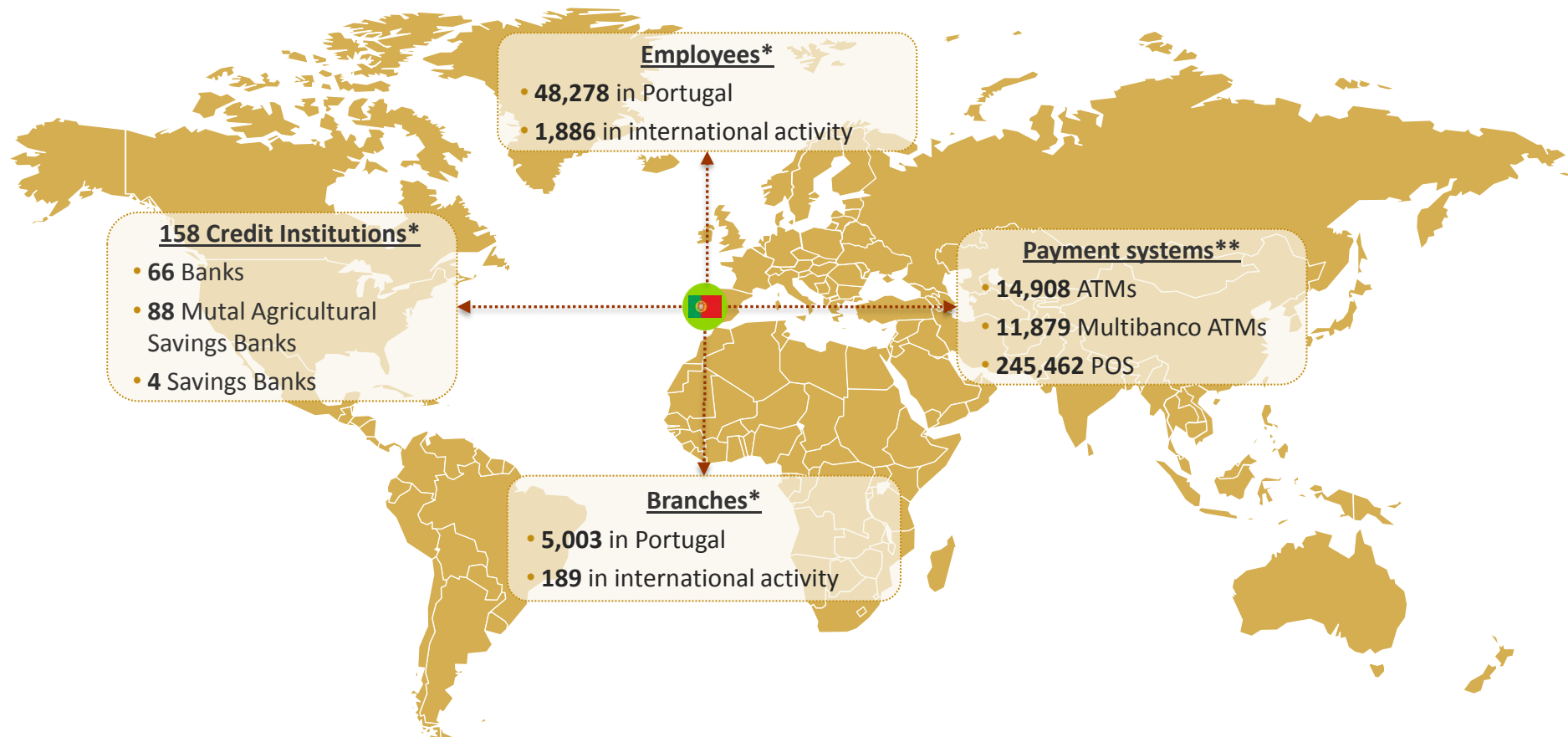
- I. The Portuguese banking sector
- II. Lending
- III. Funding
- IV. Solvency
- V. Profitability
- VI. Public recapitalization schemes and personal guarantees by the State to credit institutions

Anexo I: Methodology

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

## I. The Portuguese banking sector

# THE PORTUGUESE BANKING SECTOR



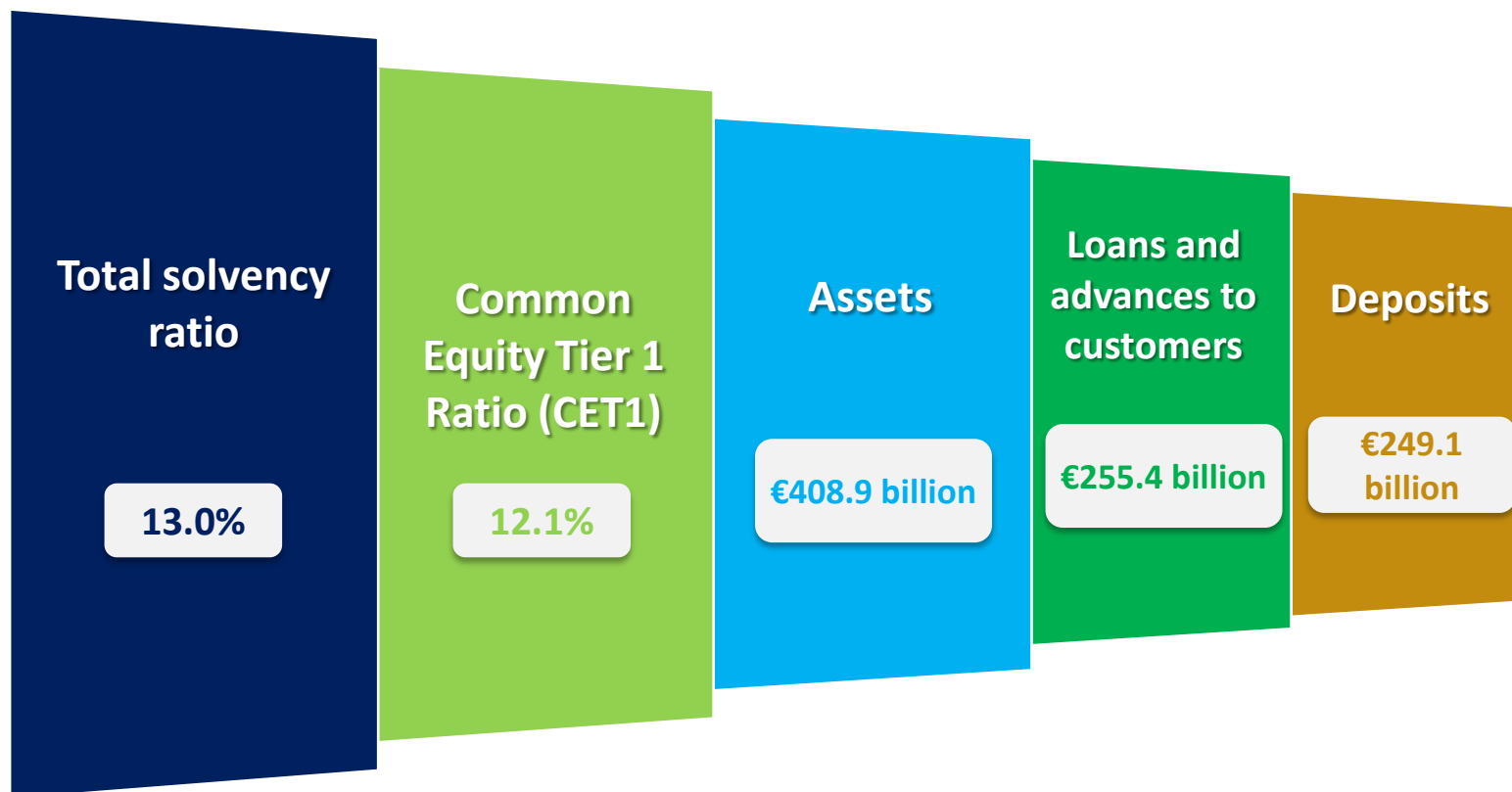
Source: APB, Banco de Portugal, ECB, INE.

\*Data as at June 2016

\*\* Data as at December 2015

# THE PORTUGUESE BANKING SECTOR

## Main financial indicators\*

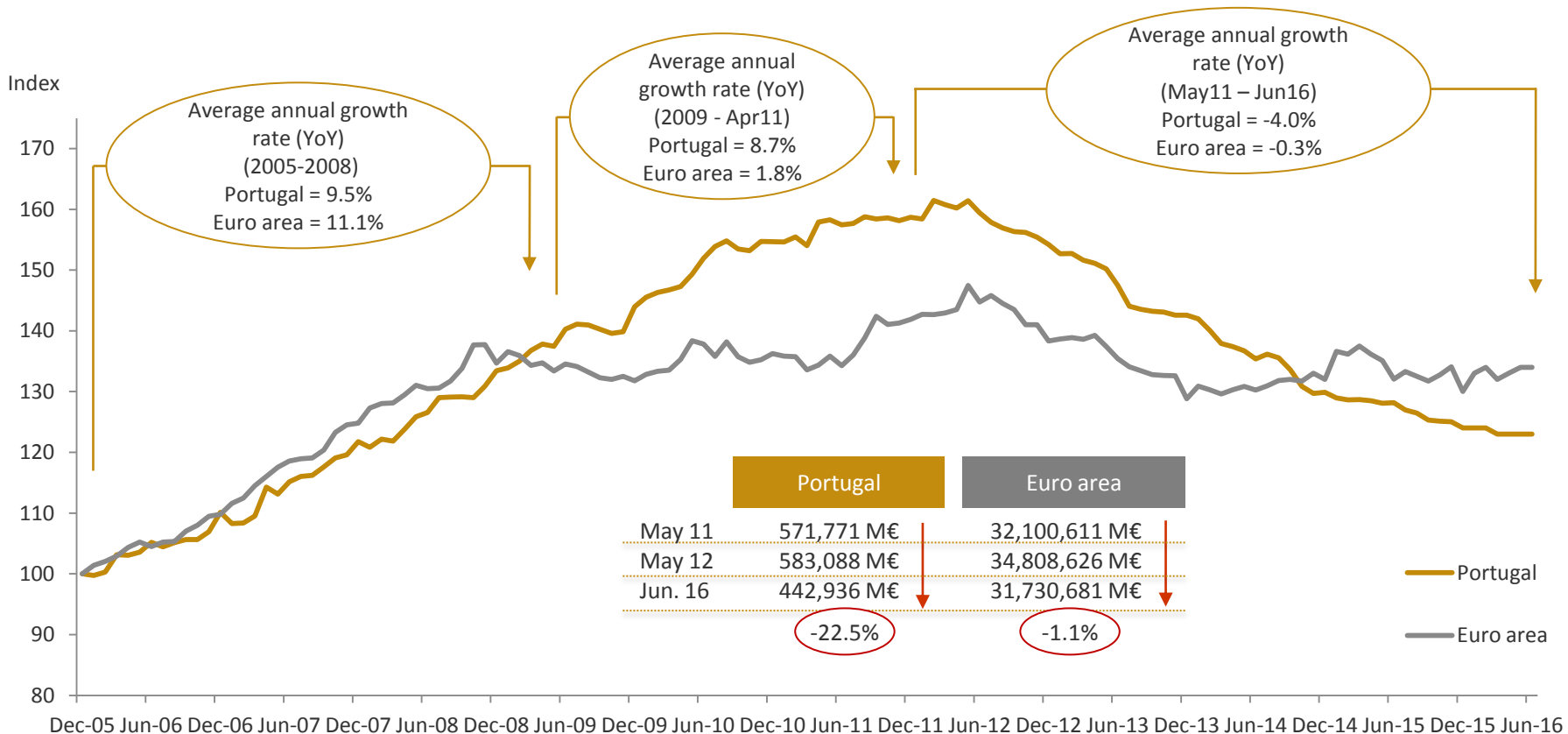


\*Data as at March 2016  
Source: Banco de Portugal

# THE PORTUGUESE BANKING SECTOR

## Total assets in the banking sector (Dec 2005=100)

Unlike in the euro area, the Portuguese banking sector deleveraging process only began after the Economic and Financial Adjustment Programme (EFAP).

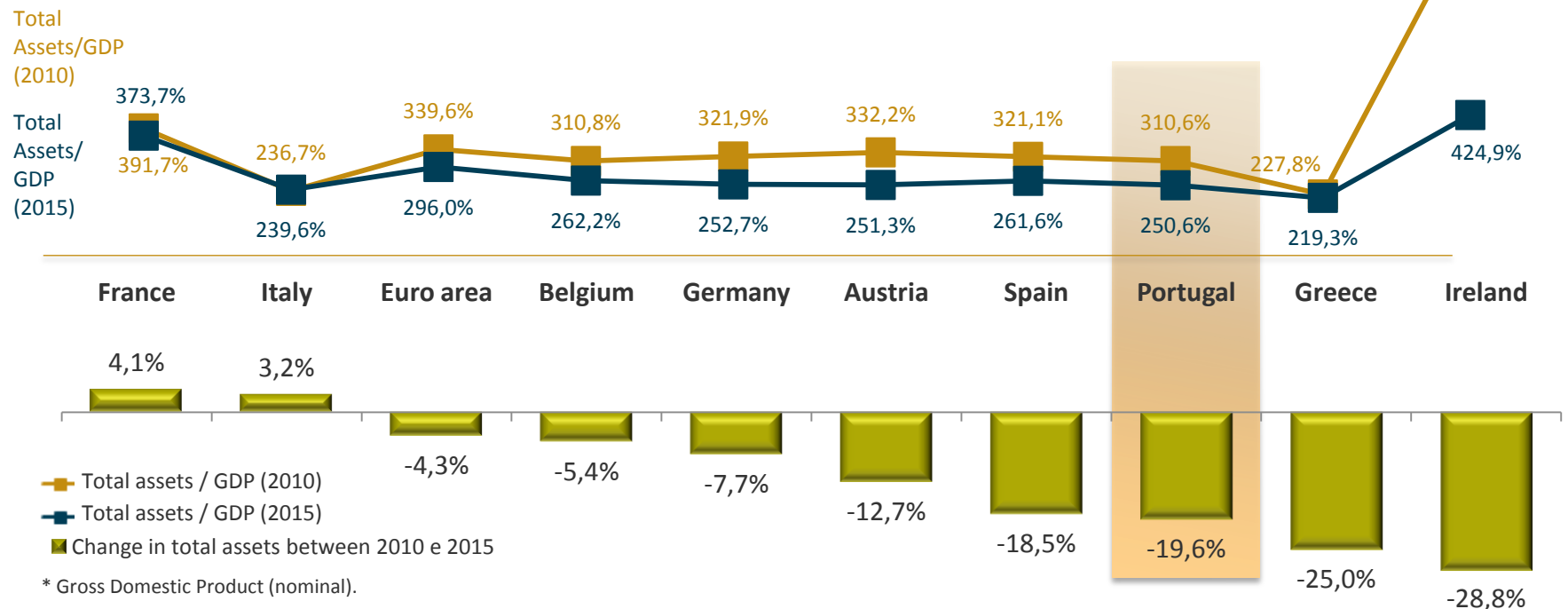


Source: ECB

# THE PORTUGUESE BANKING SECTOR

## Total assets over GDP\* and change in total assets (2010 to 2015)

The resizing of the banking sector took place not only in Portugal, but also in most euro area countries. Despite the decrease in the GDP in the same period, the more pronounced contraction in the banking sector's total assets led to a reduction in their weight in each country's GDP.



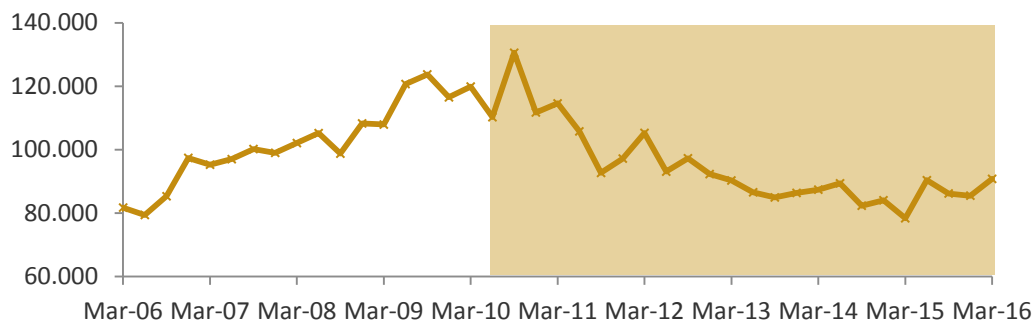
\* Gross Domestic Product (nominal).

Source: ECB, Eurostat

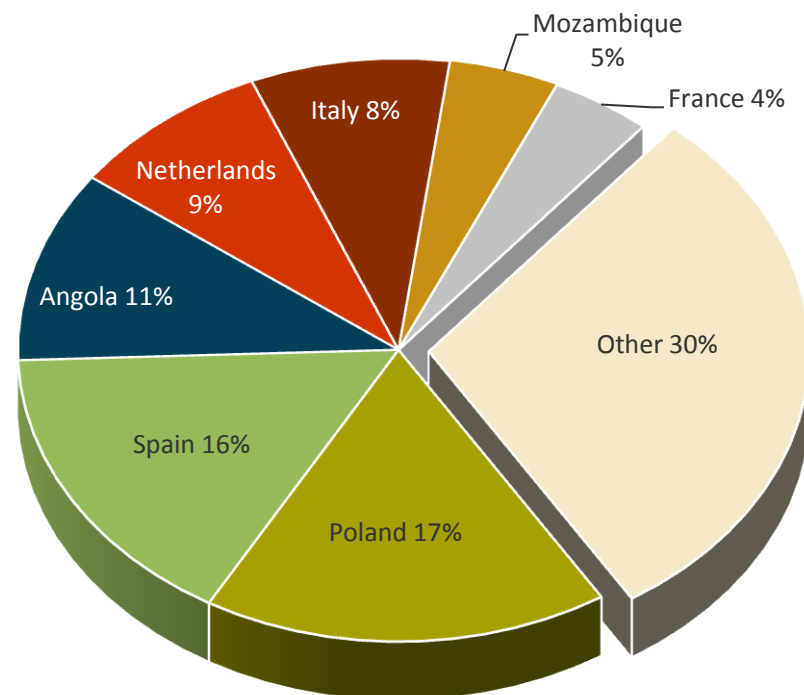
# THE PORTUGUESE BANKING SECTOR

## Loans, advances and liabilities of the Portuguese banking sector in relation to international entities (EUR million)\*

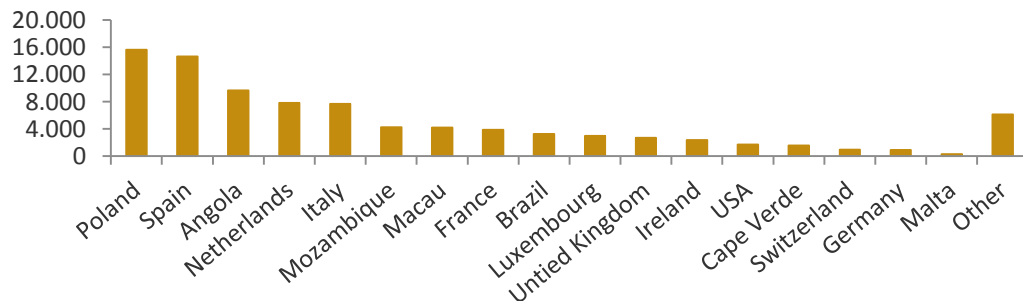
The deleveraging of the Portuguese banks resulted in a reduction of their international exposure.



Exposure by country (March 2016)



Exposure by country : EUR million (1<sup>st</sup> quarter 2016)



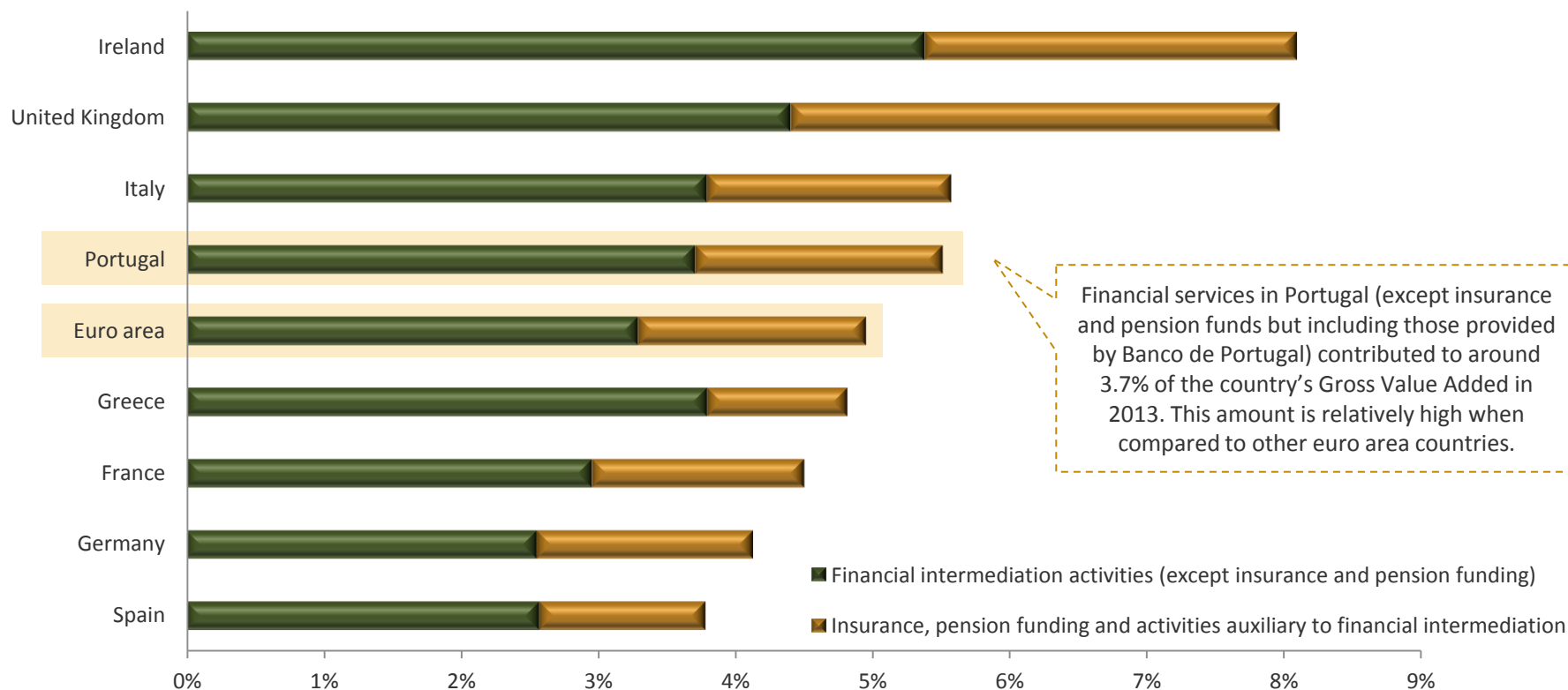
\* Defined as loans, advances and liabilities of Portuguese banking groups on a consolidated basis, excluding intra-group exposure in relation to international entities, including loans, advances and deposits with other banks, loans and advances to non-banking entities and debt securities. It excludes derivatives and other risk-transfer instruments.

Source: Bank for International Settlements



# THE PORTUGUESE BANKING SECTOR

## GVA\* of financial services in proportion to total GVA

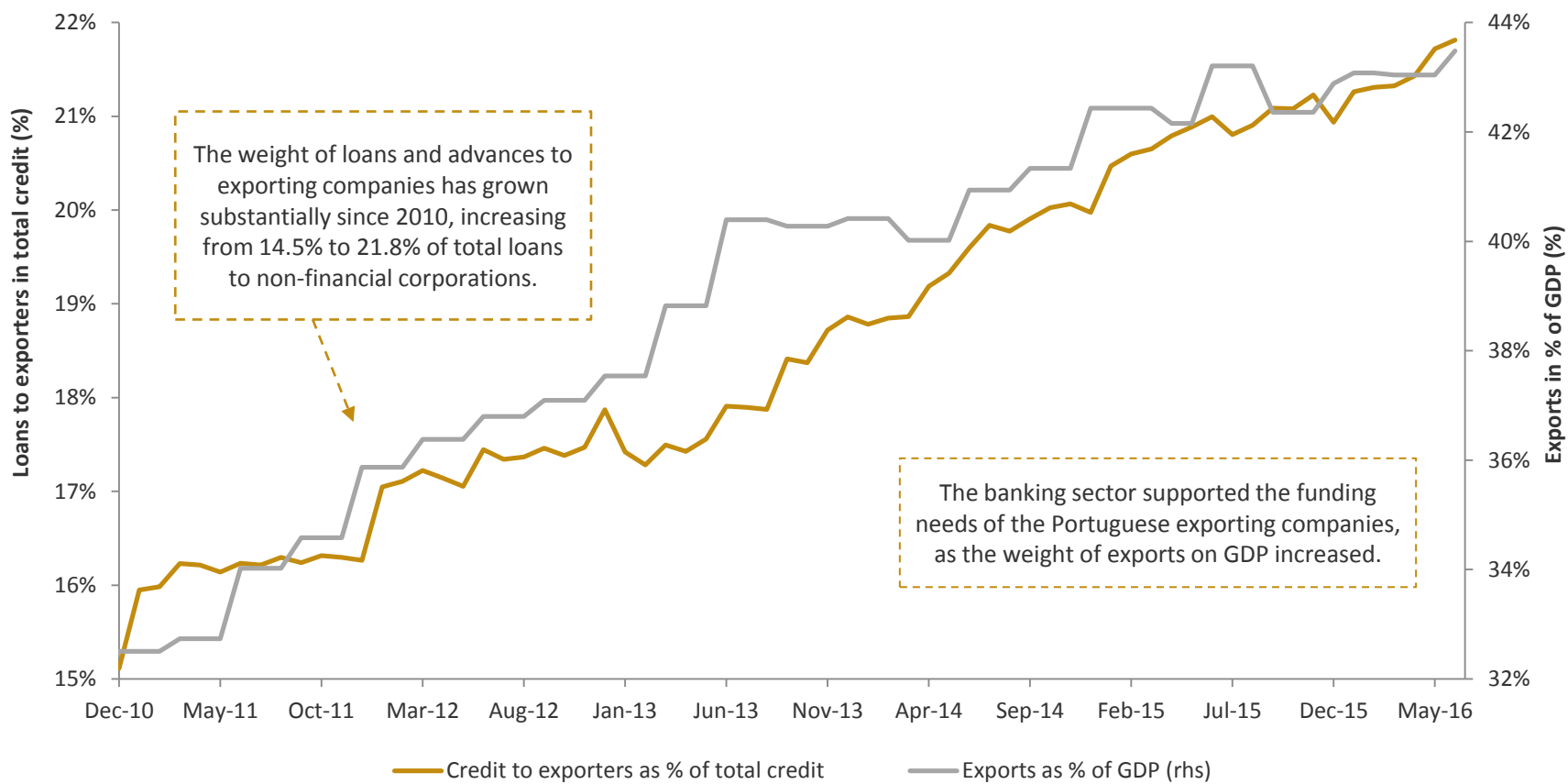


\*Gross Value Added, current prices.

Source: Eurostat, INE, Central Statistics Office Ireland

# THE PORTUGUESE BANKING SECTOR

## Weight of exports in GDP and credit to exporters as % of total credit



Source: INE, Banco de Portugal

# THE PORTUGUESE BANKING SECTOR

## Recent developments (March to June 2016)

---

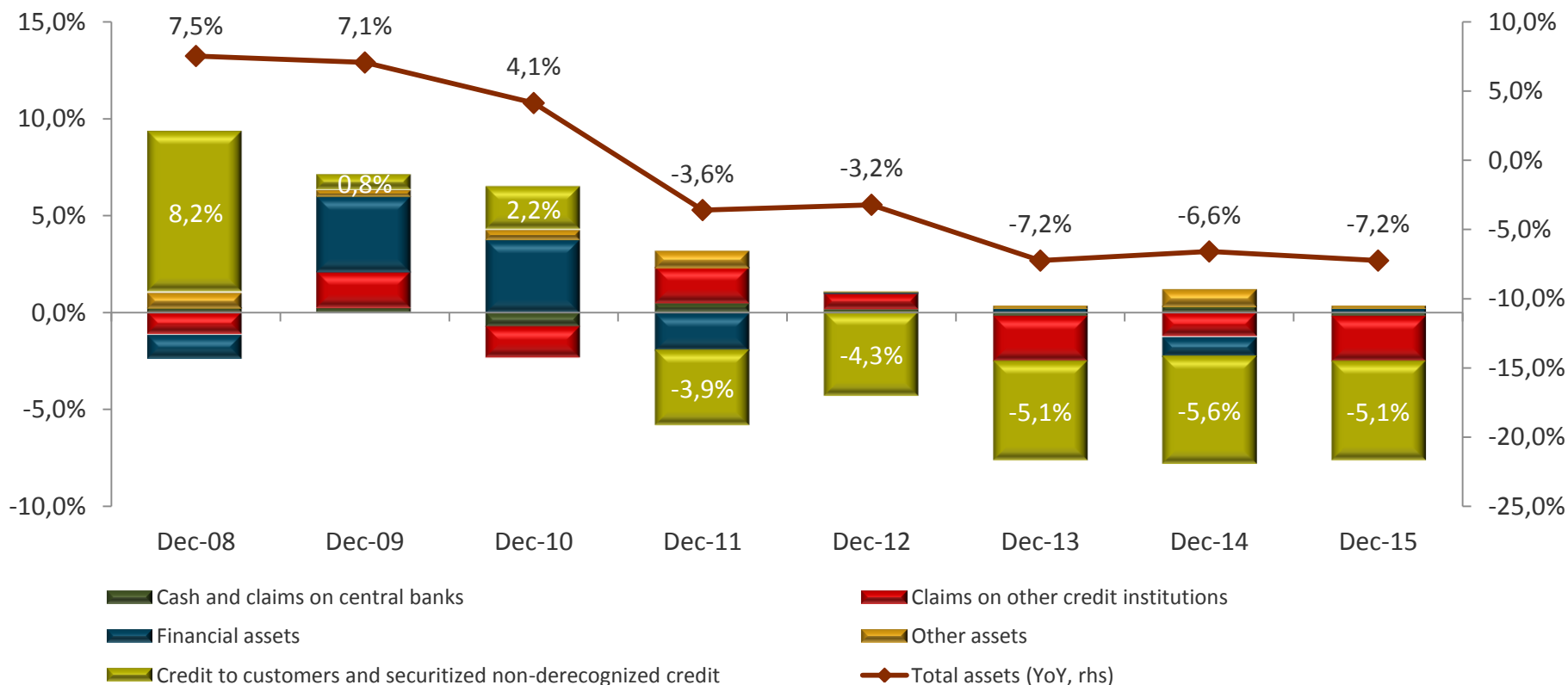
- **Total assets in the sector fell 0.3% in the 2<sup>nd</sup> quarter of 2016, after declining 1.1% in the previous quarter. In the last 12 months, however, total assets fell 4.2%. Loans and advances decreased 0.6% in the quarter and 4.3% YoY.**
- **The credit standards in loans and advances remained broadly unchanged in the 2<sup>nd</sup> quarter. Demand for loans and advances in households grew, while remaining stable in the non-financial corporations segment.**
- **Deposits from the non-monetary sector increased 0.7% between March and June of 2016. In the 12-month horizon, deposits grew 0.9% and remained the Portuguese banking sector's main source of funding.**
- **The national banking sector's profitability remained positive in the 1<sup>st</sup> quarter of 2016, reflecting a smaller volume of impairments and a more robust net interest income, in contrast with minor net gains from financial operations.**
- **The average Common Equity Tier 1 ratio was 12,1% in the 1<sup>st</sup> quarter of the year.**

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

## II. Lending

The performance of total assets since 2011 was mainly driven by the contraction in credit to customers.

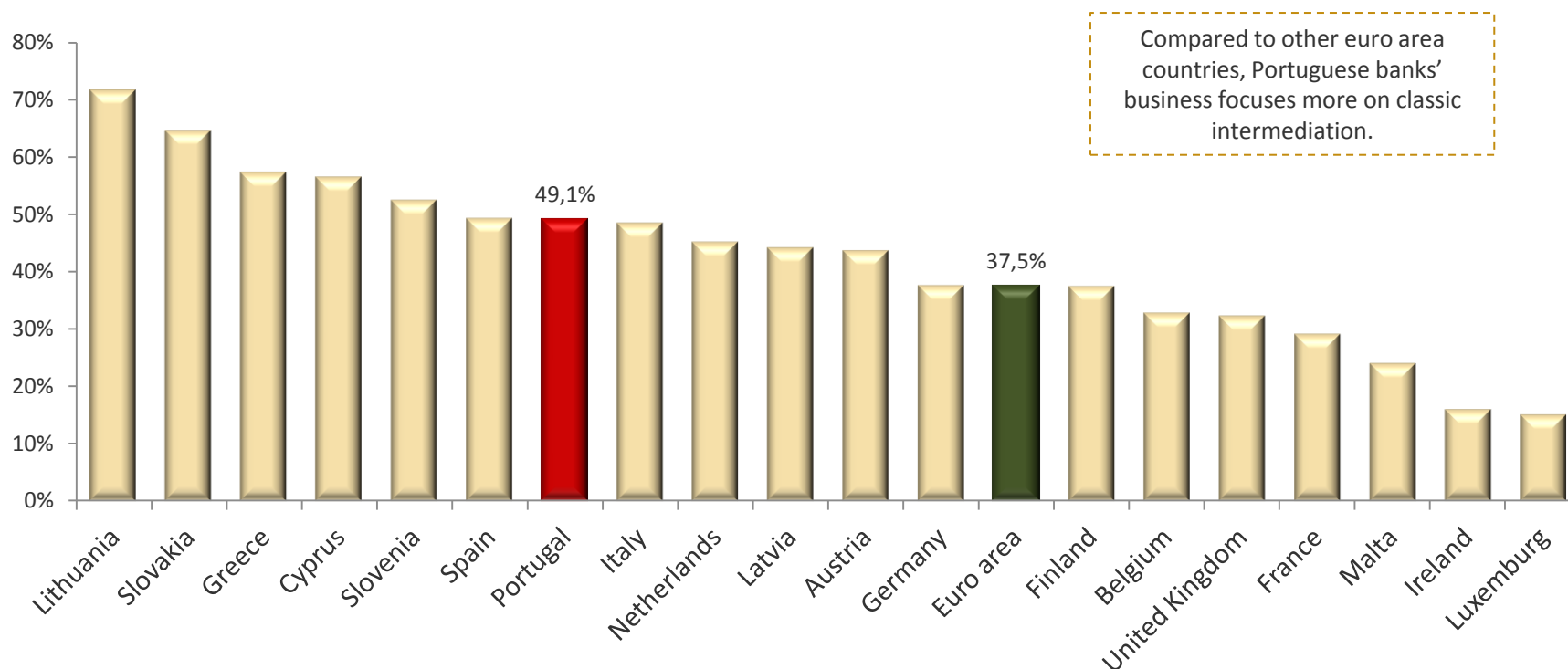
Contribution of each asset item to aggregate annual variation (% change, YoY)



Source: Banco de Portugal

In spite of the contraction, loans and advances to customers still represent roughly 49% of Portuguese banks' total assets.

**Loans to customers\* in proportion to total assets (June 2016)**

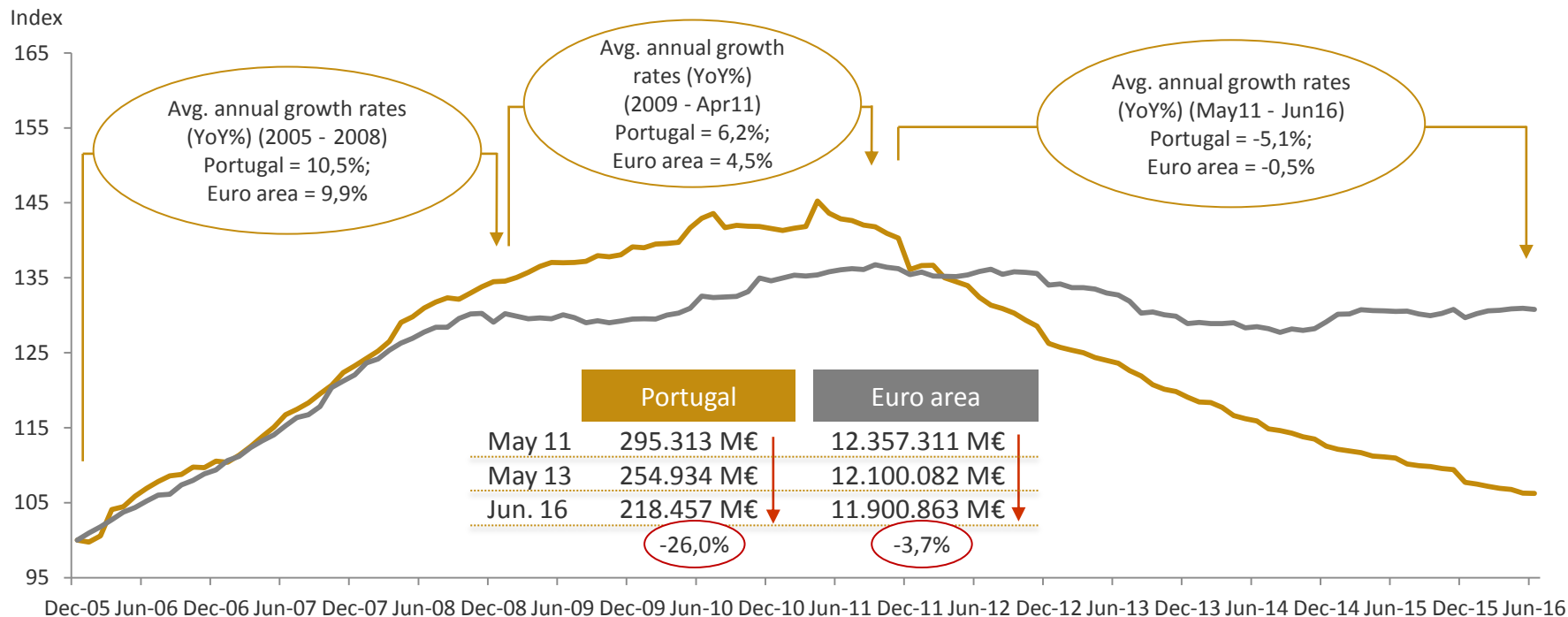


\* Loans to the non-monetary sector (gross end-of-month balances)

Source: ECB

Following the EFAP, loans and advances exhibited a sharp downward trend in Portugal, as opposed to a stabilisation in the euro area.

**Loans and advances\*(Dec 2005=100)**



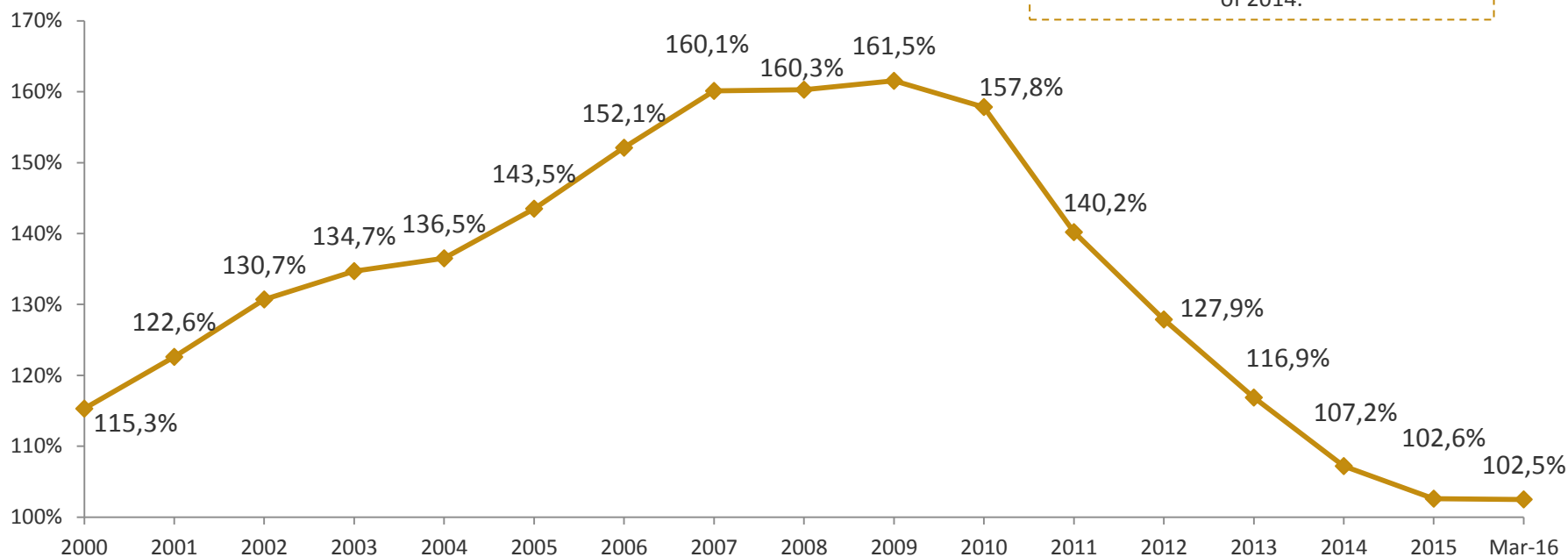
\* Loans to the non-monetary sector (gross outstanding amounts at the end of period).

Source: ECB

— Portugal — Euro area

The reduction in the Loan-to-Deposit ratio reflects the deleveraging process that has been taking place in the Portuguese banking system.

**Consolidated Loan-to-Deposit ratio\***



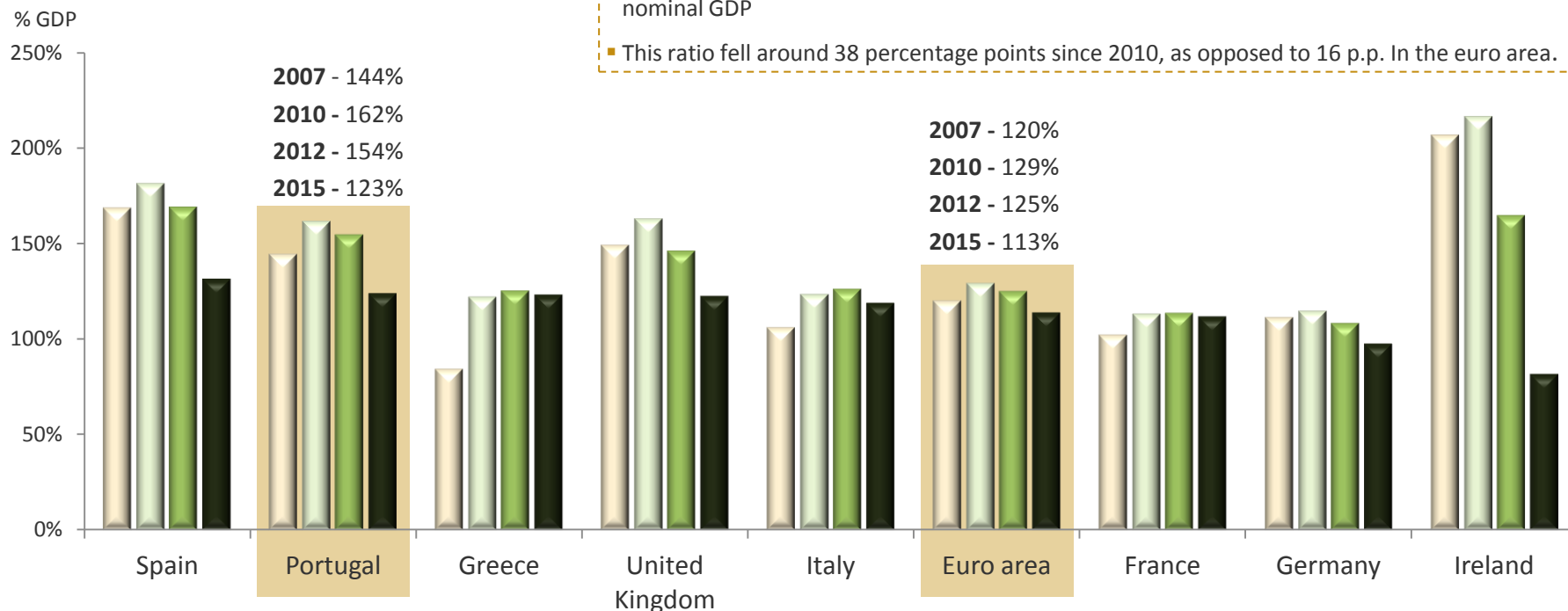
\* Loans and advances net of impairments (including securitised and non-derecognised). End of period balances

Source: Banco de Portugal



# The level of borrowing from banks in the Portuguese economy has been decreasing, approaching the European figure.

## Customer loans\* / GDP ratio



- The deleveraging process carried out by the Portuguese banks, in tandem with sluggish demand for loans and advances, led to a decrease of almost 10 percentage points in the customer loans / GDP ratio in 2015.
- At the end of 2015, loans and advances to customers in Portugal accounted for around 123% of nominal GDP
- This ratio fell around 38 percentage points since 2010, as opposed to 16 p.p. in the euro area.

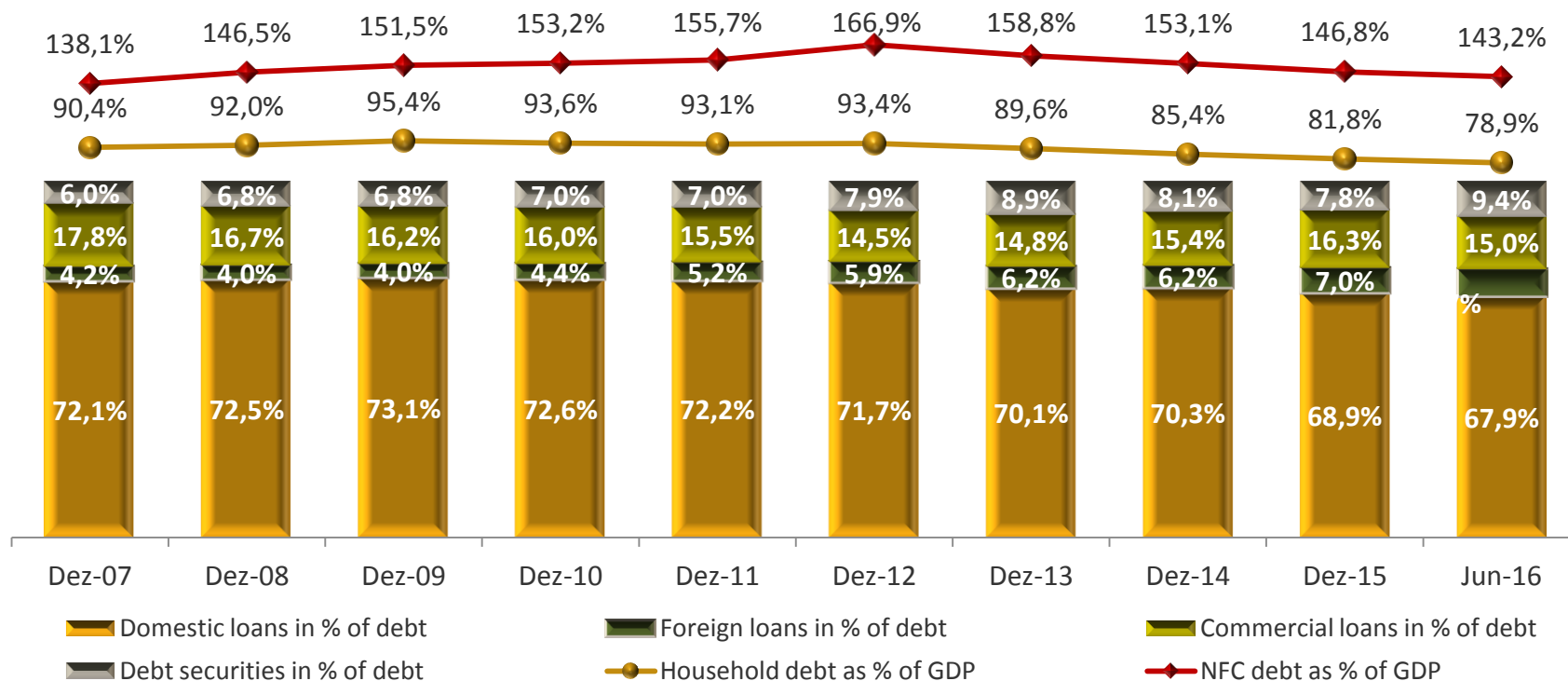
\*Loans to the non-monetary sector (gross outstanding amounts at the end of period)

Source: ECB, Eurostat

■ 2007 ■ 2010 ■ 2012 ■ 2015

# Bank loans represent approximately 76% of the funding needs of the Portuguese private sector.

**Bank loans as a % of total debt and debt as a % of GDP – private sector \* (2007 to June 2016)**

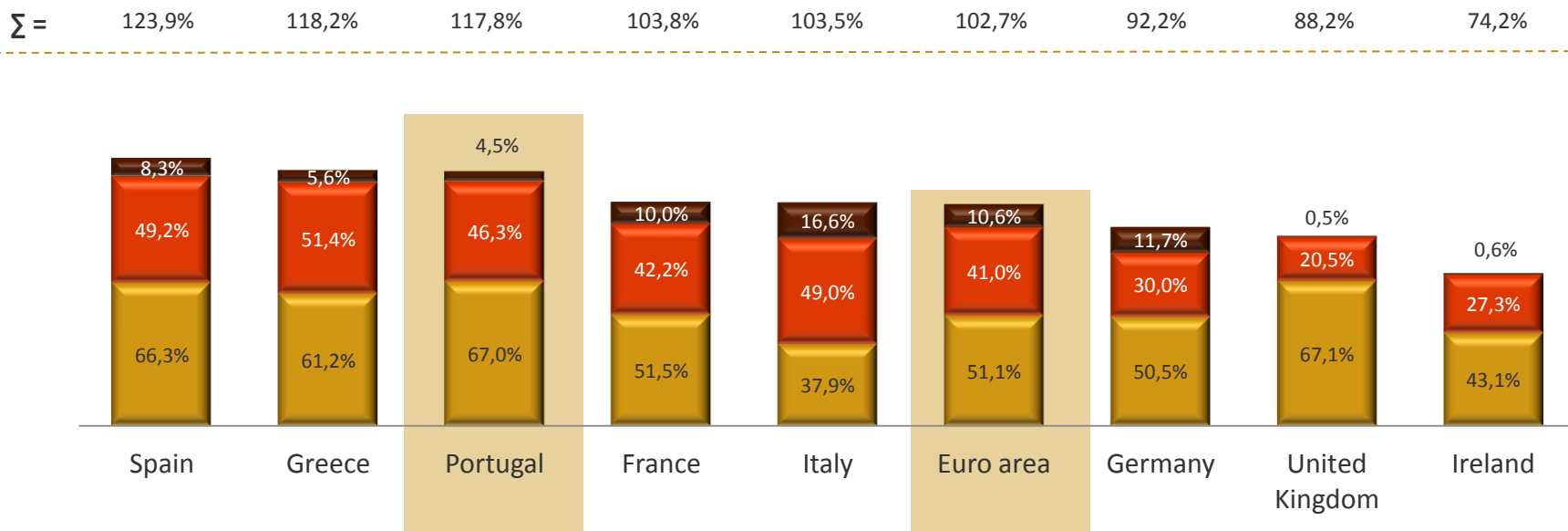


\* Includes households and non-financial corporations (outstanding amounts, end of month).

Source: Banco de Portugal

The weight of loans and advances to individuals and non financial firms in Portugal's GDP is significantly higher than in most countries in the euro area.

**Weight of loans to private customers, non-financial firms and the public administration in GDP\* in Portugal and other EU countries (December 2015)**



\* Includes only loans but not public debt securities

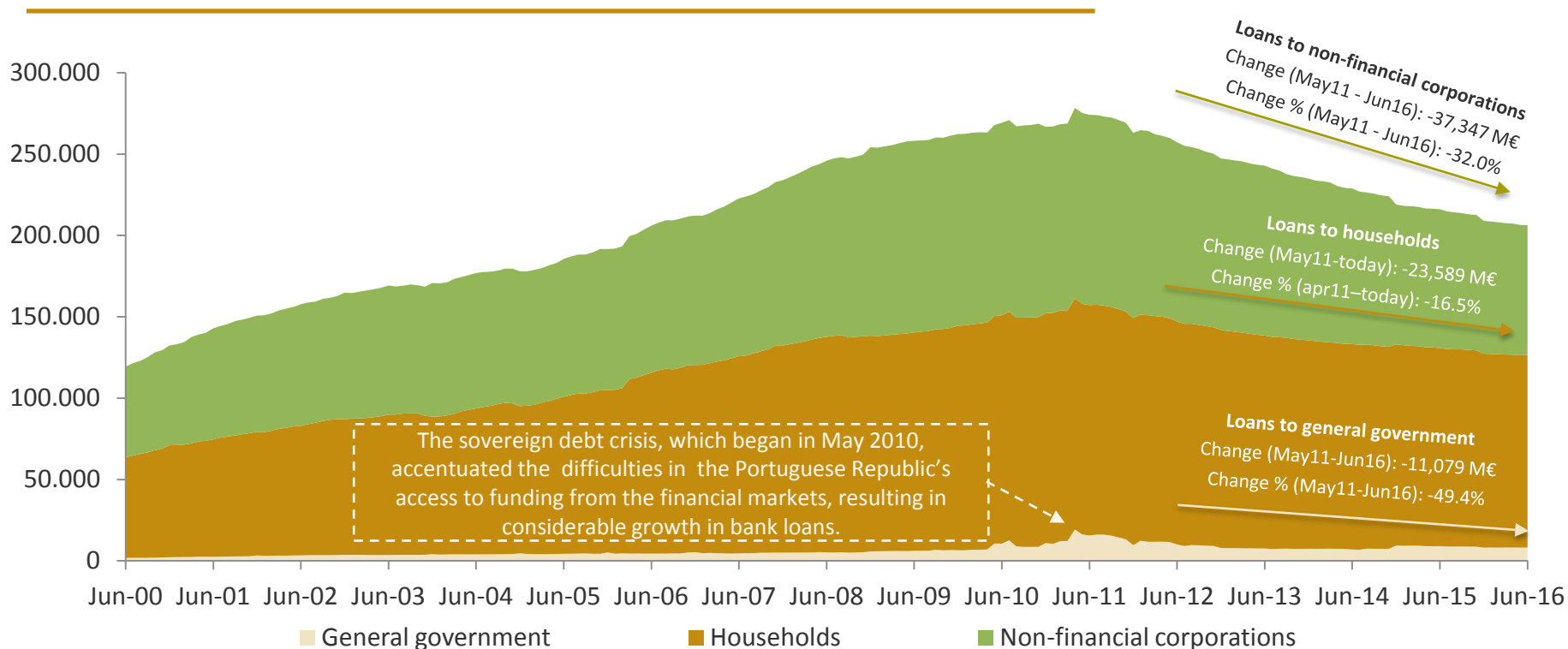
\*\* Includes publicly owned companies

Source: Ameco, ECB

- General Government\*
- Non-financial corporations\*\*
- Households

The stock of loans to the economy has shown a downward trend since 2011, with greater emphasis on the NFC segment.

**Amount of loans and advances\* by institucional sector (EUR billion)**

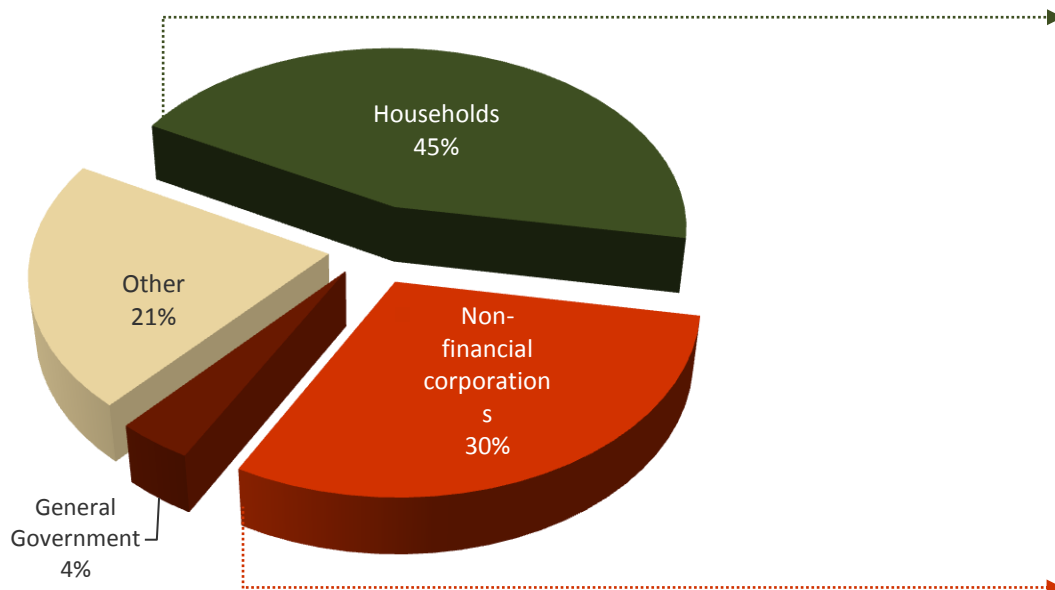


\*Gross outstanding amounts, end of period. Includes only loans (does not include public debt securities). Non-financial corporations include State-owned corporations.

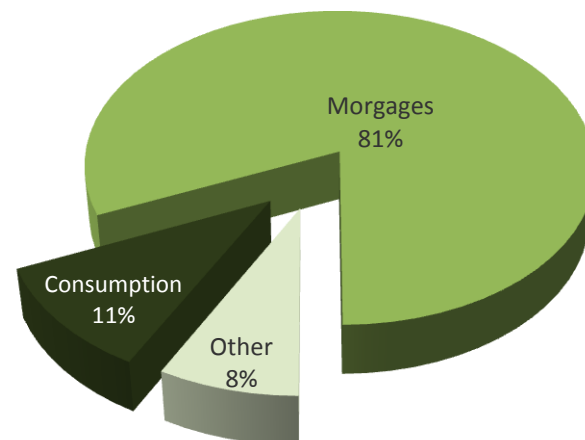
Source: Banco de Portugal

While loans to private customers are mostly mortgages, loans to non-financial firms are mainly destined to construction and real estate sectors.

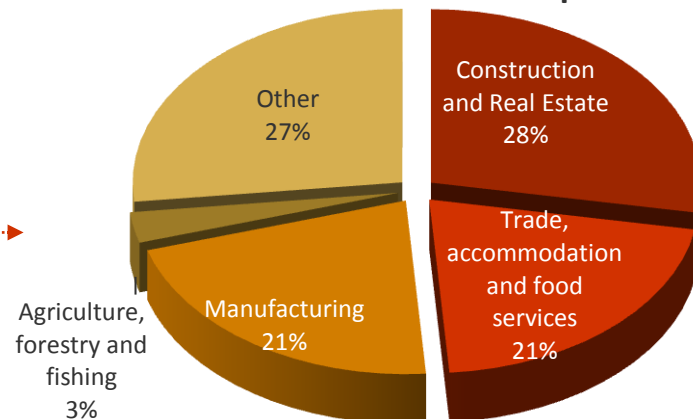
**Loans\* (June 2016)**



**Loans to households**



**Loans to non-financial corporations**

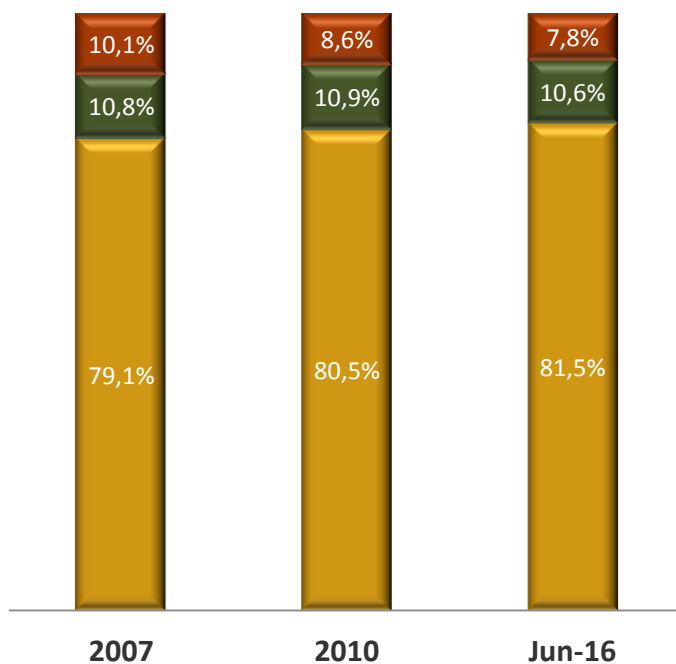


\* Loans to the monetary and non-monetary sectors, including non-residents (gross end-of-month balances)

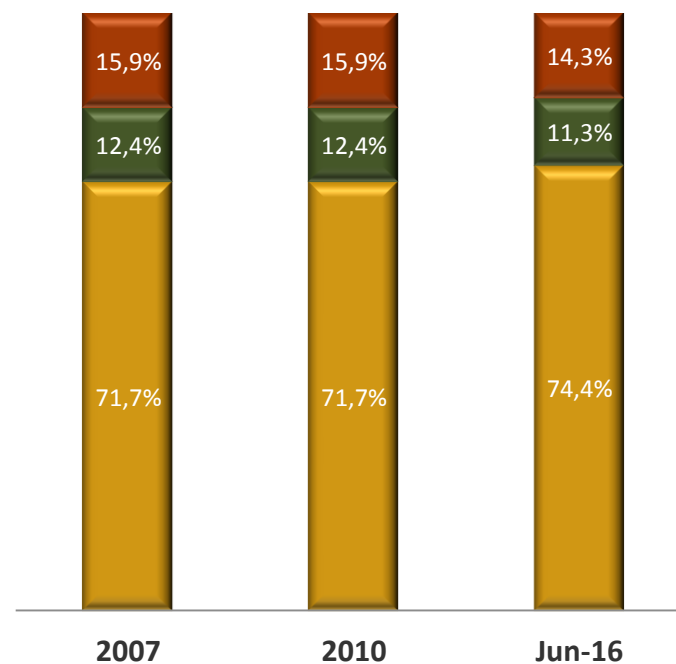
Source: Banco de Portugal

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

### Portugal



### Euro area



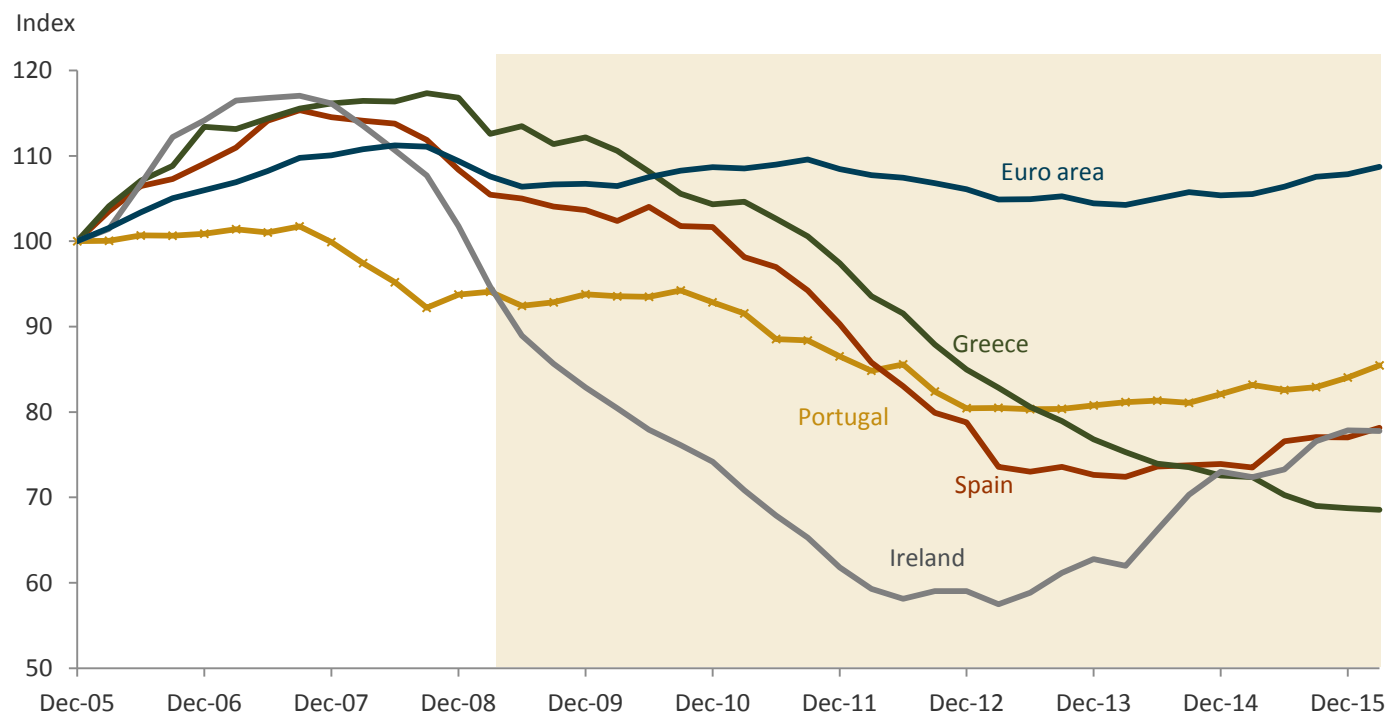
The weight of consumer credit in total loans granted to private customers has been falling in both Portugal and euro area. This type of credit is, however, less important in Portugal than in the euro area.

■ Mortgage ■ Consumer Credit ■ Other

Source: ECB

After a downward trend between 2008 and 2013, housing prices are recovering in most peripheral countries, except in Greece.

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

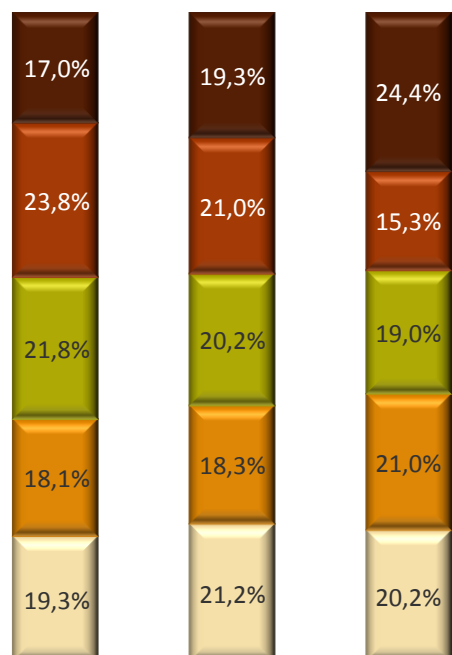


The property sector in Portugal did not experience a speculative boom prior to the crisis, unlike Spain, Ireland and Greece.

Source: ECB

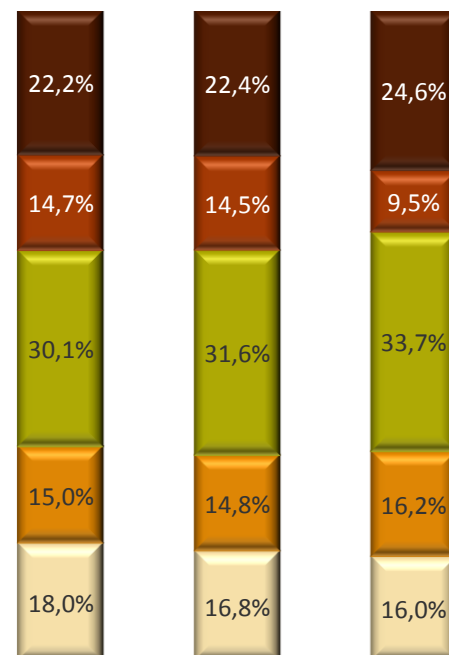
## The proportion of loans and advances per sector in Portugal is more evenly distributed than in the euro area aggregate.

**Portugal**



Loans to agriculture and industry have a larger weight in the rest of the euro area than in Portugal. However, this segment's share in total loans to NFCs has increased considerably in Portugal in recent years and is approaching European figures.

**Euro area**



The aggregate weight of the construction and real estate sectors has been falling in Portugal since 2007. On the other hand the proportion of these sectors in the euro area grew until 2012 due to real estate activity. The trend reversed recently due to a contraction in the construction sector.

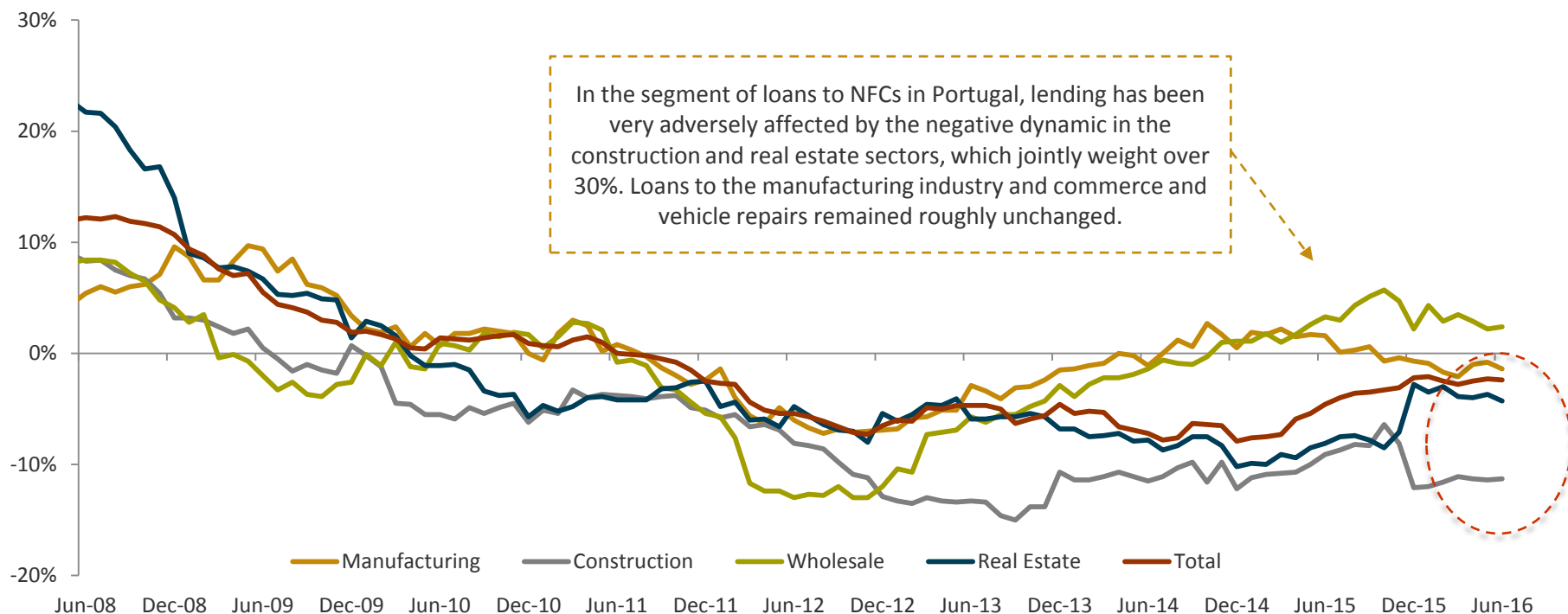
- Other
- Real estate, consulting, technical and administrative activities
- Agriculture and Manufacturing
- Trade, accommodation and food services
- Construction

Source: Banco de Portugal, ECB



The significant weight and downward trend of loans to construction and real estate sectors has penalized the performance of total loans to NFCs.

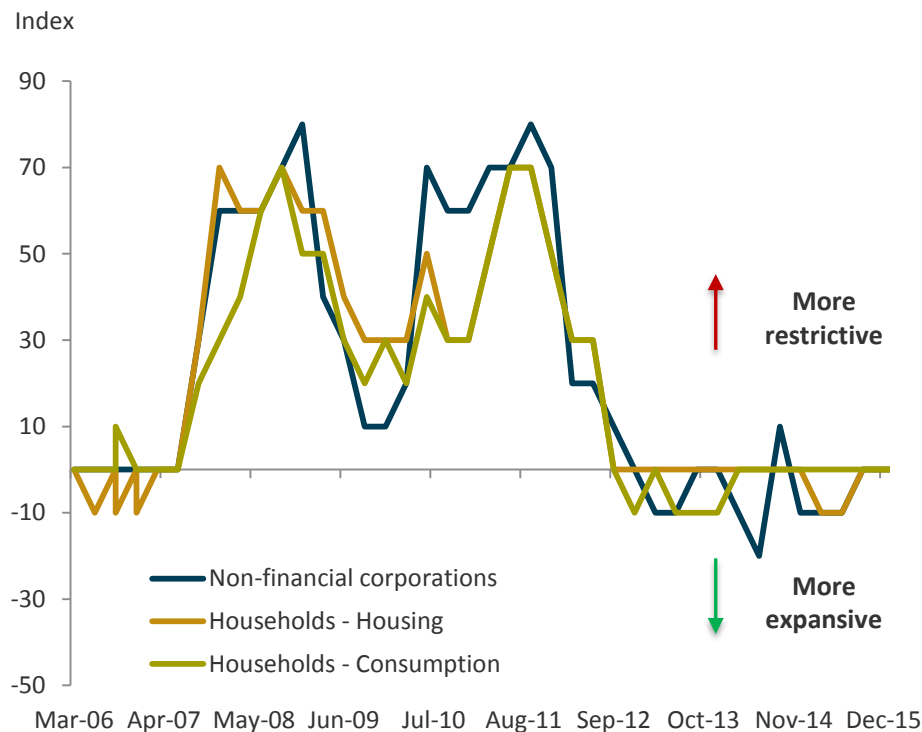
**Loans to non-financial corporations: most representative sectors (YoY %)**



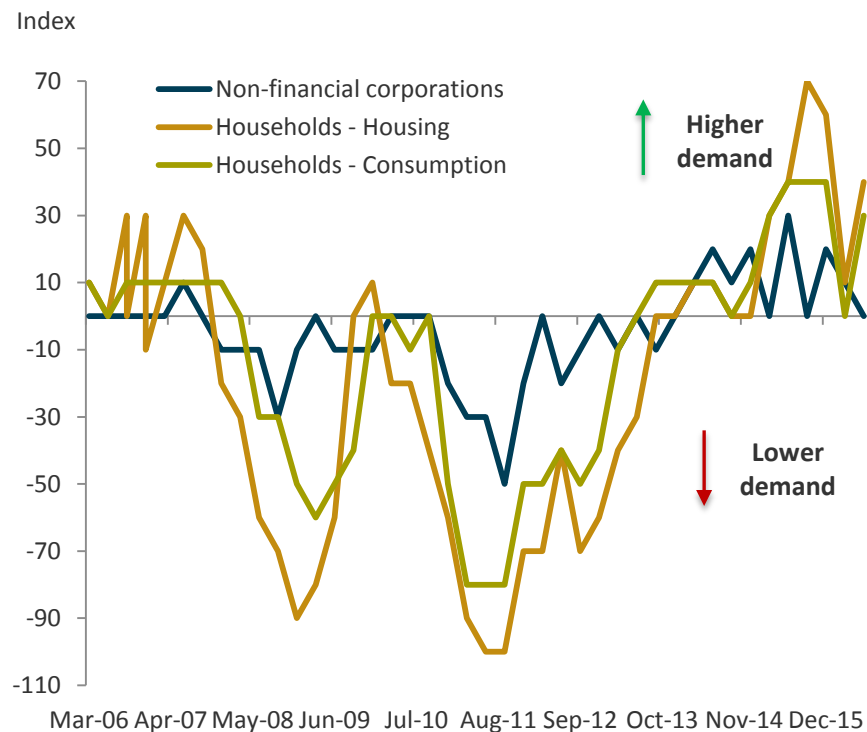
Source: Banco de Portugal

The demand for credit by households increased in the 2<sup>nd</sup> quarter of 2016, and stabilized in the corporate sector. Credit standards remained unchanged.

### Diffusion index – Credit standards



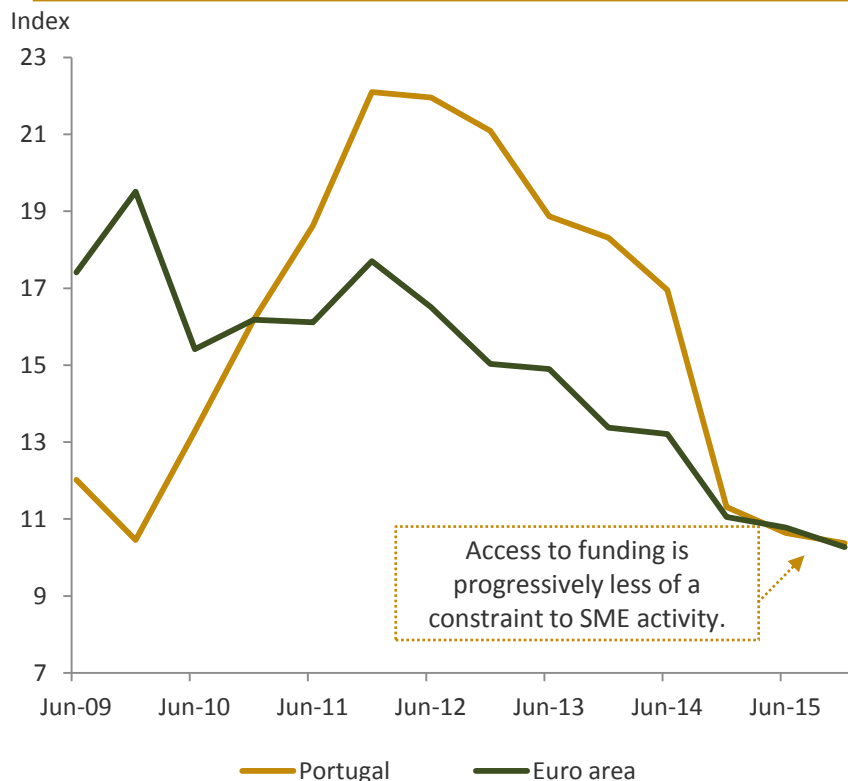
### Diffusion index - Demand for loans



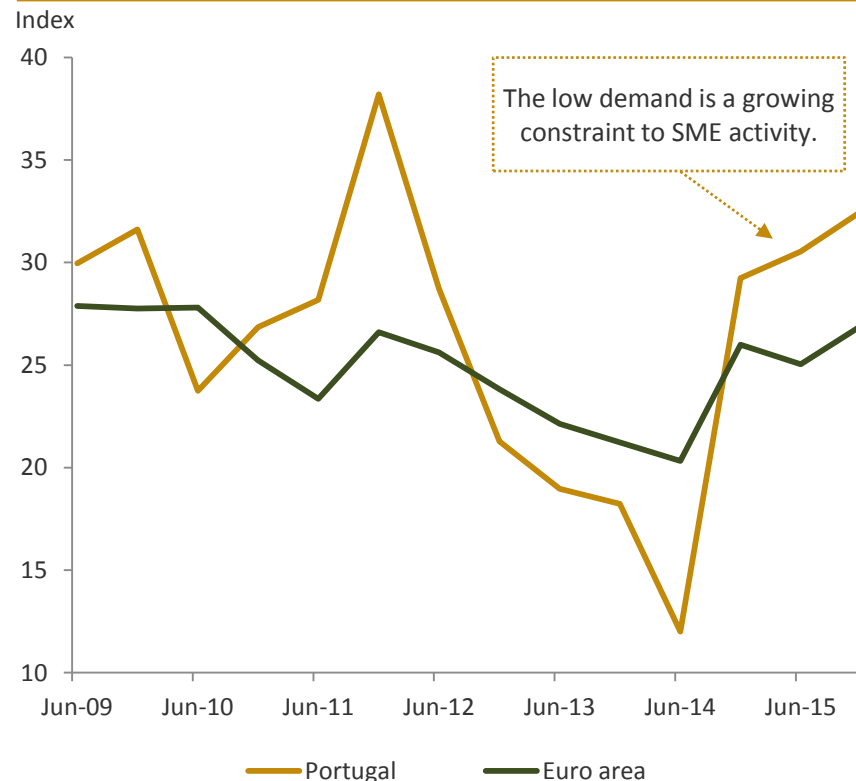
Source: Banco de Portugal (survey of banks on the credit market )

# Access to funding constitutes less of a restriction on the business of SMEs, as opposed to demand.

**Main constraints on SMEs – Access to funding**



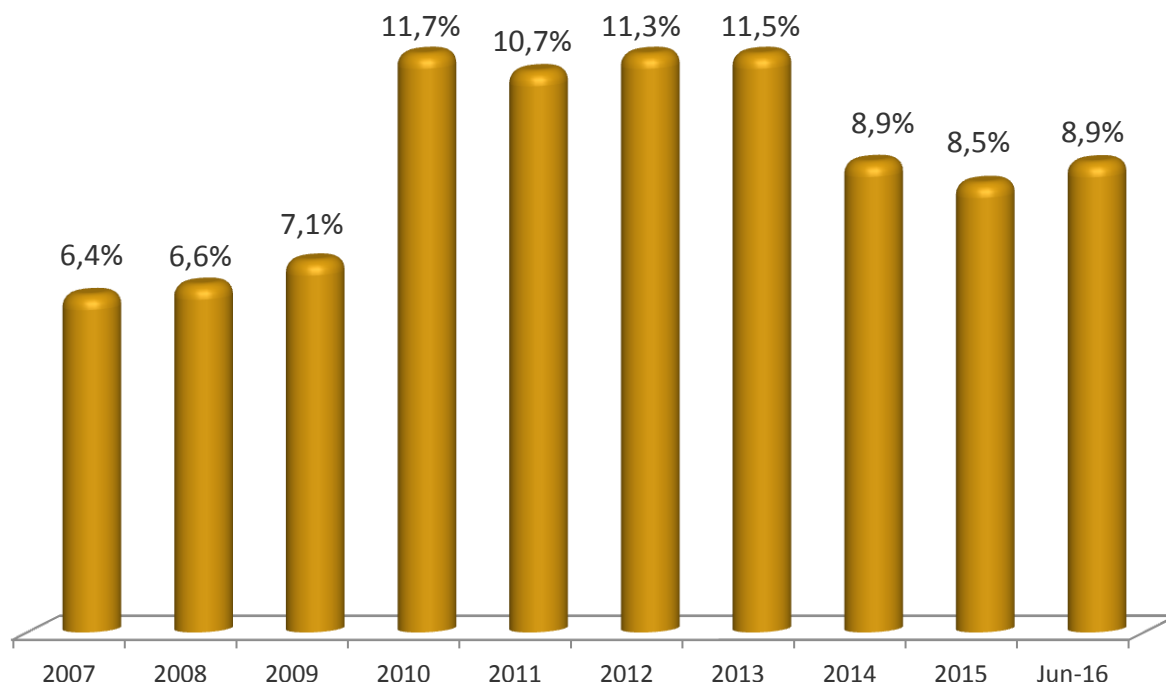
**Main constraints on SMEs – Low demand**



Source: ECB

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

### Debt of publicly owned non-financial corporations to the financial sector in Portugal \*



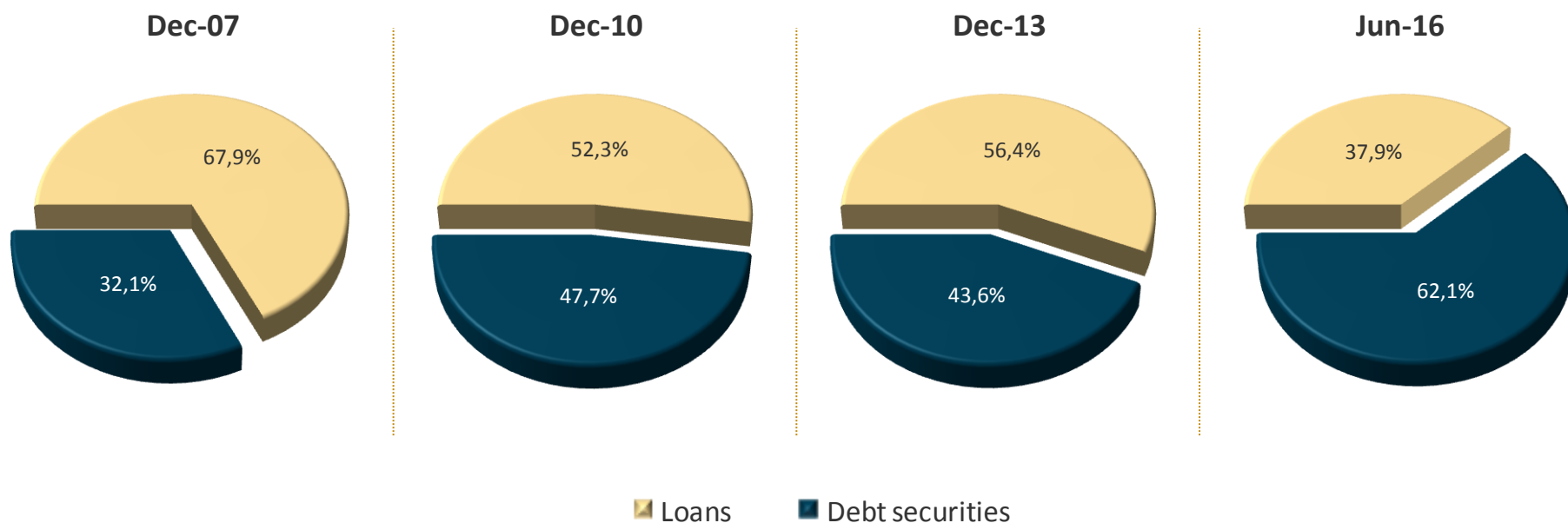
The debt of the State business sector account for a substantial part of total funding to non-financial firms in Portugal. The volume increased considerably after 2009 due to the sovereign debt crisis. In spite of the reduction since 2014, it is still higher than before 2010.

\* As a percentage of the balances of loans obtained and bonds issued by non-financial firms as opposed to the resident financial sector. The concept of resident financial sector includes banks and other financial institutions.

Source: Banco de Portugal

The debt of publicly owned companies in the form of debt securities has been gaining importance over loans in the recent past.

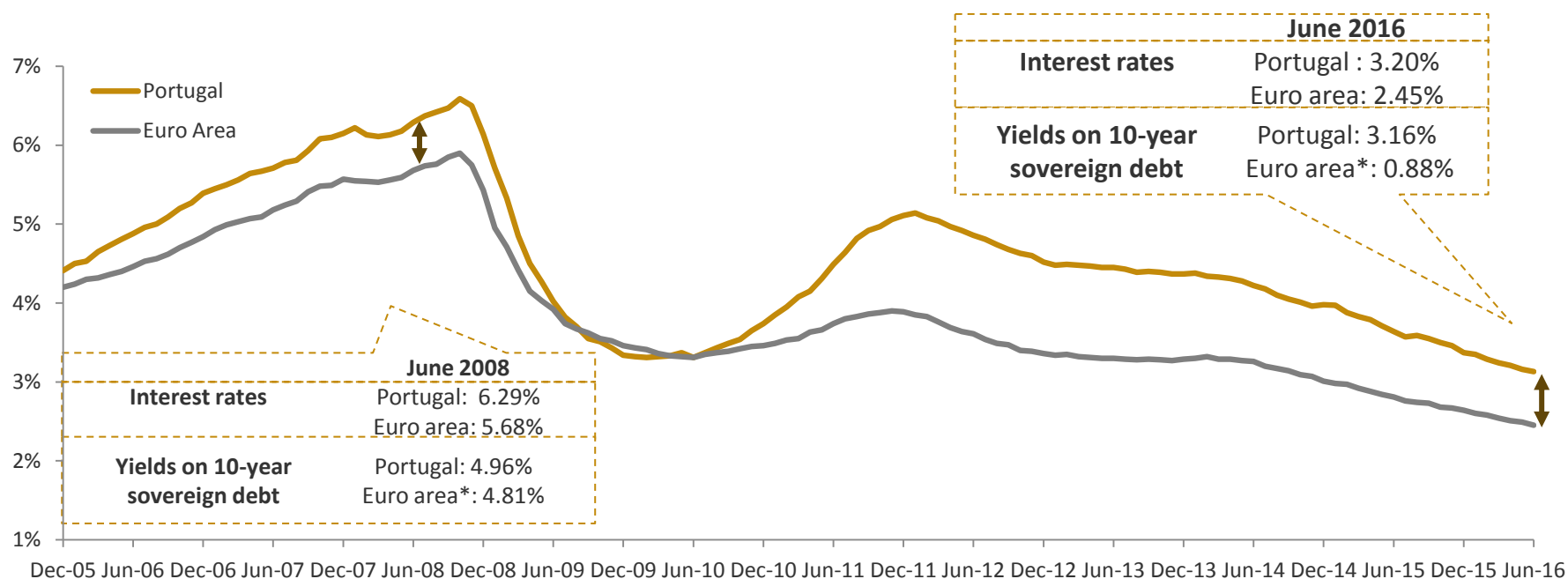
**Debt of State-owned non-financial corporations to the financial sector in Portugal, by instrument**



Source: Banco de Portugal

After a decoupling between average interest rates on loans to NFCs in Portugal and in euro area, this gap has been decreasing in the recent past.

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

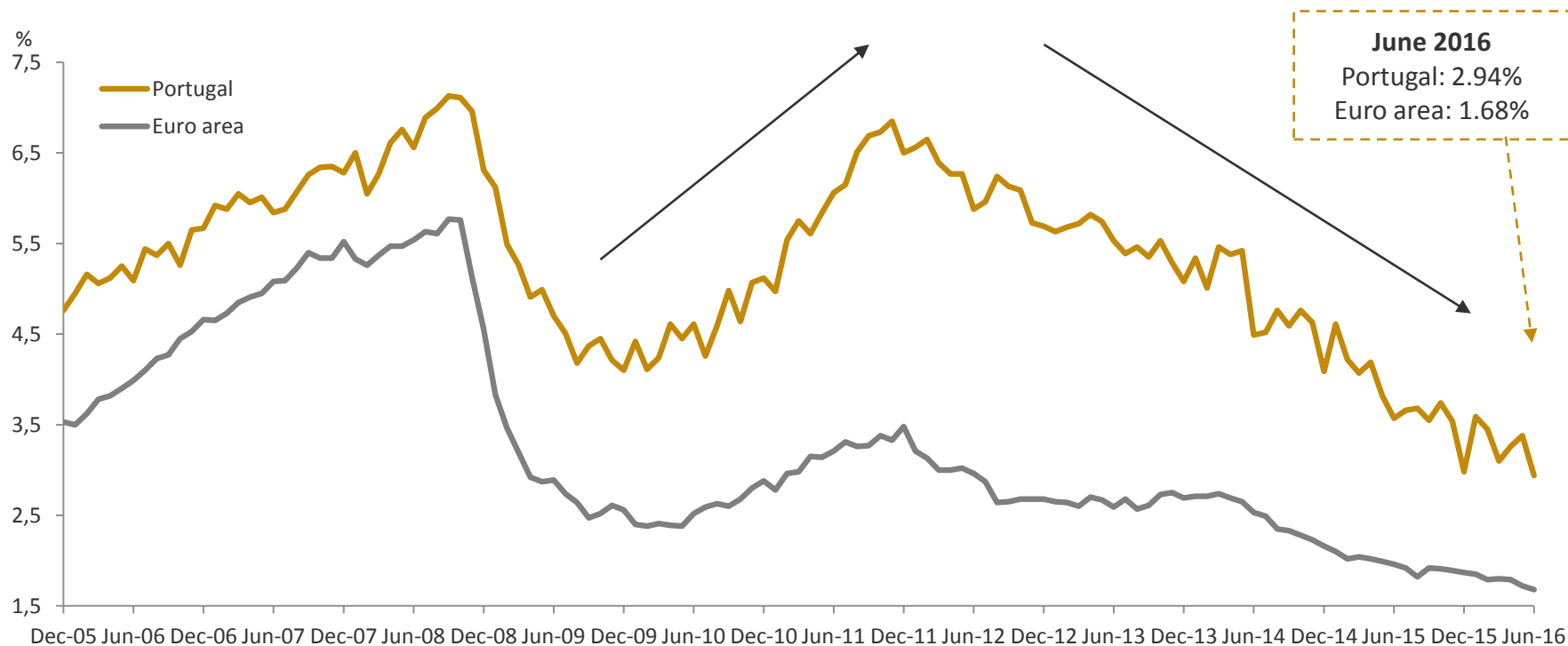


\* Reference bond in euro area – variable composition, computed as a weighted average of yields on sovereign debts of euro area countries using remaining amounts owed at 10 years as weights.

Source: ECB

## Interest rates on new loans to NFCs in Portugal increased as of mid-2009, but have been falling since early 2012.

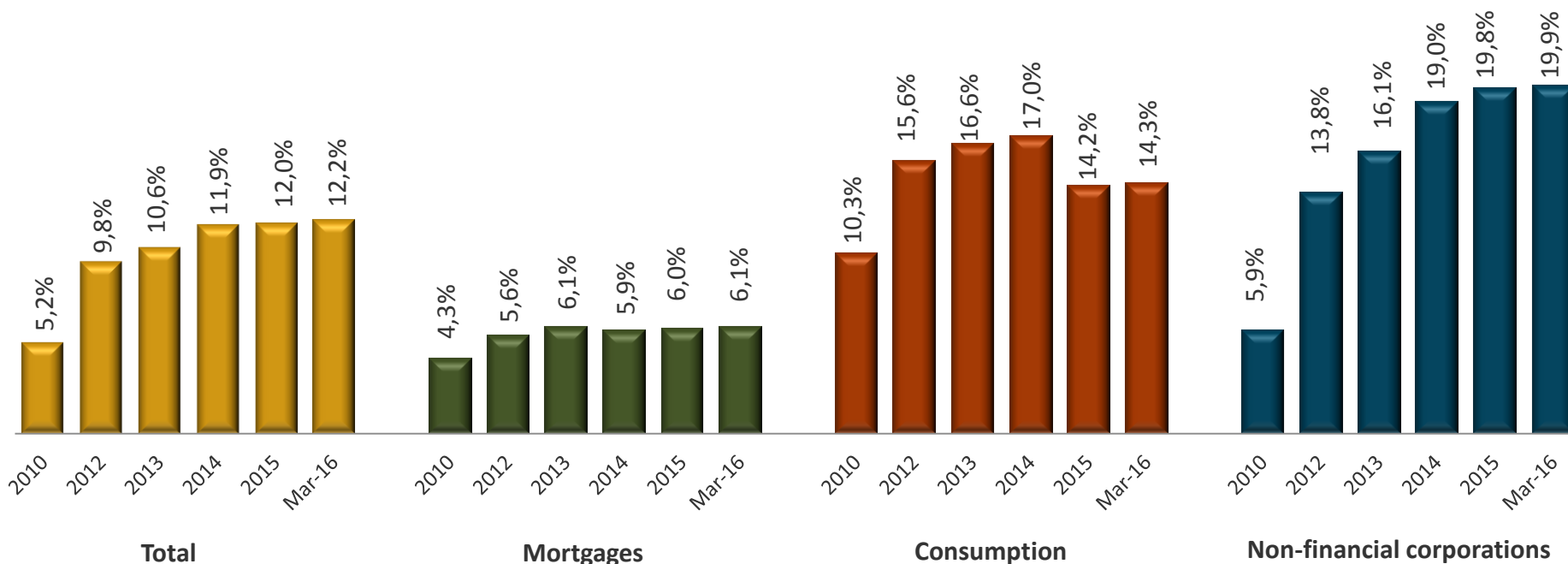
**Average interest rates on loans from monetary financial institutions (new operations) to non-financial firms in Portugal and the euro area**



Source: ECB

The quality of loans granted deteriorated after 2010, particularly in consumer credit and in the non-financial corporations segment.

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



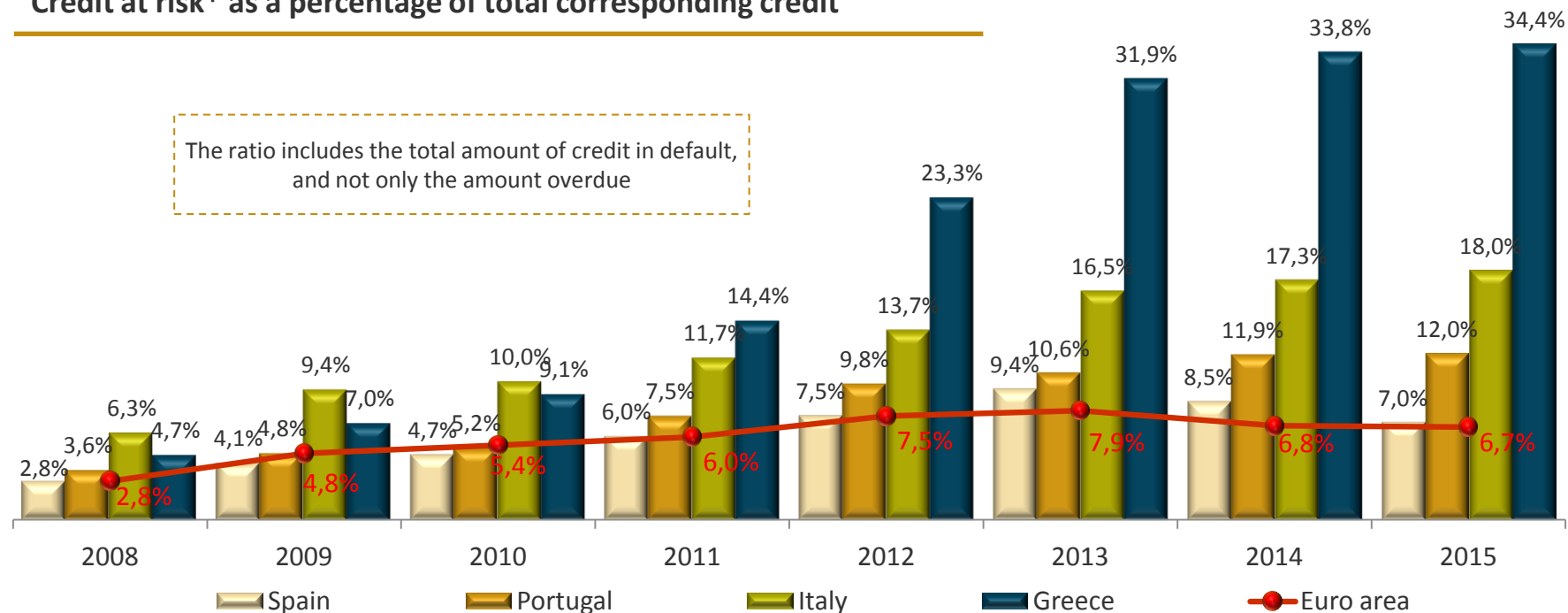
\*Including the total amount owed : i) of loans that have repayments of principal or interest in arrears for more than 90 days, ii) restructured loans whose repayments of principal or interest have been in arrears for 90 days or more and their repayments have been capitalised or refinanced or their payment date postponed, but the guarantees provided have not been reinforced or the debtor has not fully paid up overdue interest and other and iii) of loans with repayments of principal or interest overdue for less than 90 days, but for which there is evidence warranting their classification as credit at risk.

Source: Banco de Portugal



Credit at risk exhibited a general upward trend in the euro area countries, particularly in the most vulnerable ones.

Credit at risk\* as a percentage of total corresponding credit

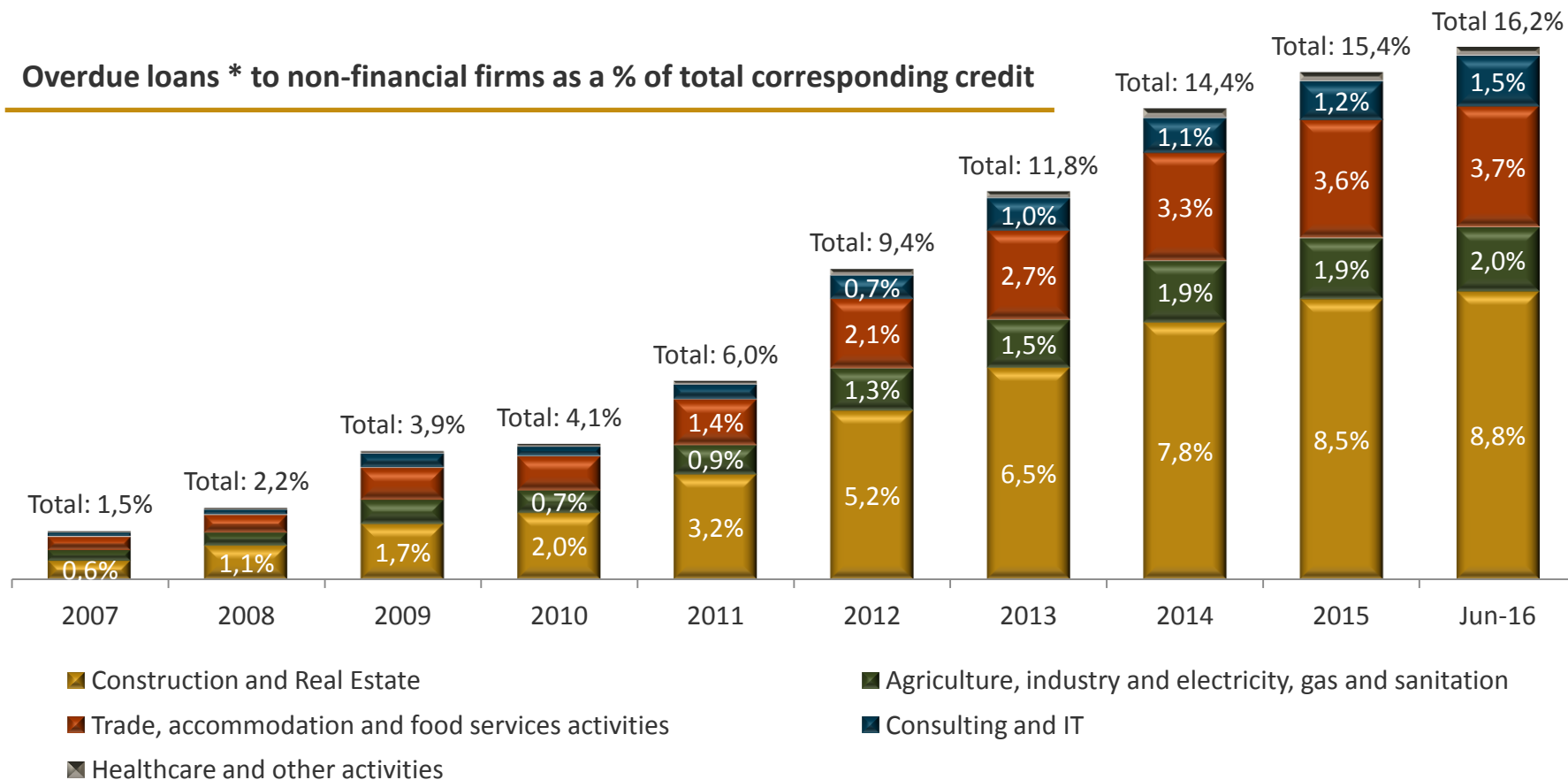


\* Including the total amount owed : i) of loans that have repayments of principal or interest in arrears for more than 90 days, ii) restructured loans whose repayments of principal or interest have been in arrears for 90 days or more and their repayments have been capitalised or refinanced or their payment date postponed, but the guarantees provided have not been reinforced or the debtor has not fully paid up overdue interest and other overdue costs and iii) of loans with repayments of principal or interest overdue for less than 90 days, but for which there is evidence warranting their classification as credit at risk..

Source: World Bank

The increase in non-performing loans are mainly due to the deterioration in quality of credit in the construction and real estate sectors.

**Overdue loans \* to non-financial firms as a % of total corresponding credit**



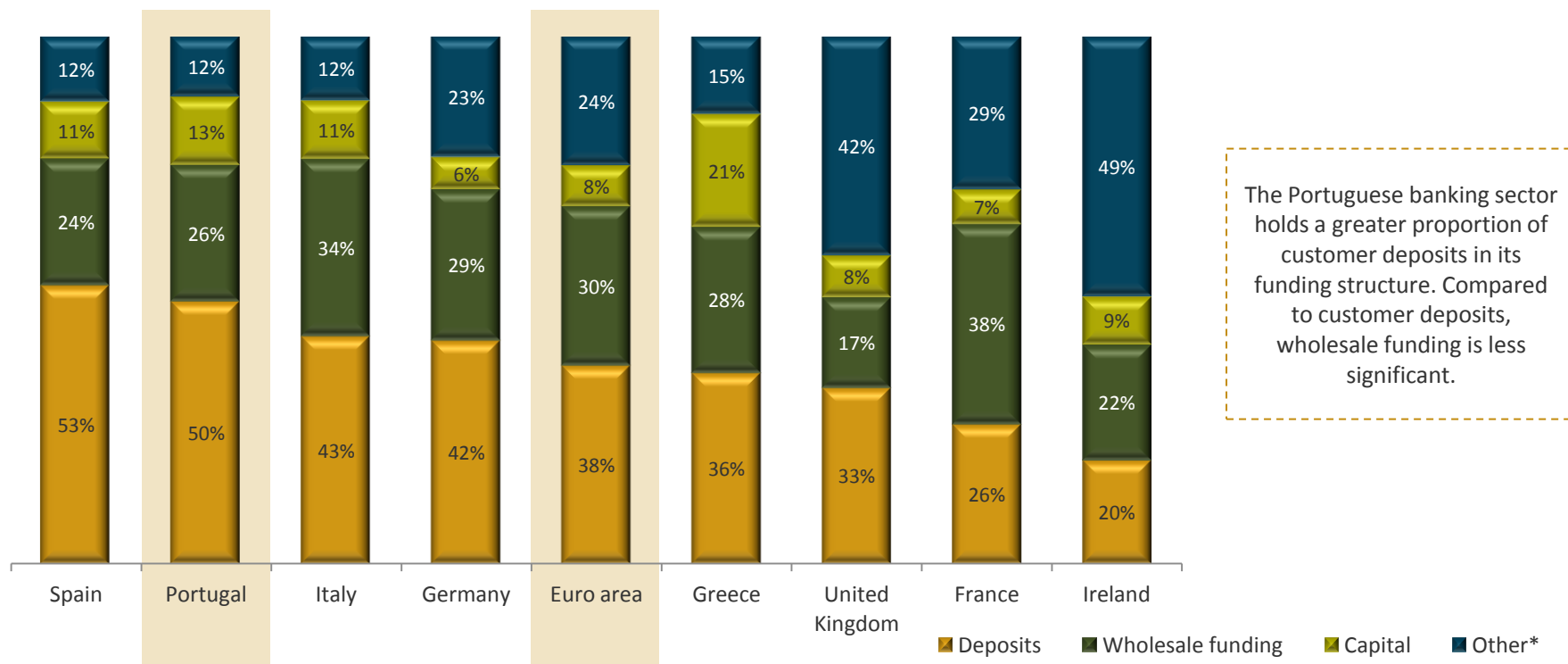
Source: Banco de Portugal

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

## III. Funding

# Customer deposits are the Portuguese banks' most important source of funding.

**Comparison of the funding structure of Portuguese banks with that in other EU countries (June 2016)**



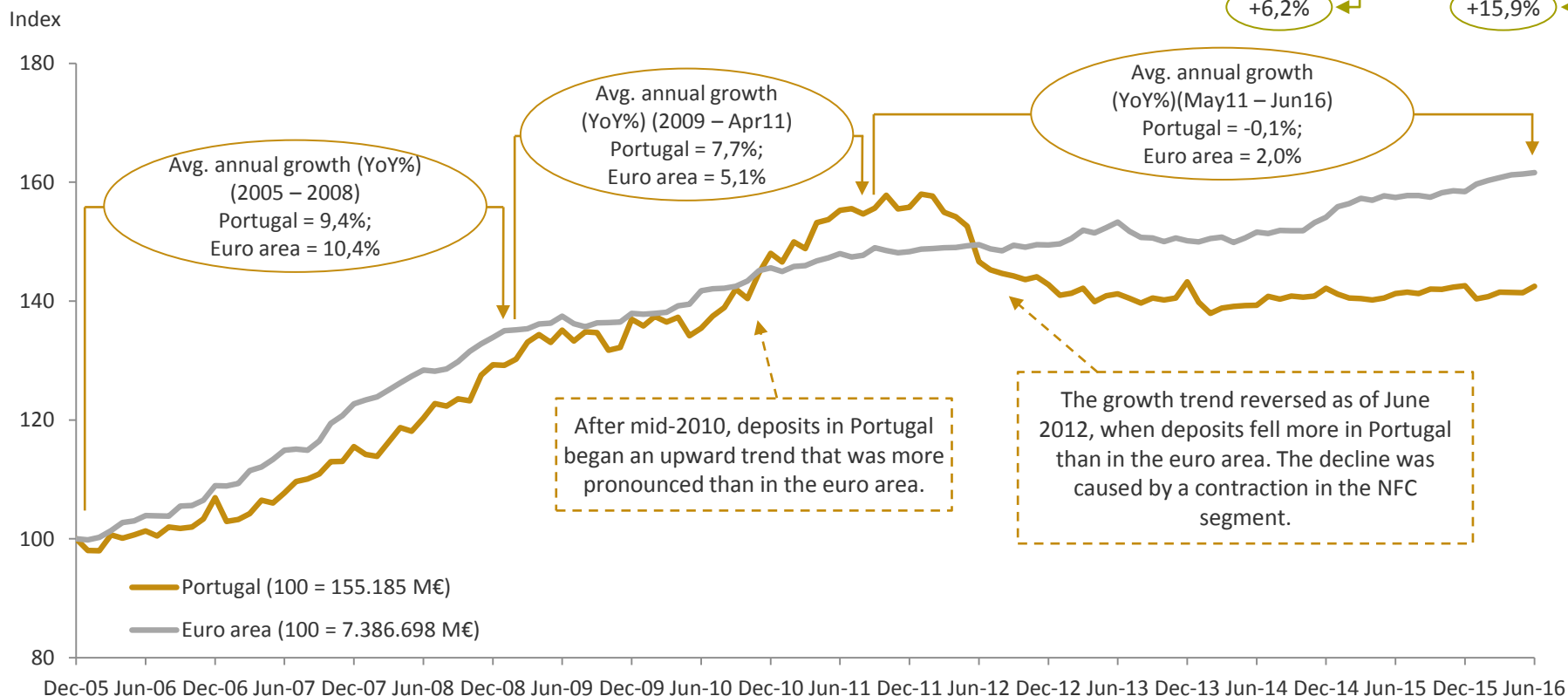
\* Includes liabilities to entities non-resident in the euro area, except for the United Kingdom, for which it includes liabilities to non-residents in the country.

Source: ECB

# The growth trend in deposits in the euro area and Portugal has remained relatively stable.

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

	Portugal	Euro area
May 10	208.241 M€	10.304.518 M€
May 12	236.799 M€	11.026.967 M€
Jun. 16	221.139 M€	11.938.187 M€
	+6,2%	+15,9%

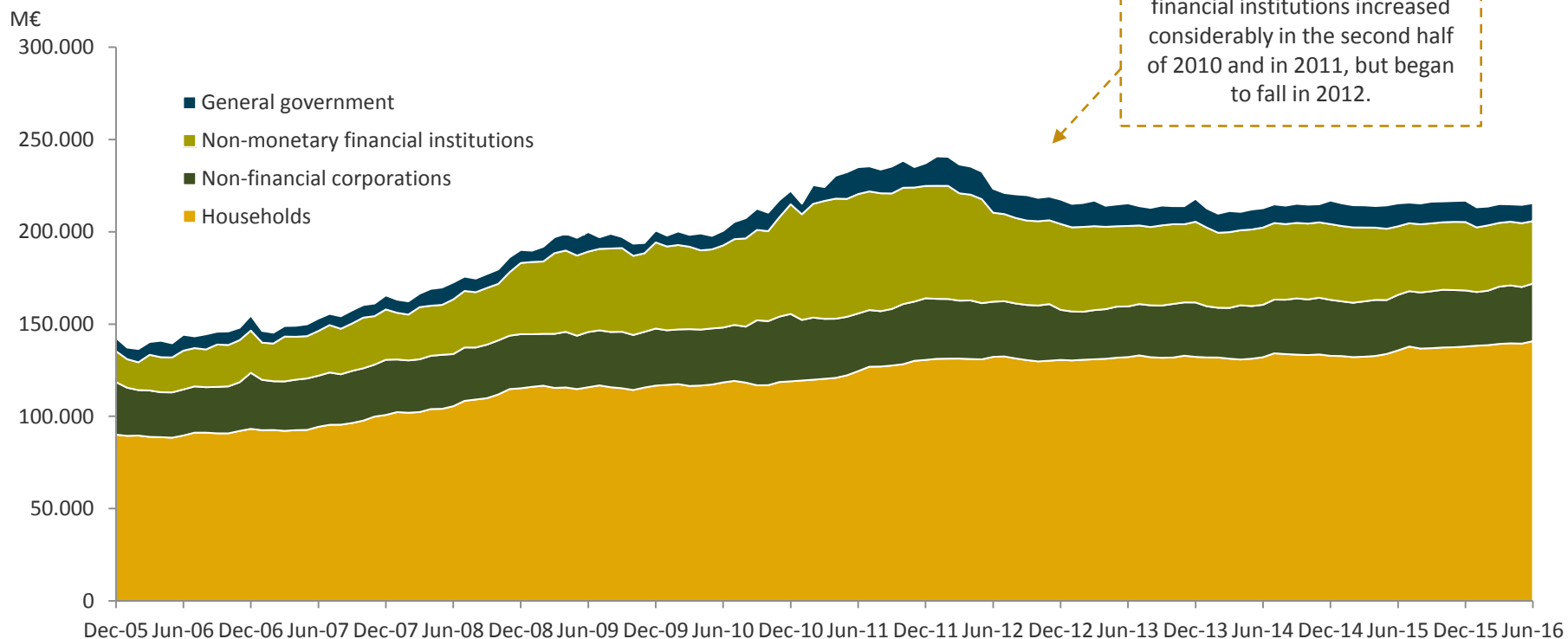


\*Deposits from the non-monetary sector (end-of-period balances).

Source: ECB

In Portugal, deposits are mainly held by private customers and their weight has been increasing.

**Deposits\* in Portugal by institutional sector**

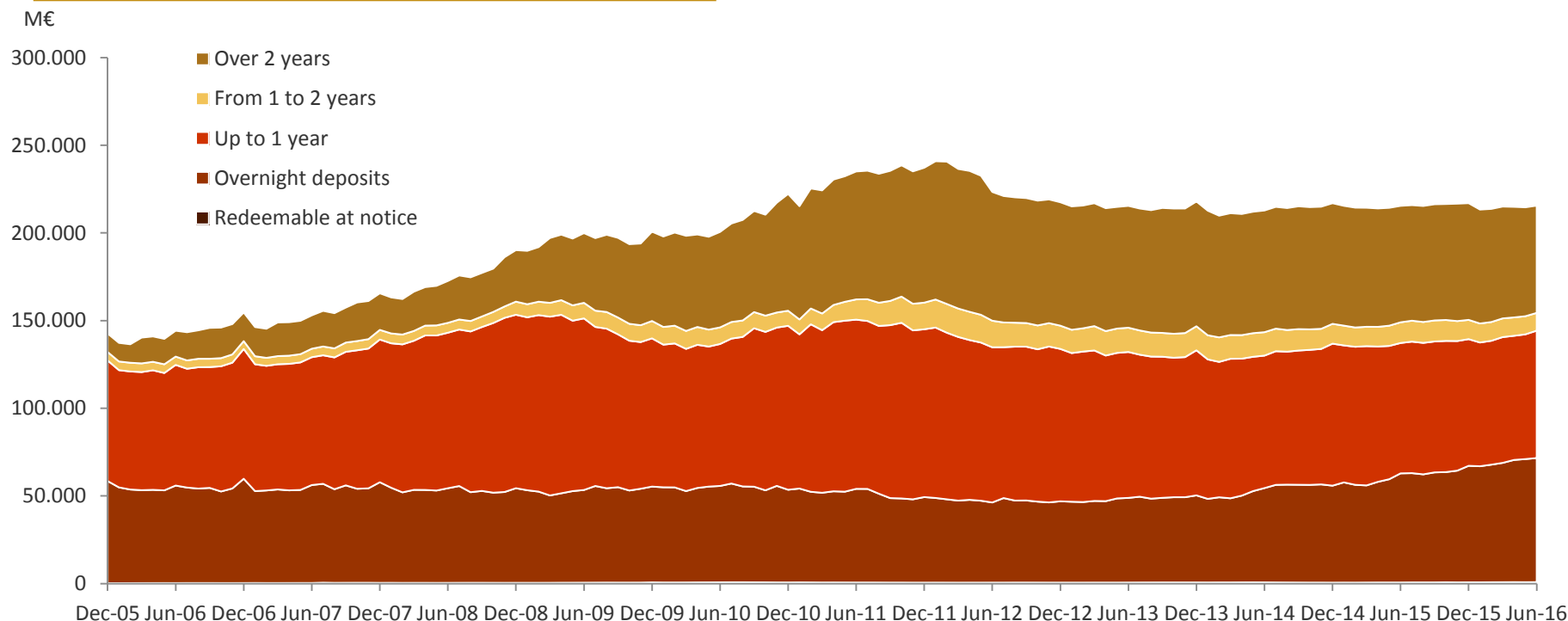


\* Deposits from the non-monetary sector (end-of-period balances).

Source: Banco de Portugal

Deposits with a maturity of less than one year are the most common, in spite of the recent growth in longer-term deposits.

### Deposits\* in Portugal by maturity

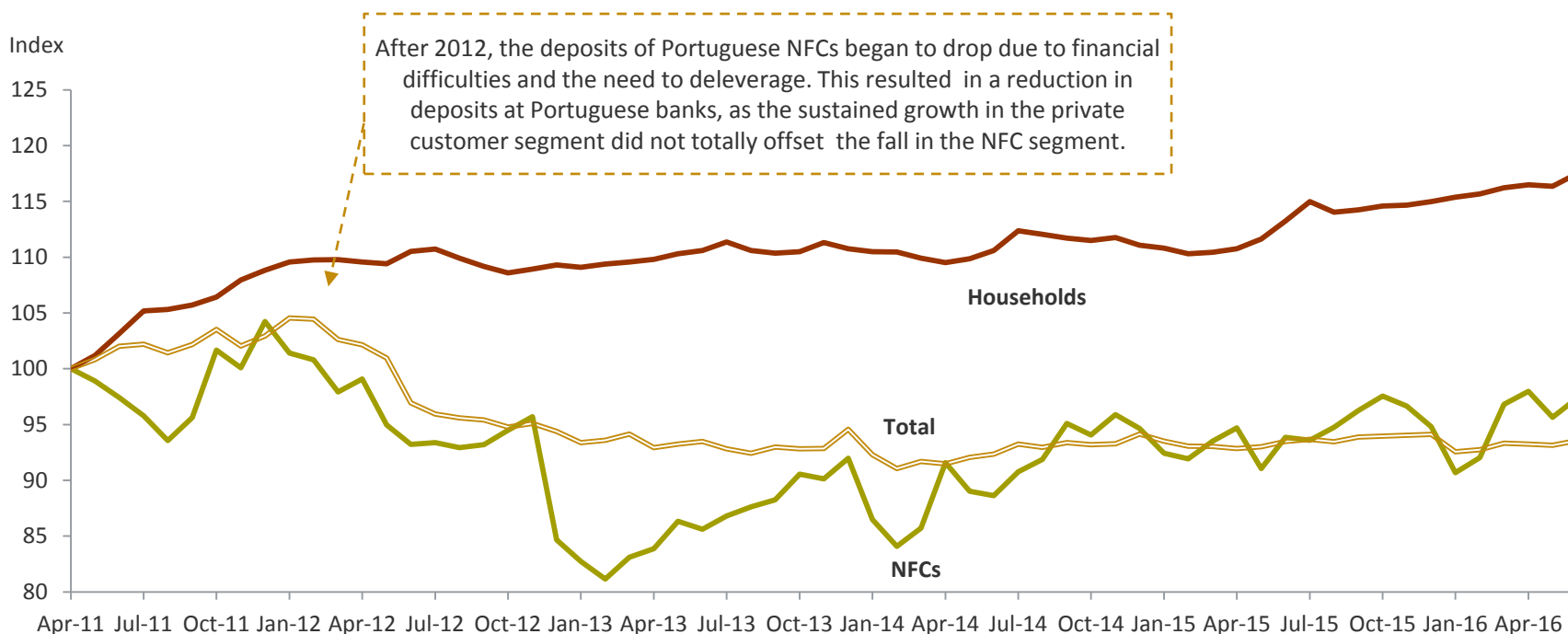


\* Deposits from the non-monetary sector (end-of-period balances)

Source: Banco de Portugal

In spite of the austerity imposed by the EFAP, private customers' deposits remained stable and reached their highest level ever in June 2016.

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



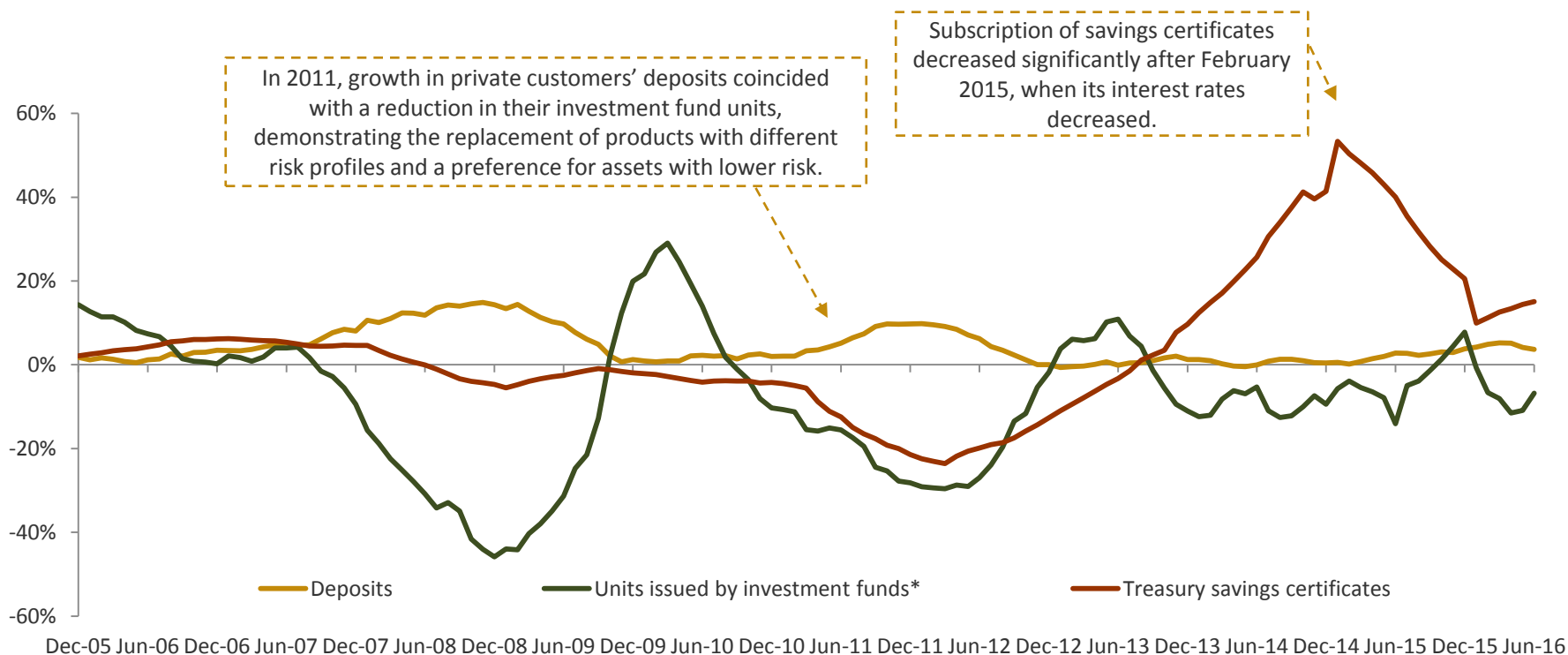
\* Deposits from the non-monetary sector (end-of-period balances), including emigrants

Source: Banco de Portugal



## Attractive returns from savings certificates spurred its growth in 2013, coinciding with a reduction in units in investment funds.

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

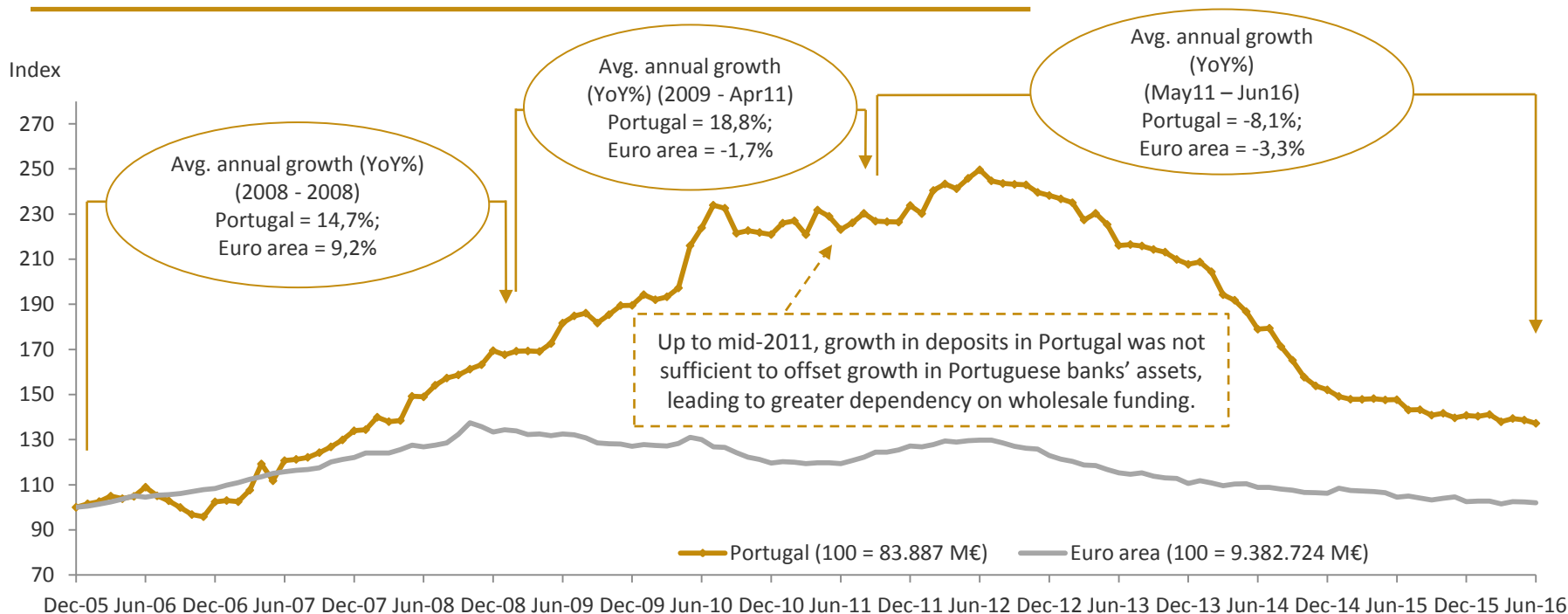


\*Includes equity, fixed income, treasury and money market funds, as well as savings funds and mixed funds.

Source: Banco de Portugal

Recourse to wholesale funding by the Portuguese banks grew at a faster rate than the euro area banking system until 2012, a trend that was reversed in recent years.

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

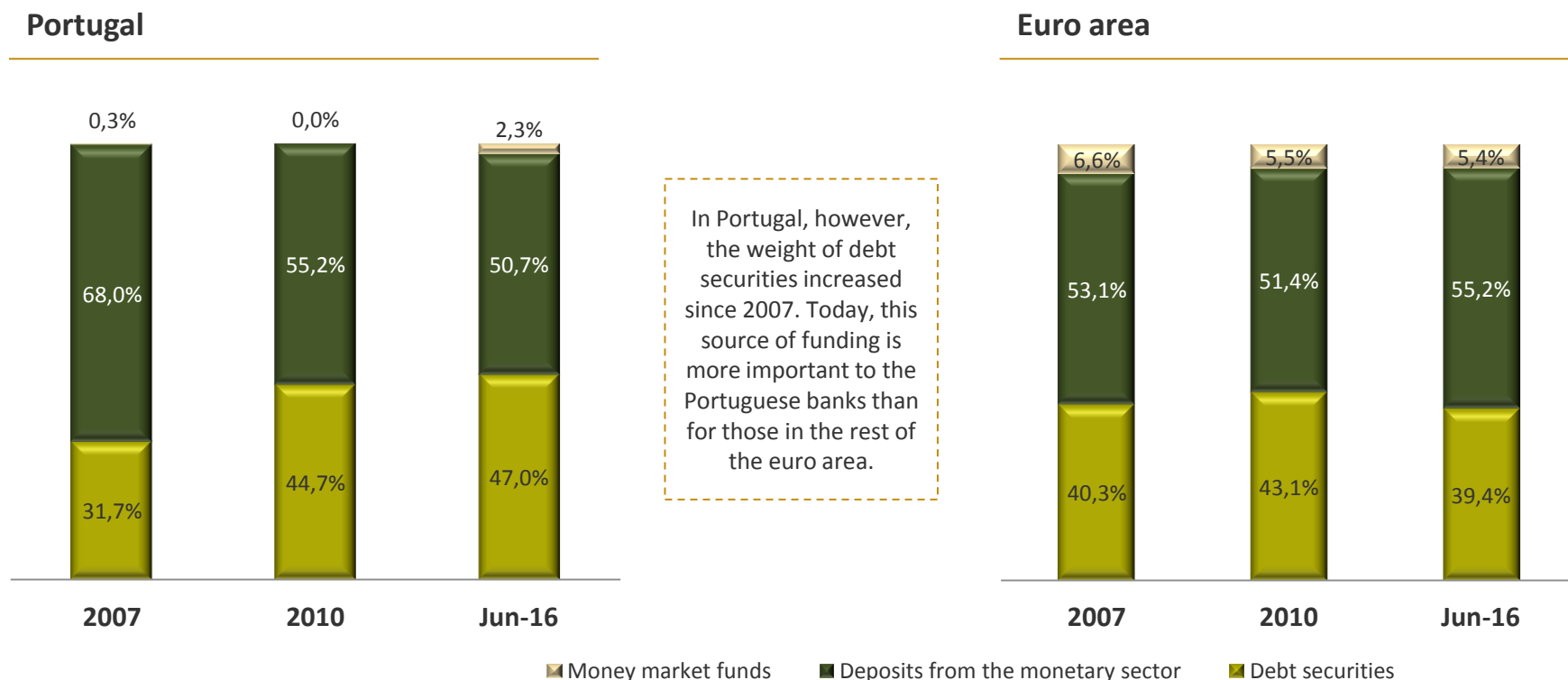


\* Wholesale funding includes deposits in the monetary sector, debt securities issued and money market funds (end-of-period balances).

Source: ECB

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

**Wholesale funding structure by type of instrument**

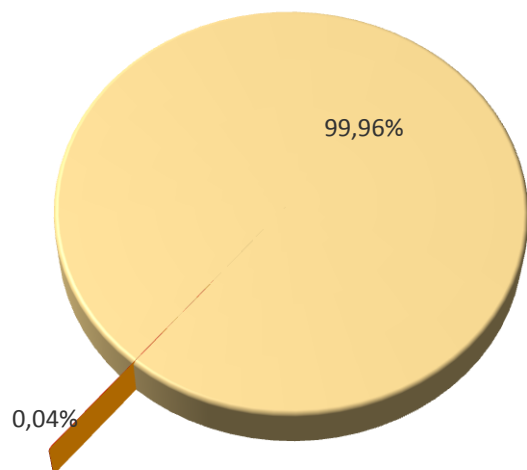


Source: ECB

Both in Portugal and the euro area, debt securities issued by banks are predominantly long term, although with greater significance in Portugal.

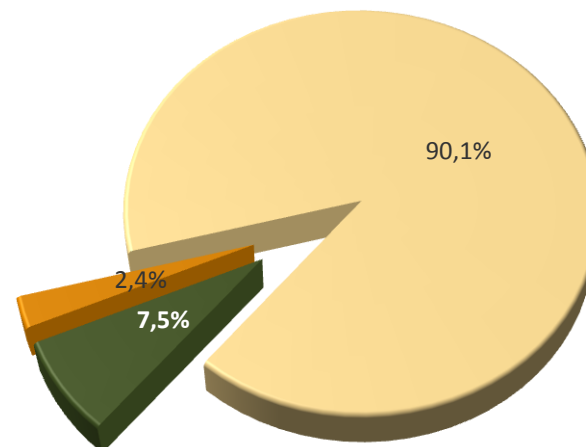
**Debt securities structure by maturity on date of issue (June 2016)**

**Portugal**



The weight of debt issues maturing in less than two years has shown a downward trend in the recent past. Their weight is negligible in the Portuguese banking sector, as opposed to the euro area.

**Área do Euro**

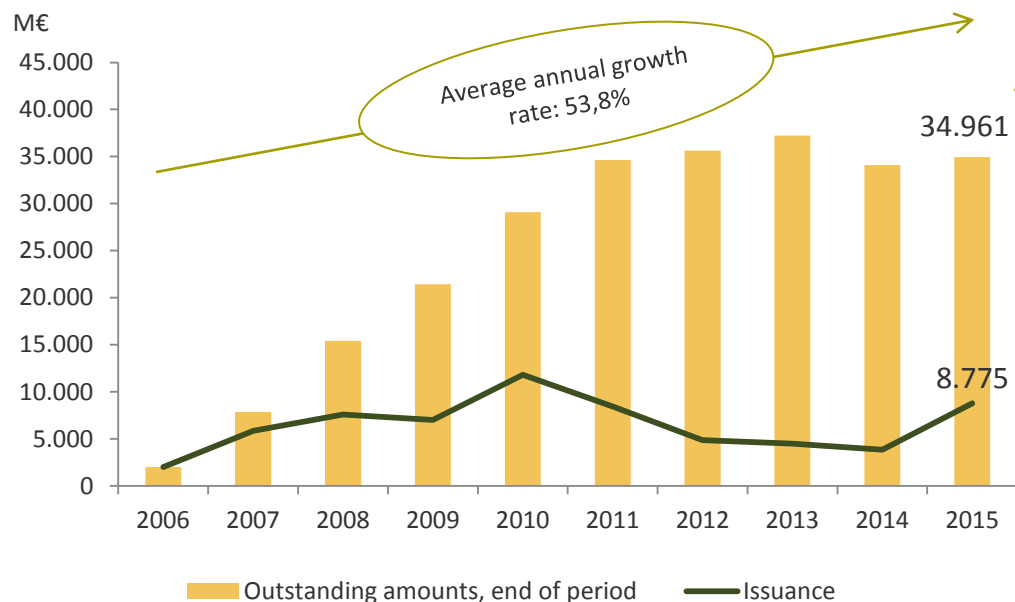


■ Up to 1 year ■ From 1 to 2 years ■ Over 2 years

Source: ECB

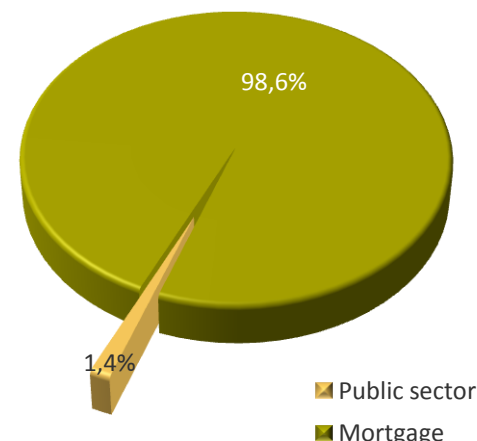
Up to 2011, covered bonds gained importance as a source of funding for Portuguese banks. Although the issuance of these bonds increased during 2015, its outstanding amounts stabilized.

### Issue and balances of covered bonds in Portugal



At the end of 2014, the balance of covered bonds represented around 7.8% of the funding of the Portuguese banks.

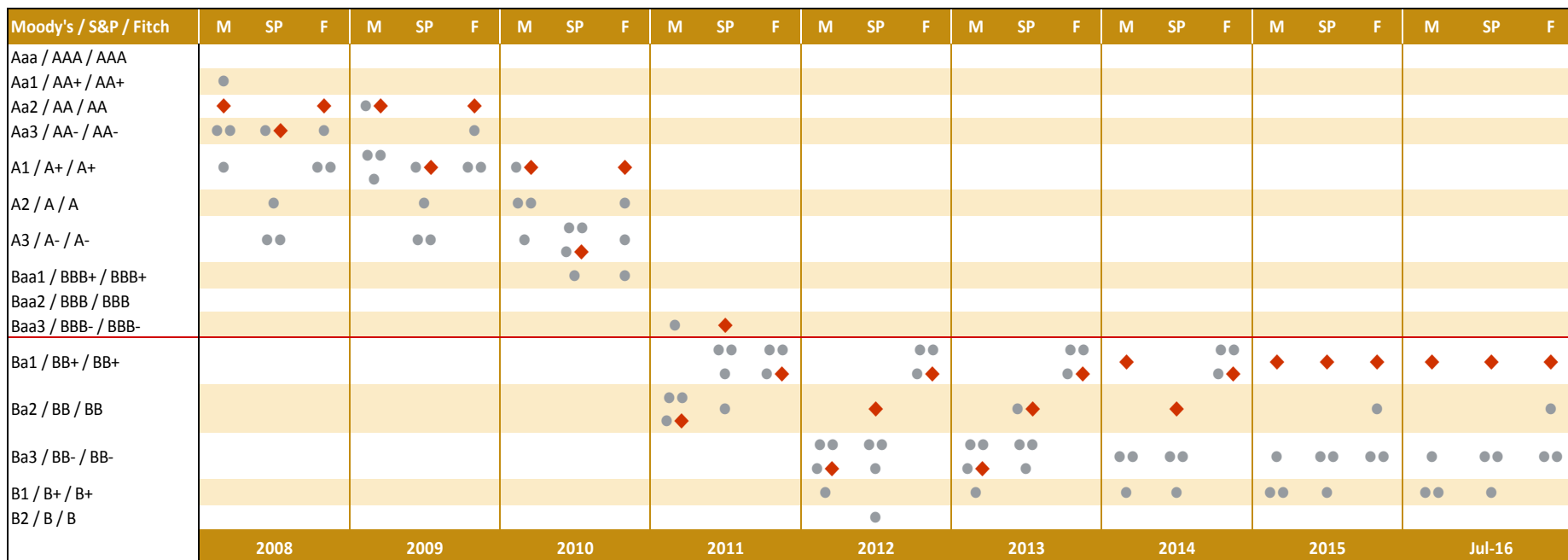
### Covered bonds by type of underlying asset (2015)



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

# The downgrades of the Portuguese Republic's rating adversely affected the Portuguese banks' ratings\*.

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

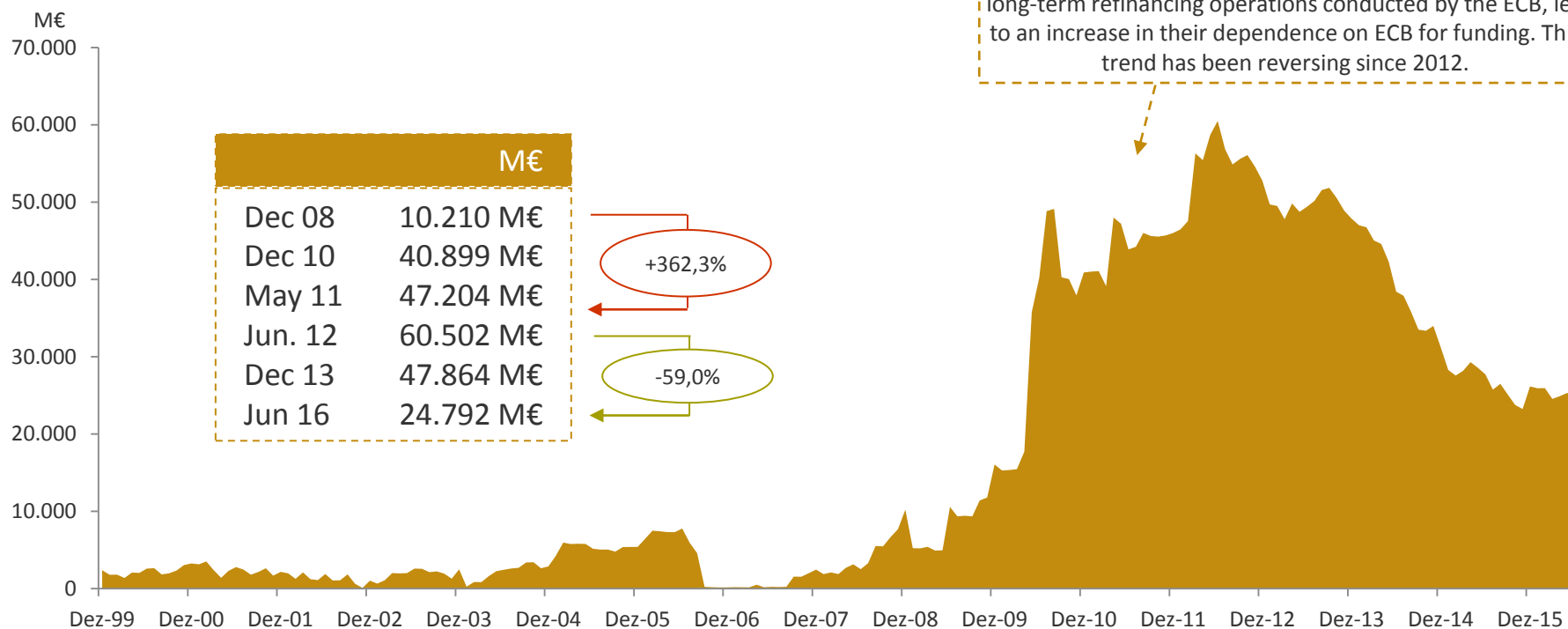


- ◆ Portuguese Republic
- Portuguese Banks (CGD, BCP, BPI and BES up to 2013)

\*End of period

# The reliance on ECB funding by the Portuguese banking system has been decreasing steadily since June 2012.

## Borrowing from the European Central Bank \*



Difficulty in accessing the interbank markets by Portuguese banks during the sovereign debt crisis, together with the long-term refinancing operations conducted by the ECB, led to an increase in their dependence on ECB for funding. This trend has been reversing since 2012.

\* End-of-period balances.

Source: Banco de Portugal

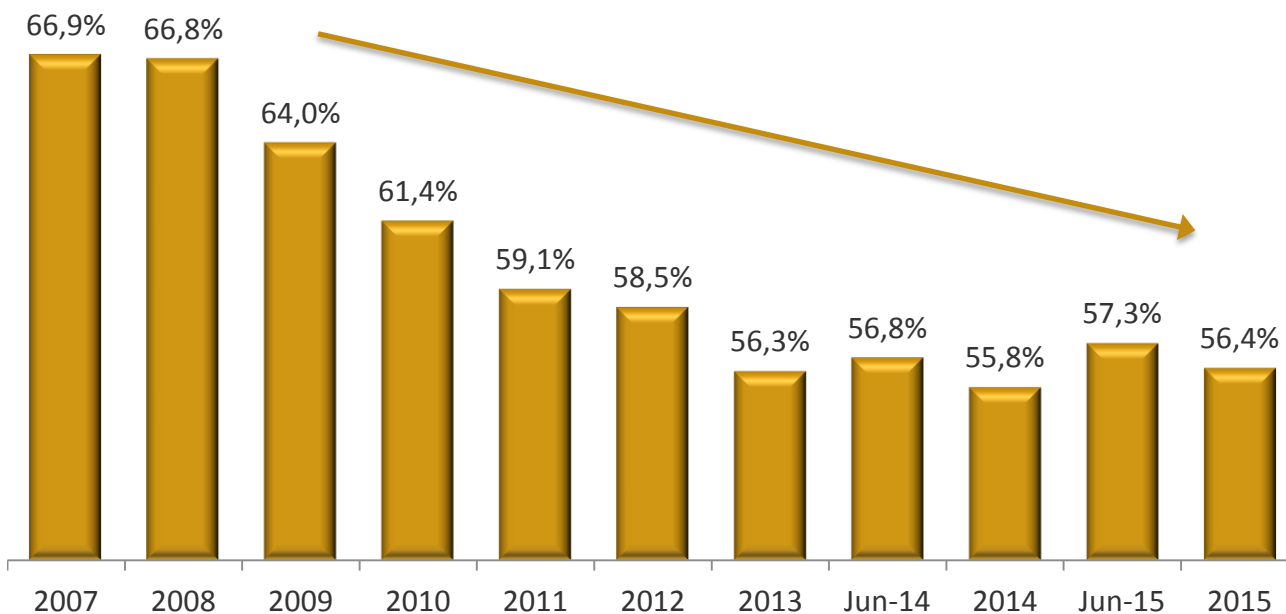
# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

## IV. Solvency



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

### Risk-weighted assets in proportion to total assets \*



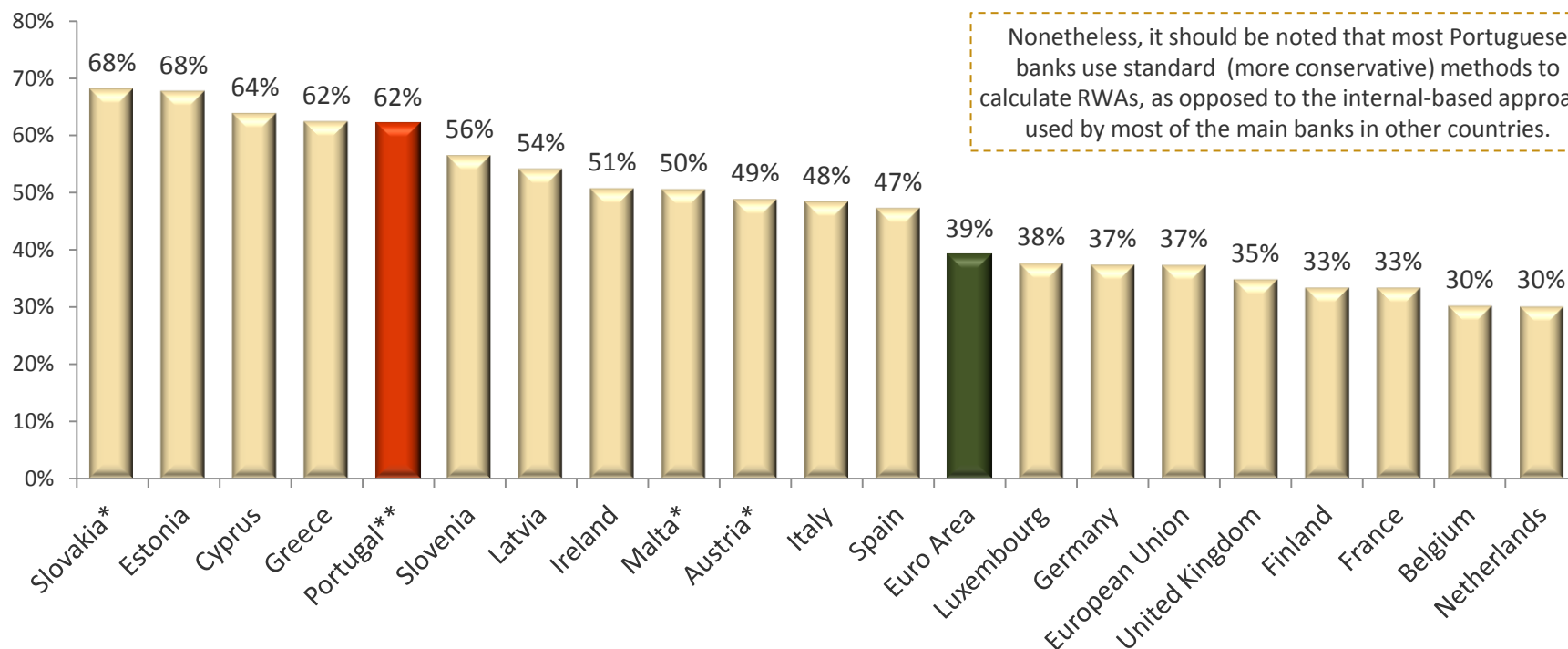
The risk-weighted assets to total assets ratio of the Portuguese banks fell considerably in recent years. This trend grew after the EFAP and reflects a reduction in the average risk of assets making up the Portuguese banks' balance sheet. In the first six months of 2014, this ratio increased slightly due to changes in the calculation of RWAs introduced by CRD IV / CRR, but began to fall again at the end of the year. The improvement between June and December of 2015 was due to the decisions that complemented the resolution measure applied to BES, in December 2015, and which resulted in a capital increase for Novo Banco and a decrease of risk-weighted assets.

\* Risk-weighted assets include off-balance-sheet items, consolidated data.

Source: Banco de Portugal

However, the risk-weighted assets to total risk ratio is above the euro area average.

**Risk-weighted assets in proportion to total assets (March 2016)**



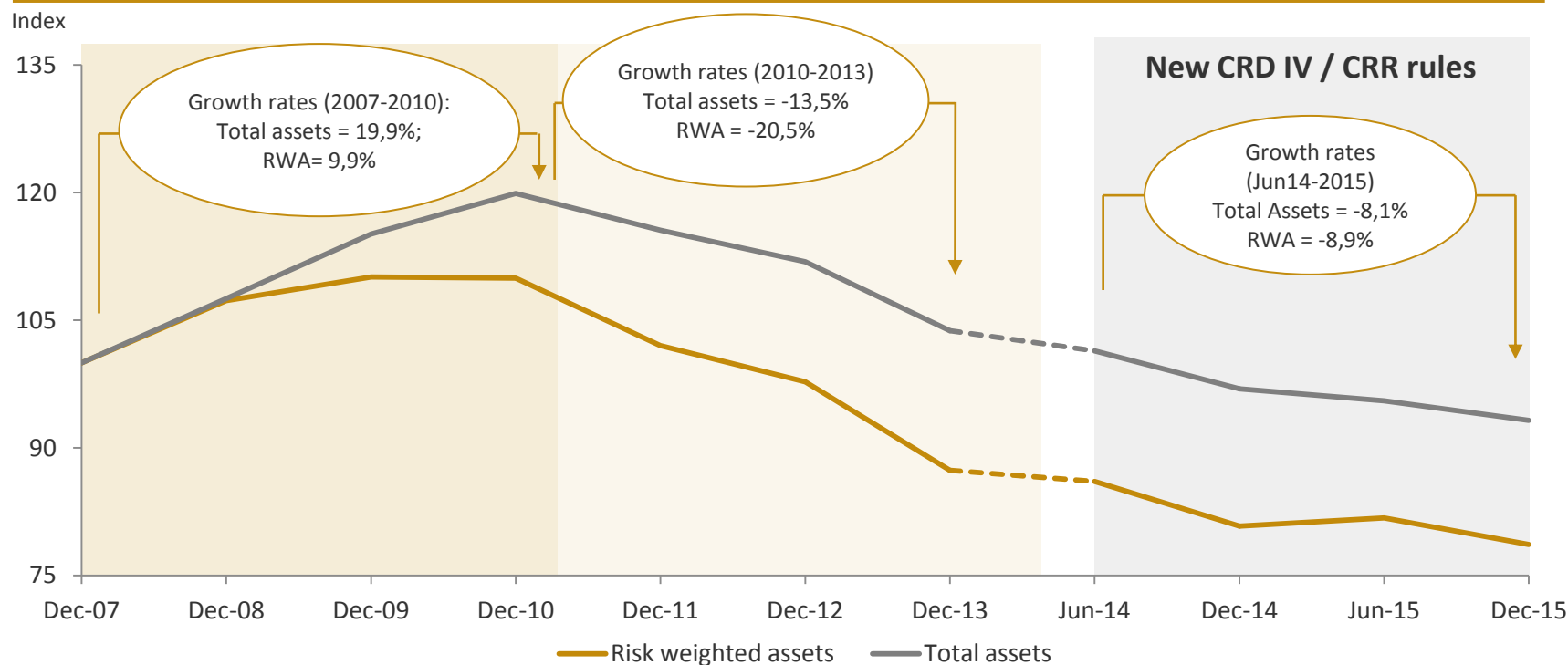
\* Data refers to December 2015

\*\* The data for Portugal may differ 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 been falling at a slower rate than risk-weighted assets due to optimisation of RWAs and reduction in the risk profile of Portuguese banks' assets.

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

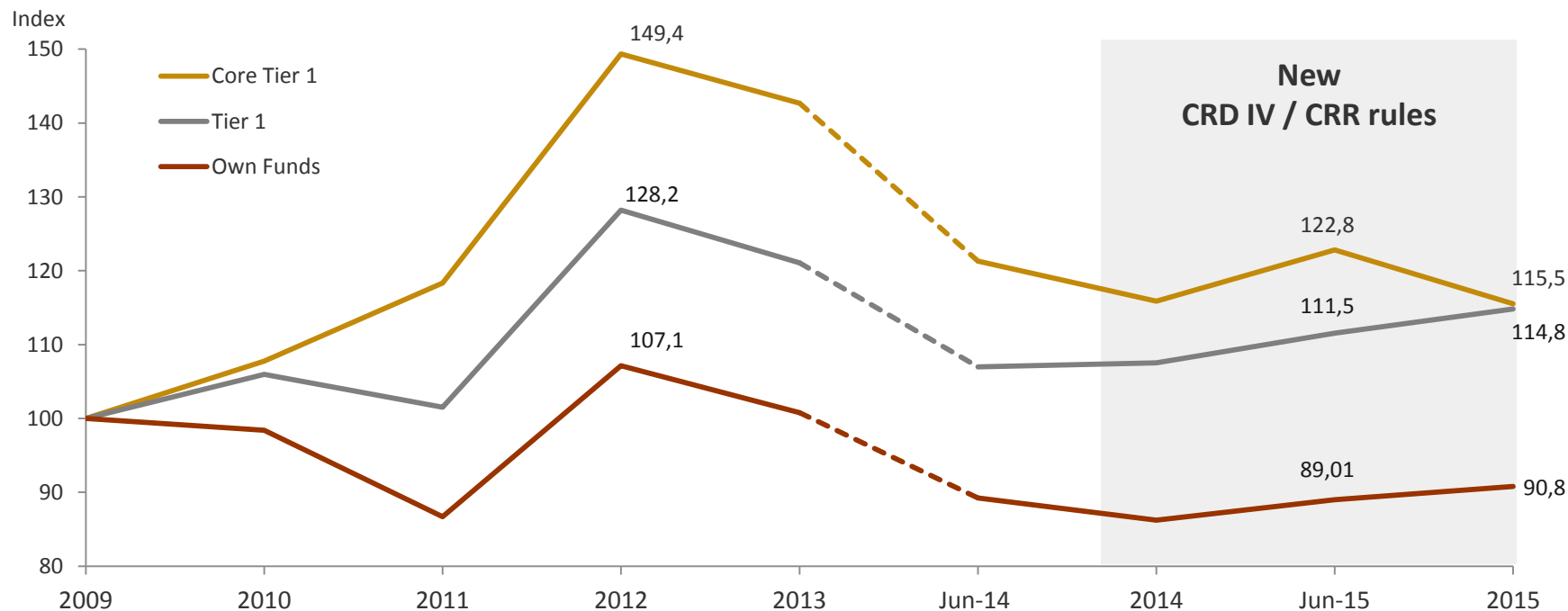


\* Data from bank groups and domestic banks on a consolidated basis, excluding the insurance business

Source: Banco de Portugal

The better quality own funds, core Tier 1, increased between 2009 and 2015, in spite of losses accumulation between 2012 and 2014.

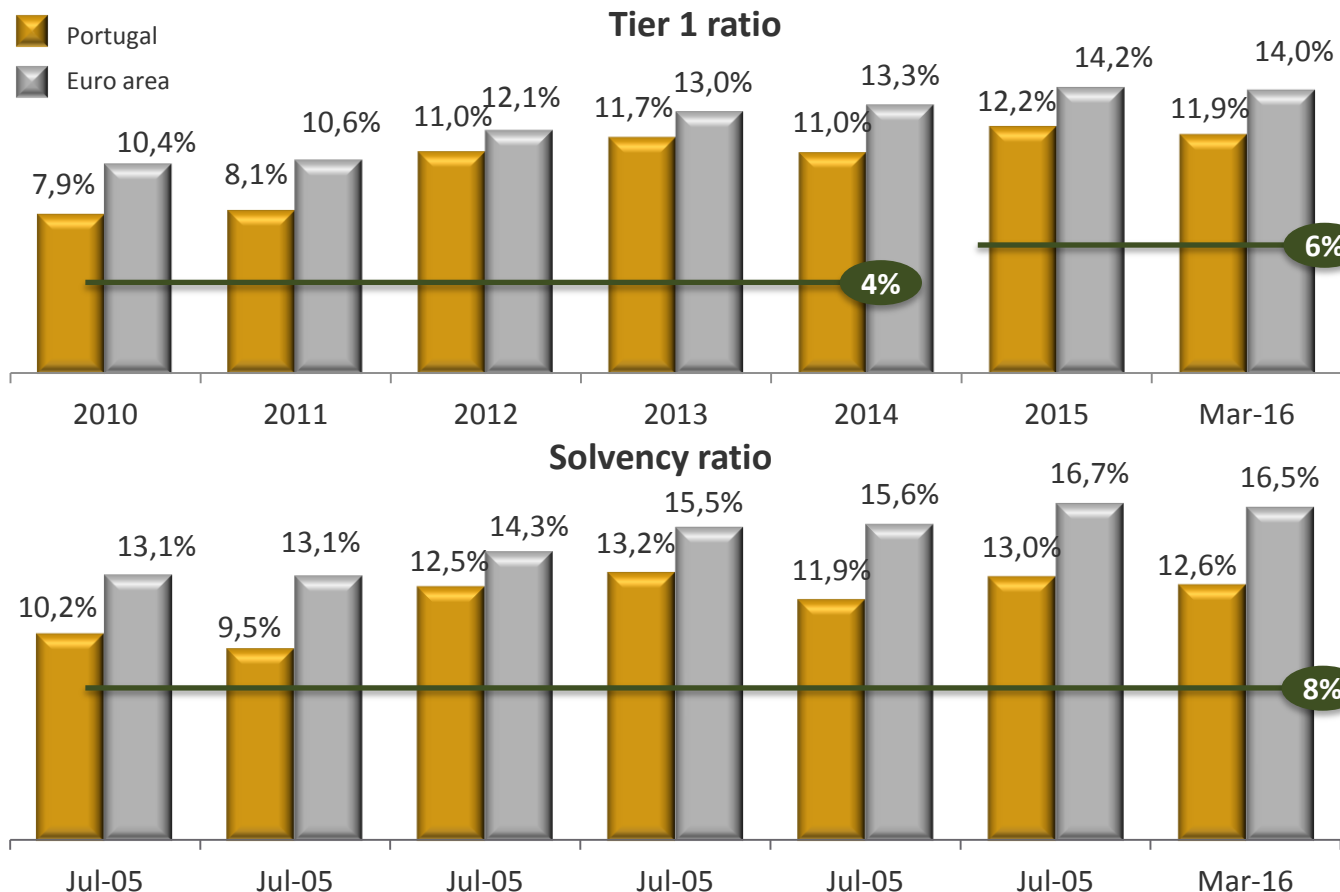
**Own funds of Portuguese banks\* (Dec 2009=100)**



\* Data from bank groups and domestic banks on a consolidated basis, excluding the insurance business

Source: Banco de Portugal

Historically, the Portuguese banks' capital levels have always been above the minimums required by law.



Basel II required financial institutions' Tier 1 ratio to be 4% or higher and their solvency ratio to be no lower than 8%. In 2014, in accordance with the CRD IV/CRR transitional arrangement, the requirement was changed to 6% Tier 1 Ratio and 8% for the solvency ratio. These minimums do not include the SREP\*\* decision (case-by-case requirements)

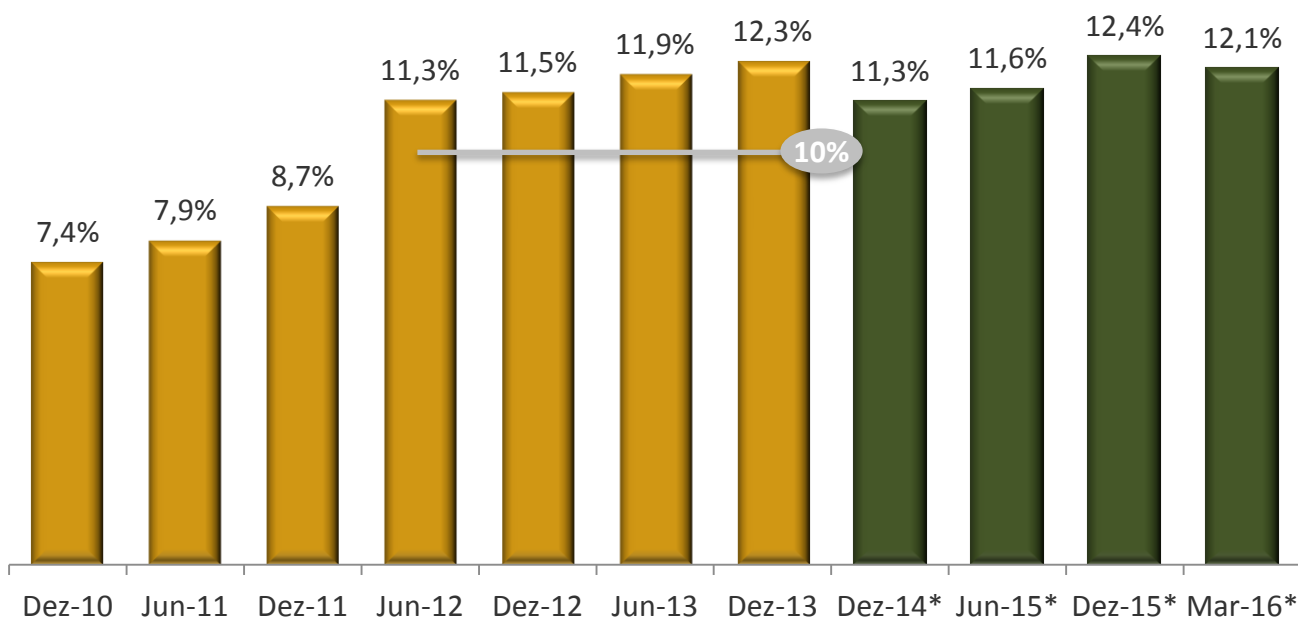
\* Data from domestic bank groups and standalone banks on a consolidated basis, excluding the insurance business.

\*\*SREP - Supervisory Review and Evaluation Process.

Source: Banco de Portugal

# The solvency of the Portuguese banks improved substantially since 2011.

## Core Tier 1 ratio / Common Equity Tier 1 ratio



Until the end of 2013, the Portuguese banks were required by Banco de Portugal to meet a Core Tier 1 ratio of no less than 10%.

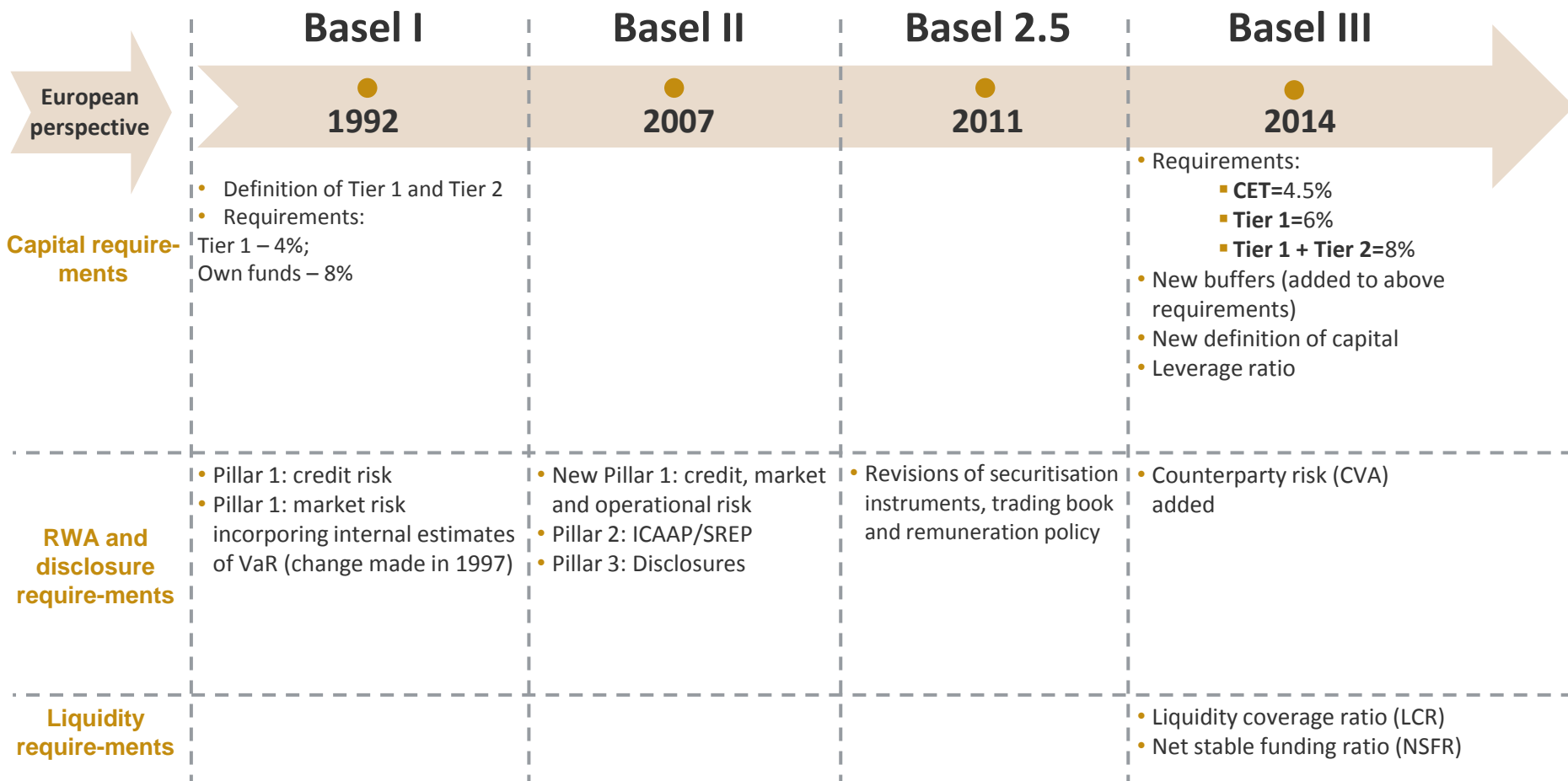
Since the beginning of 2014, the Portuguese banks have to follow the new CRD IV/CRR transitional arrangements for adequacy of own funds, which imposes a minimum Common Equity Tier (CET) 1 ratio composed by the sum of: (i) a generic minimum threshold to all banks in the E.U. (Pillar 1: 4.5%); (ii) a threshold composed by minimum capital reserves ("Capital buffers"\*\*) imposed by Banco de Portugal as the macroprudential supervision authority and; (iii) a specific minimum requirement for each bank (Pillar 2), according to the evaluation made by the authority responsible for the SREP, which is not publicly disclosed.

\* CET 1 ratio calculated in accordance with the new CRD IV/CRR transitional arrangement.

\*\* Currently only the capital conservation ratio is greater than 0%. This ratio is 0.625% in 2016, and will increase to 1.25% in 2017 and to 1.875% in 2018, reaching 2.5% in 2019.

Source: Banco de Portugal

After the 2008 financial crisis, the banking sector has been subject to additional regulatory requirements.



All figures are for full implementation of the Basel agreements  
Source: BIS, PwC

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

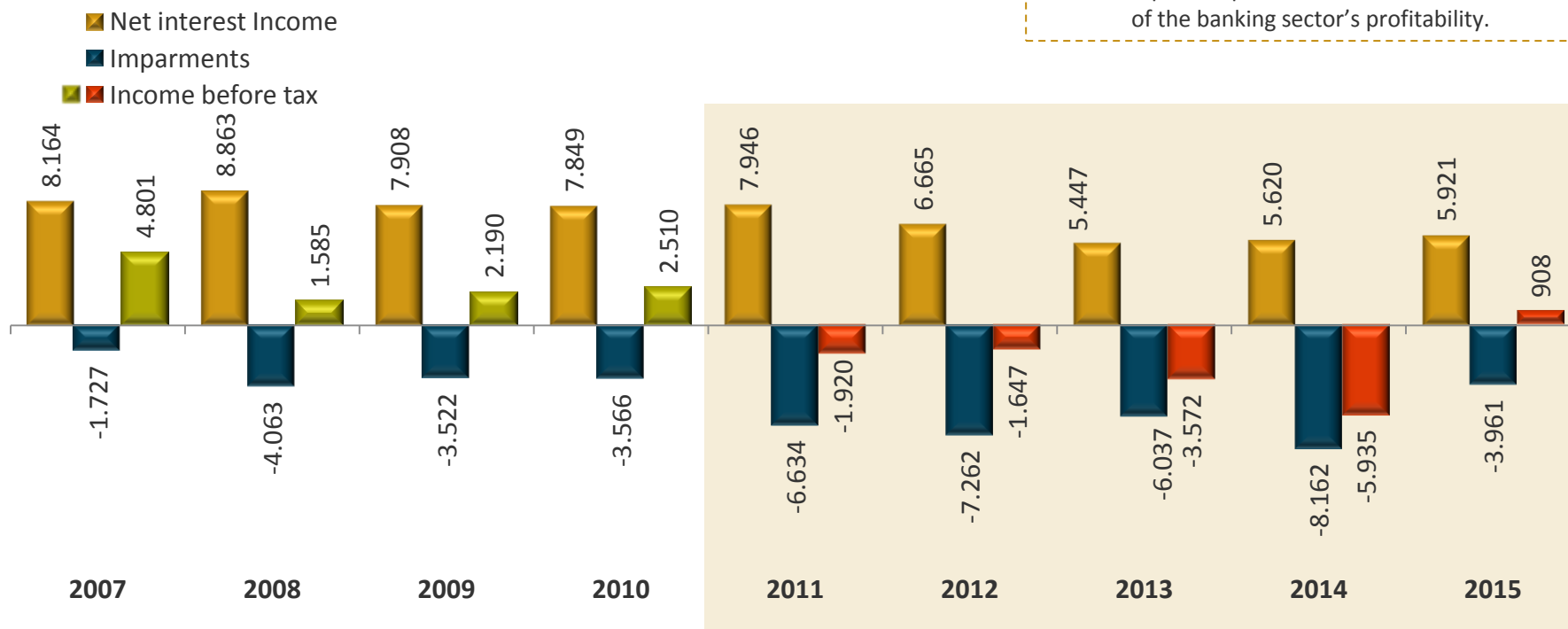
## V. Profitability



In 2015, the lower impairment losses and the increase of the net interest income led to a recovery of the Portuguese banking sector's profitability.

**Portuguese banks' consolidated net interest income, impairments and profits before tax (EUR million)**

Between 2011 and 2013, the profits of the Portuguese banking sector were adversely affected by both the increase in impairments and the reduction in net interest income. Since net interest income stabilised in the recent past, impairments became the main driver of the banking sector's profitability.



Source: Banco de Portugal

Since 2011, Banco de Portugal has conducted several inspections to the largest Portuguese banking groups to assess whether they had reached an appropriate level of impairment.

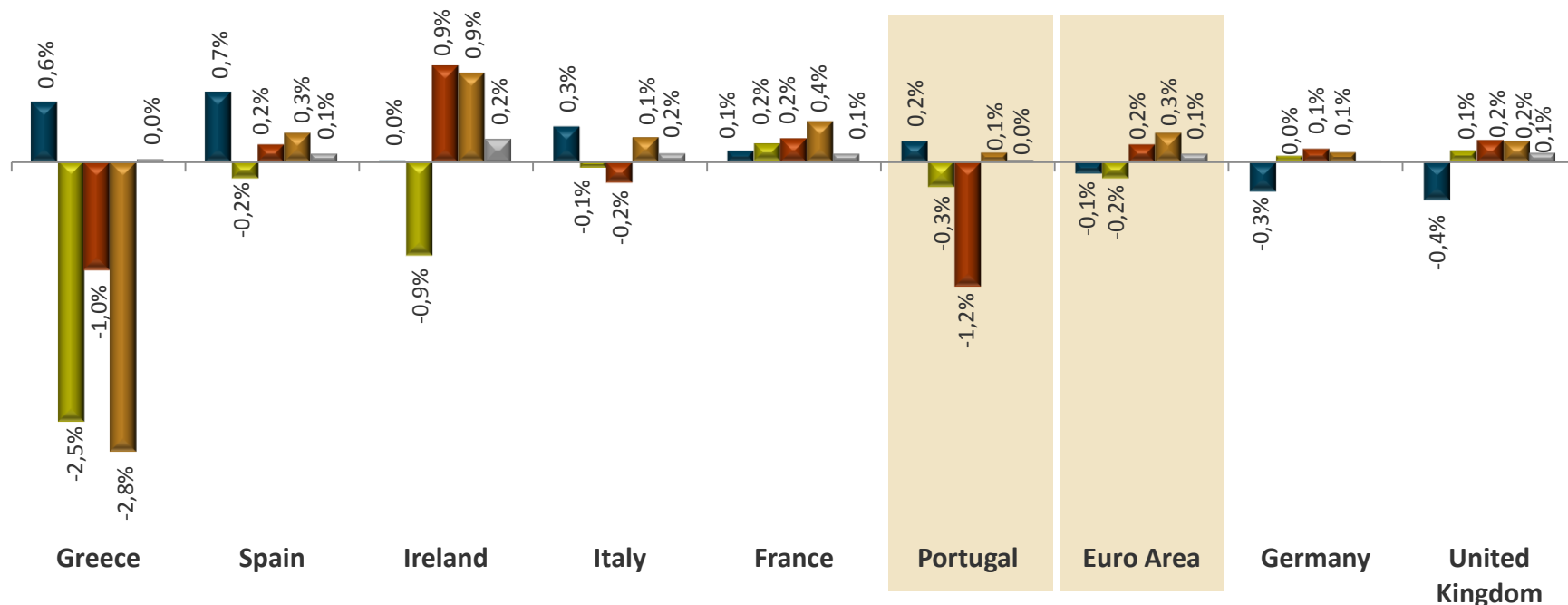
	1st exercise 2nd half 2011	2nd exercise 2nd half 2012	3rd exercise Jun – Jul 2013	4th exercise Oct 2013 – Mar 2014
<b>Data de referência:</b>	30 June 2011	30 June 2012	30 April 2013	30 September 2013
<b>Scope:</b>	<ul style="list-style-type: none"> <li>Assessment of credit portfolio (EUR 281 billion - 72% to 100% of each bank's total portfolio)</li> <li>Validation of capital requirements for credit risk</li> <li>Assessment of parameters and methods used in stress test exercises</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of credit portfolio— exposure to construction and real estate sectors in Portugal and Spain (56% of population analysed – EUR 69 billion)</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of credit portfolio (EUR 93 billion analysed)</li> </ul>	<ul style="list-style-type: none"> <li>12 economic groups (EUR 9.4 billion)</li> </ul>
<b>Results:</b>	<ul style="list-style-type: none"> <li>Need to reinforce impairments : EUR 596 million</li> <li>Increase in capital requirements: 0.6%</li> <li>Impact on Tier 1 ratio: from 9.1% to 8.8%</li> </ul>	<ul style="list-style-type: none"> <li>Need to reinforce impairments : EUR 474 million</li> </ul>	<ul style="list-style-type: none"> <li>Need to reinforce impairments : EUR 1.127 billion (reinforced by 30 June 2013)</li> </ul>	<ul style="list-style-type: none"> <li>Need to reinforce impairments : EUR 1.003 billion</li> </ul>

Source: Banco de Portugal

Although it is still low, the Portuguese banks' return on assets recovered in 2015 and in the first quarter of 2016, converging to the European average.

ROA and ROE of the Portuguese banking sector were positive in 2015. The performance was likewise positive in the first quarter of 2016, benefiting from lower impairments and an increase in net interest income, despite lower gains in financial operations.

**ROA - Return on Assets\***



\* Data from banking groups and domestic banks on a consolidated basis.

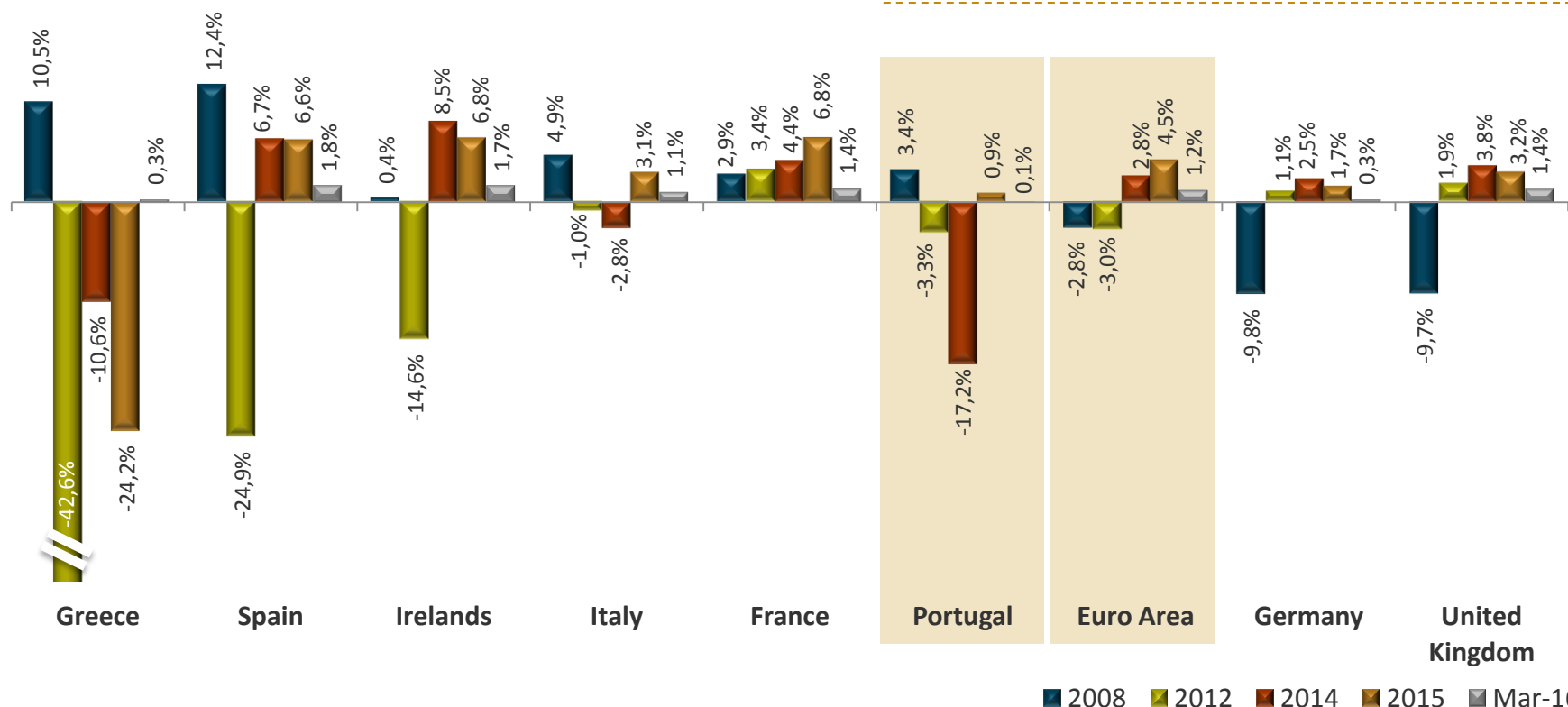
Source: ECB

■ 2008 ■ 2012 ■ 2014 ■ 2015 ■ Mar-16

# The conclusion is similar if we consider the return on equity.

## ROE - Return on Equity\*

ROA and ROE of the Portuguese banking sector were positive in 2015. The performance was likewise positive in the first quarter of 2016, benefitting from lower impairments and an increase in net interest income, despite lower gains in financial operations.

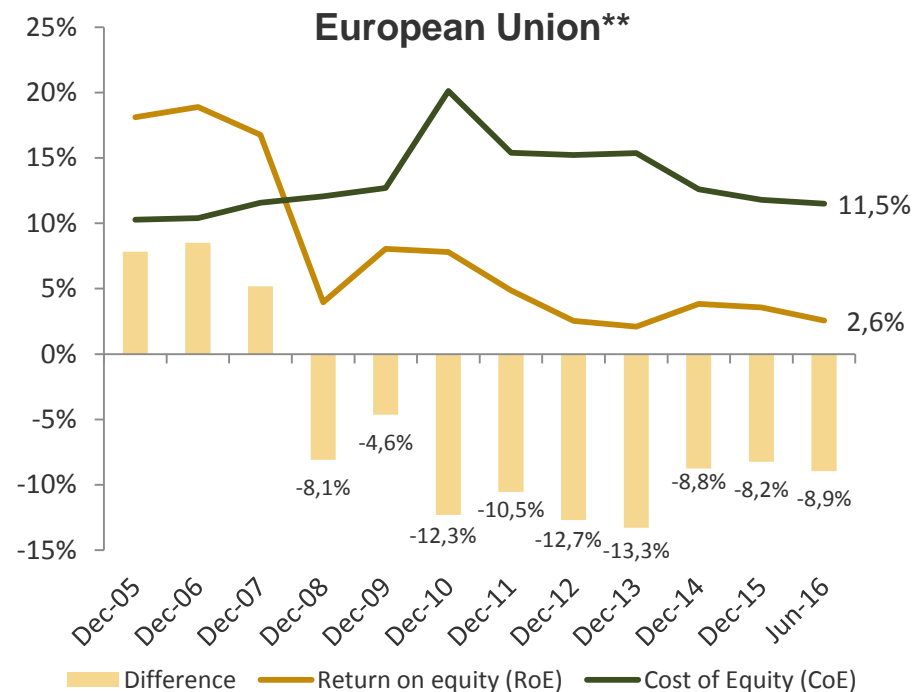
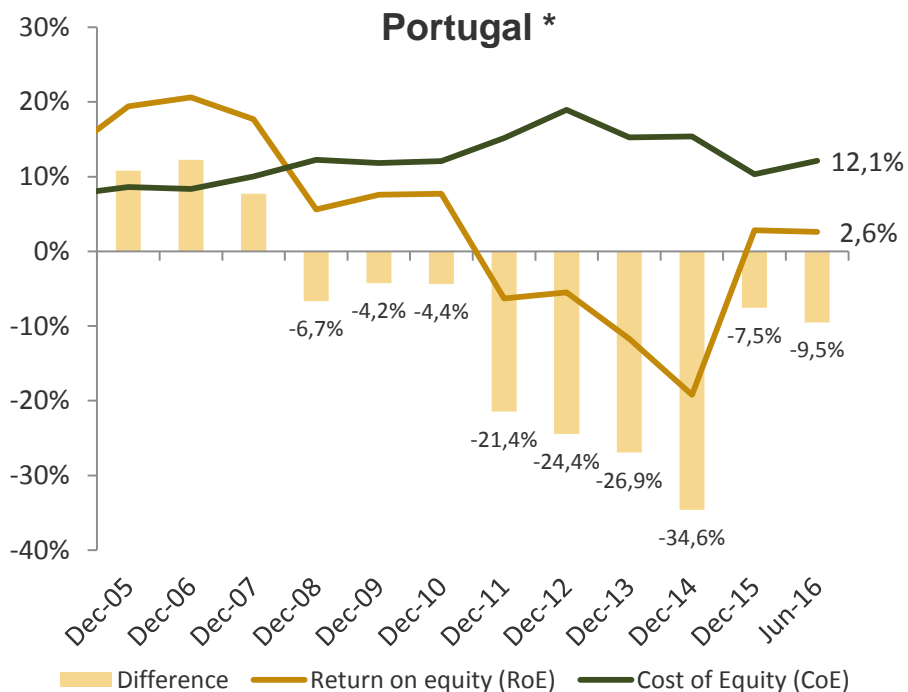


\* Data from banking groups and domestic banks on a consolidated basis.

Source: ECB

The low profitability of the banking system, both in Portugal and in the European Union, when compared with banks' cost of equity, leads to a situation of shareholder's value destruction.

### Return on Equity vs. Cost of Equity



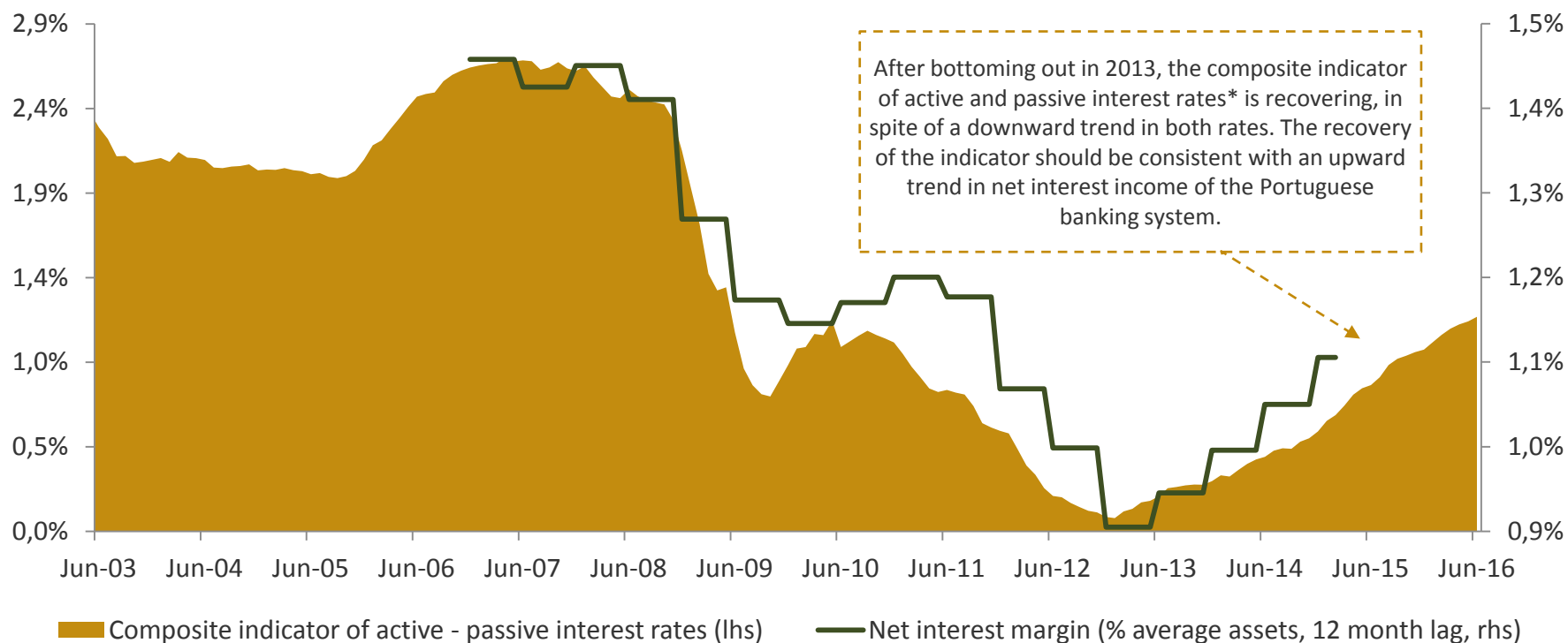
\* 2016 figures are from the 1<sup>st</sup> quarter.

\*\*Global Systemically Important Banks (G-SIBs)

Source: APB, Banco de Portugal, Bloomberg

After a steep downward trend between 2007 and 2013, net interest income of the banking system is recovering, although remaining low.

**Composite indicator of active - passive interest rates and Net Interest Margin (% of average assets)**

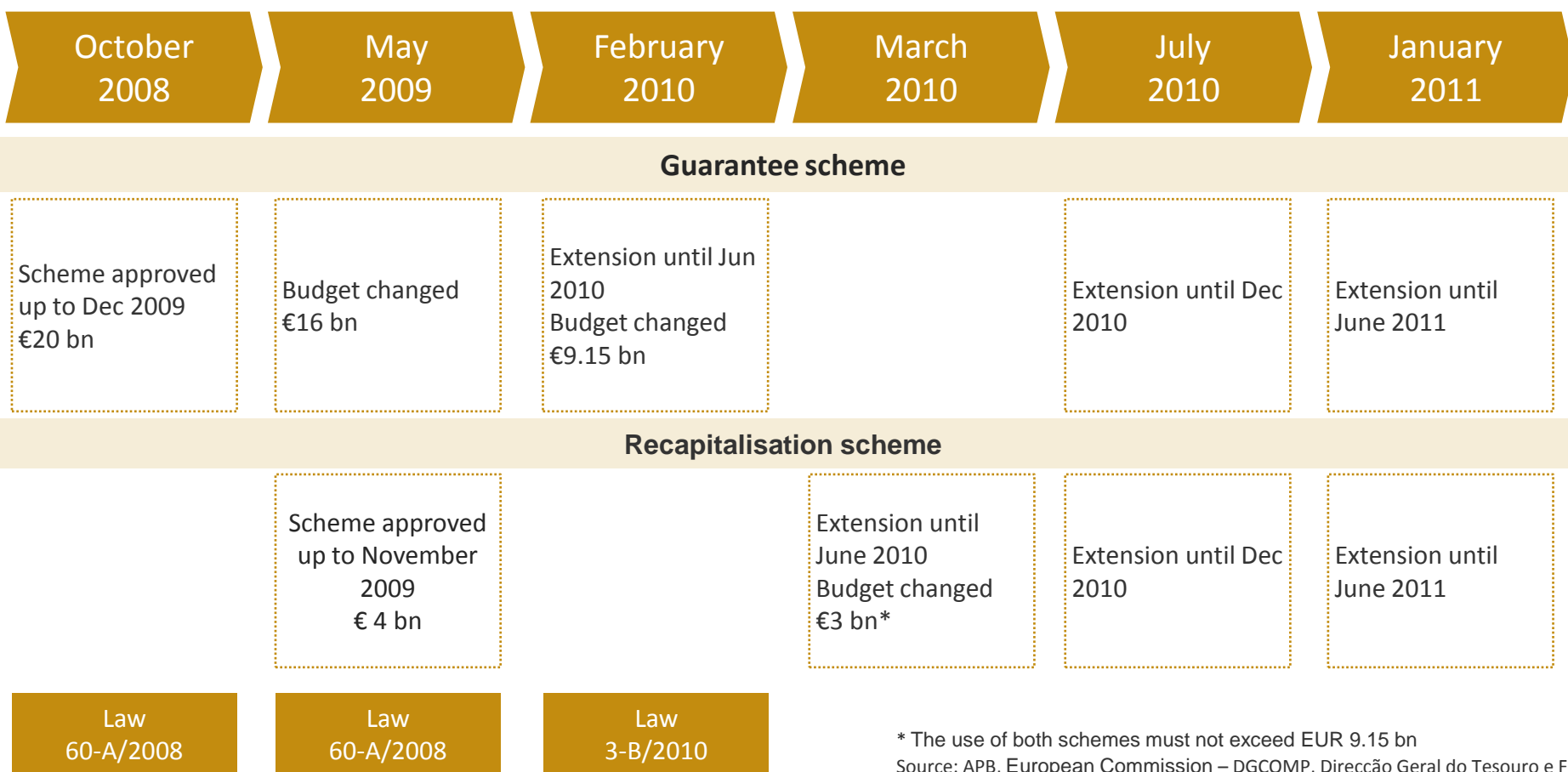


\*Consisting of the difference between the weighted interest rates on loans to NFCs and households and deposit rates. It represents a proxy of Net Interest Margin.  
Source: Banco de Portugal

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

**VI:** Public recapitalisation schemes and personal guarantees from the State to credit institutions

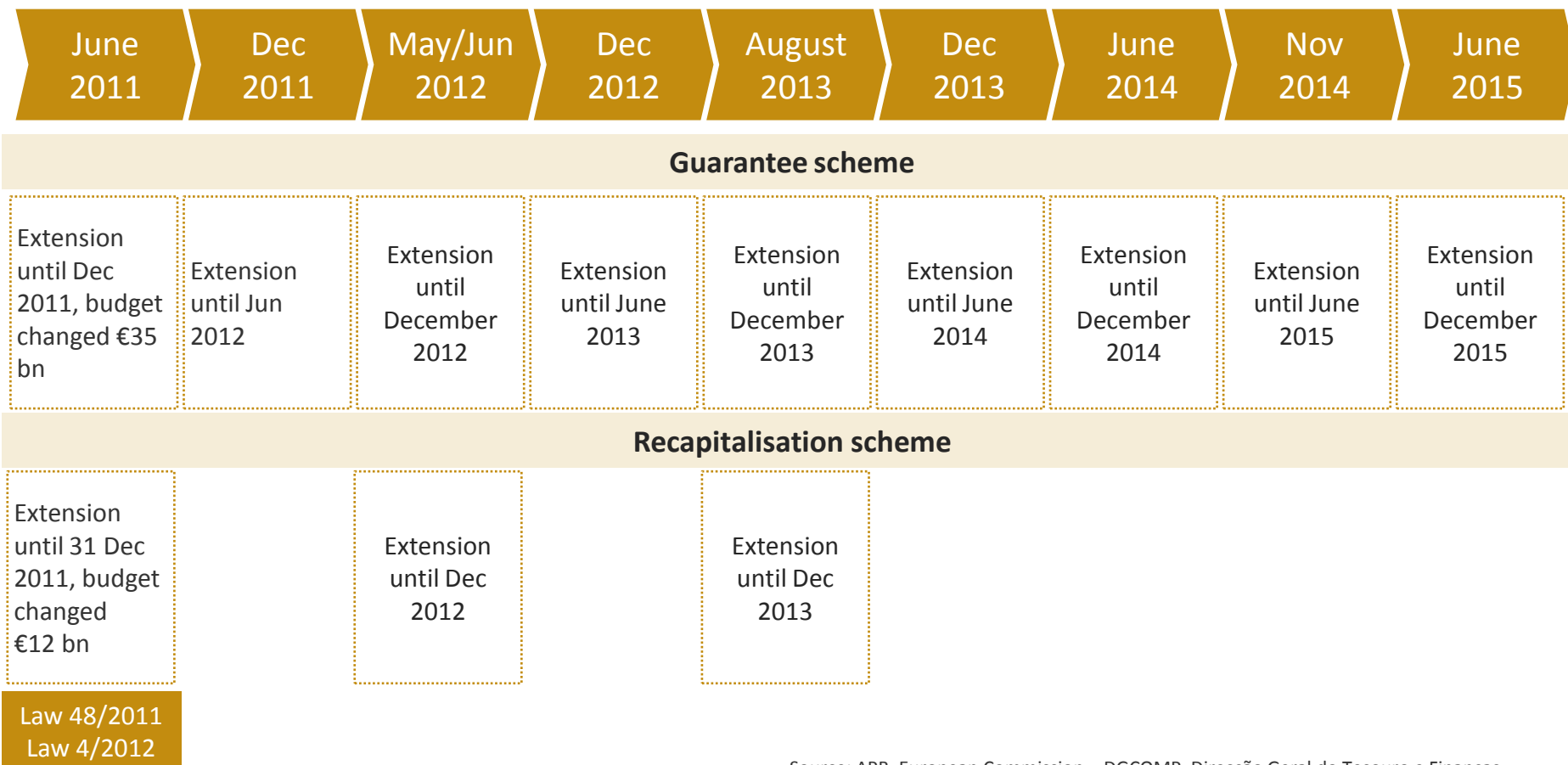
# Timeline of public recapitalisation schemes and personal guarantees from the State to credit institutions before the EFAP



\* The use of both schemes must not exceed EUR 9.15 bn  
Source: APB, European Commission – DGCOMP, Direcção Geral do Tesouro e Finanças



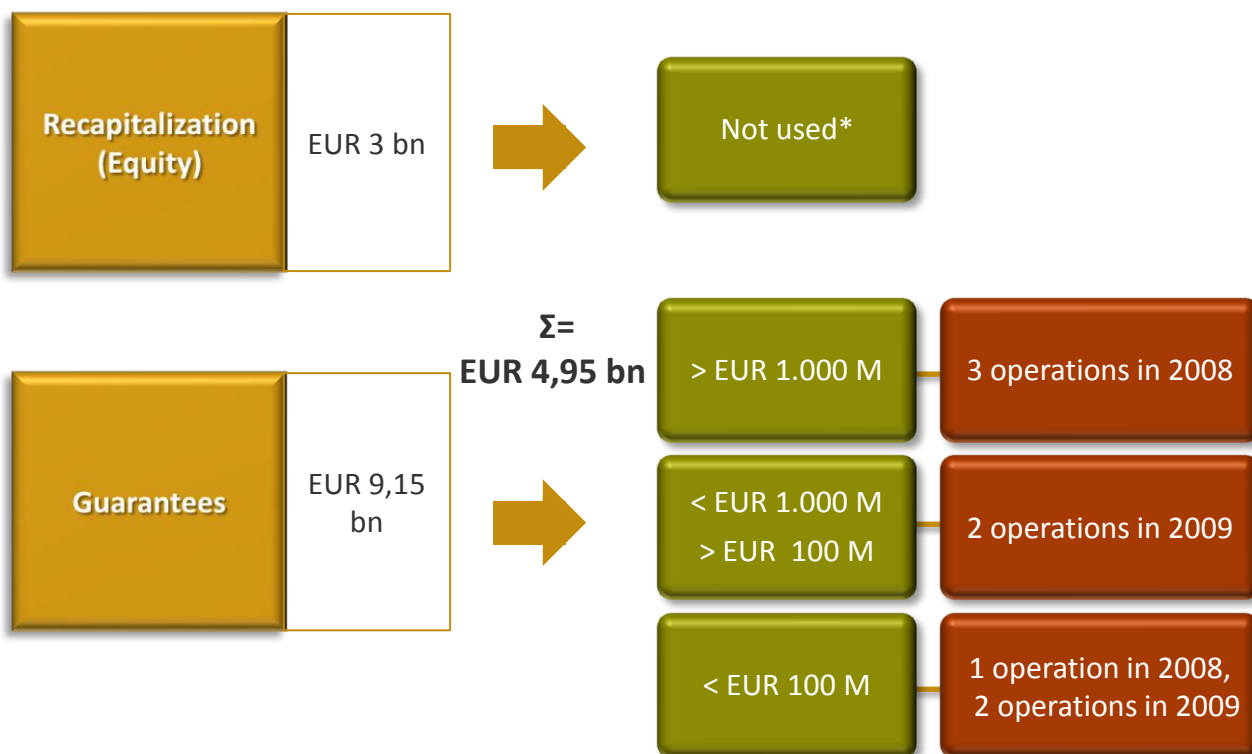
## Timeline of public recapitalisation schemes and personal guarantees from the State to credit institutions during the EFAP



Source: APB, European Commission – DGCOMP, Direcção Geral do Tesouro e Finanças

# Portuguese banks survived the financial crisis without State recapitalisation support...

## State support schemes used until the end of June 2011



### Up to the end of June 2011:

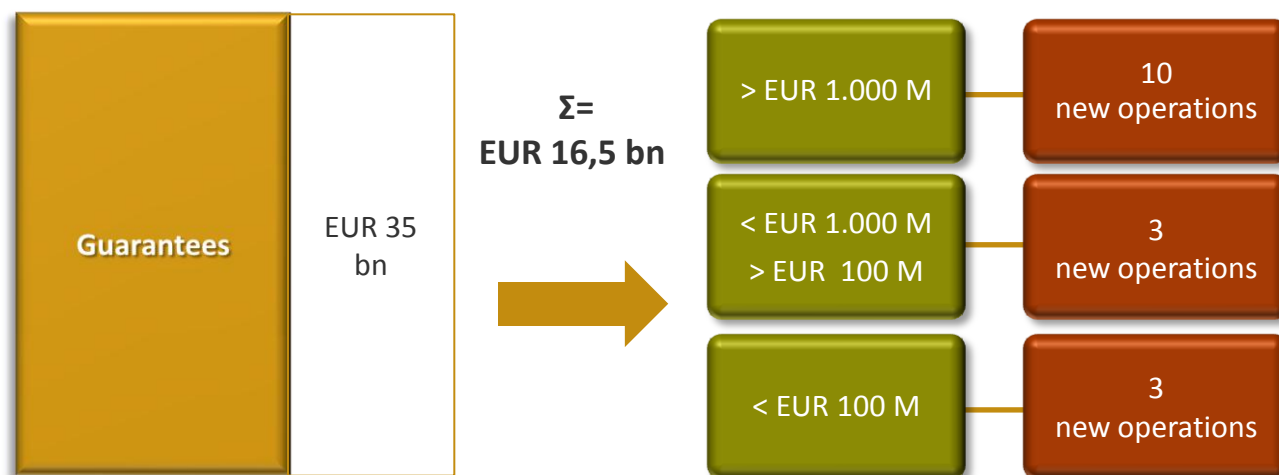
- 6 banks (including CGD) had used the guarantee scheme
- 2 operations in the amount of EUR 75 m had been amortised (one in 2009, the other in 2010)
- The guarantees outstanding totalled EUR 4.875 bn, i.e. 53% of the existing budget

\* It was not used by private banks. In December 2010, CGD increased its capital by EUR 550 m, EUR 56 m of which came from the budget of the recapitalisation scheme.

Source: APB, European Commission – DGCOMP, Direcção Geral do Tesouro e Finanças

... meanwhile the public debt crisis led to an increase in the use of State guarantees.

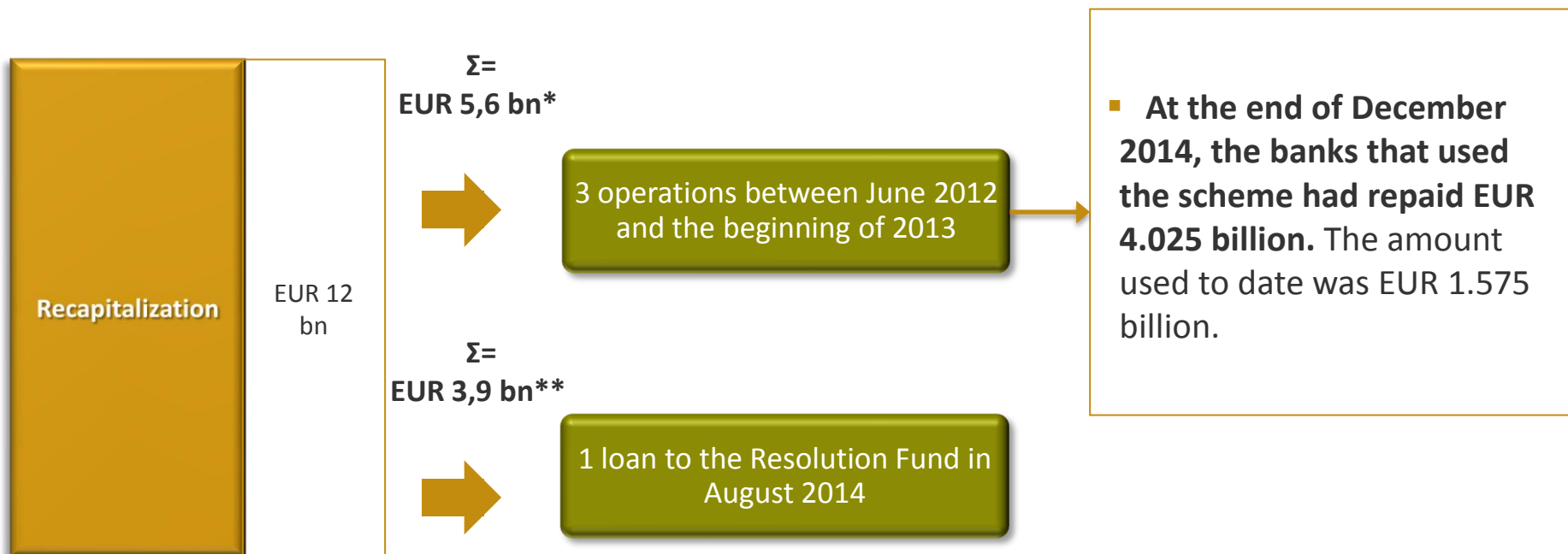
### Use of guarantee scheme after July 2011



- After July 2011:
  - **6 banks** used the guarantee scheme in new funding operations
  - New operations totalled **EUR 16.525 bn**, i.e. **47.2%** of the budget

Use of the recapitalisation scheme occurred later to meet additional capital needs resulting from the rules imposed by Banco de Portugal\*.

Use of recapitalisation scheme



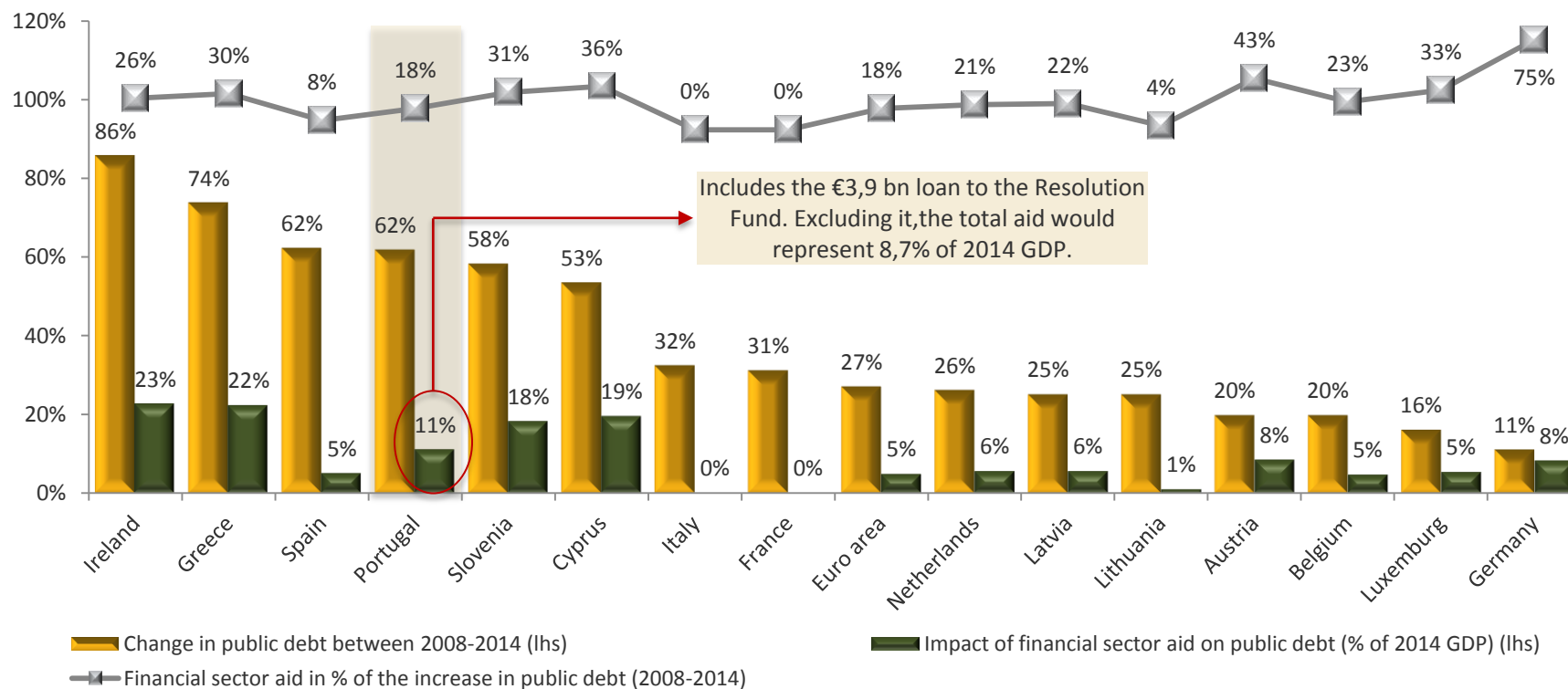
\* Resulting from a n EBA recommendation EBA (EBA/REC/2011/1) - <https://www.eba.europa.eu/documents/10180/16460/EBA+BS+2011+173+Recommendation+FINAL.pdf/b533b82c-2621-42ff-b90e-96c081e1b598>

\*\* Does not include recapitalisation of CGD in June 2012, to the amount of EUR 1.65 million.

Source: APB, European Commission – DGCOMP, Direcção Geral do Tesouro e Finanças

The impact of State aid to the financial system was similar to that in the euro area and represented 18% of the increase in public debt between 2008 and 2014.

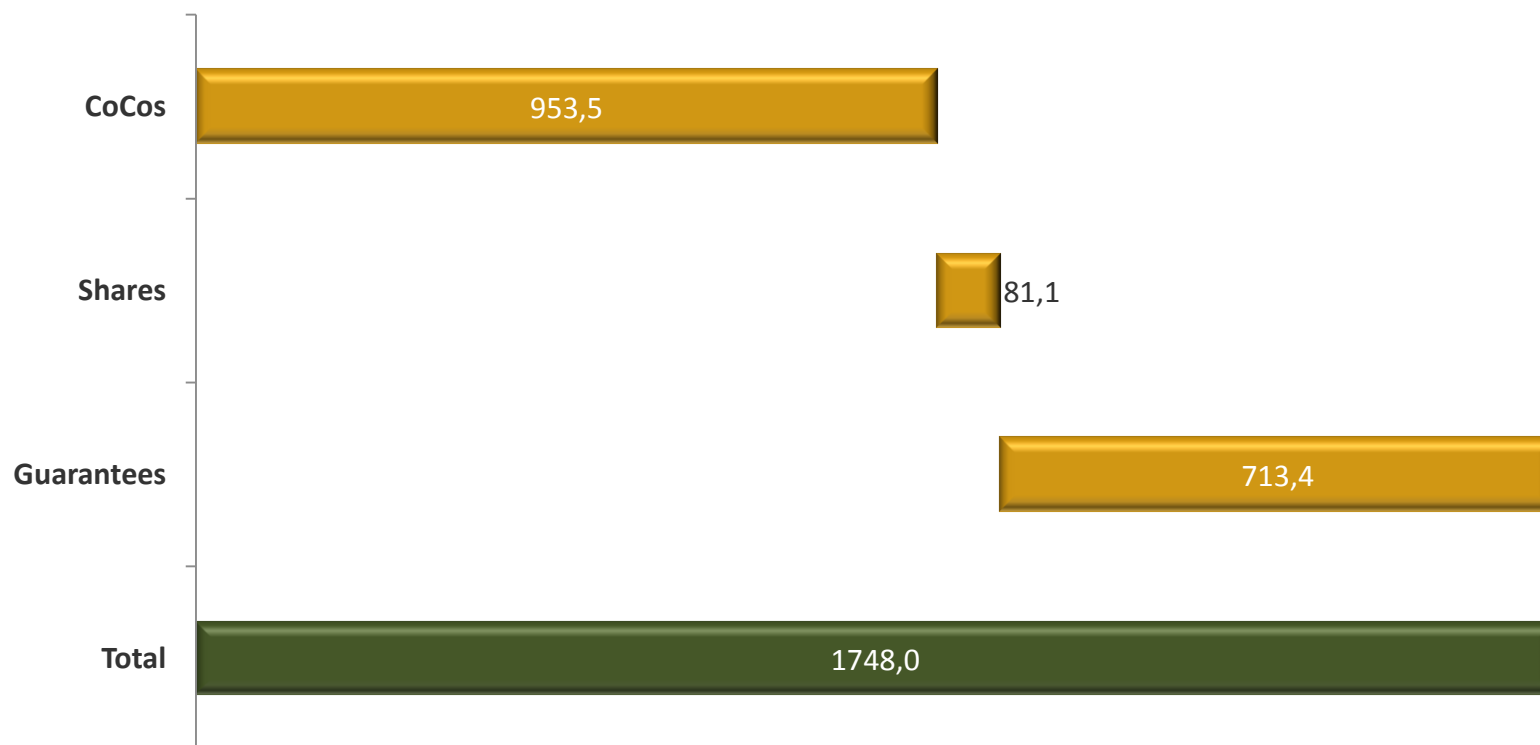
**Impact of aid to the financial system (2008-2014) on public debt (% of GDP in 2014)**



Source: ECB

## Public support to the financial system yielded significant revenues to the State.

**Costs of the Portuguese financial system regarding public aid support between 2008 and 2014\* (€ Million)**



\* Interest, dividends and guarantees rates, between 2008 and 2014.

Source: Portuguese Court of Auditors, APB

# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

## Annex I: Methodology

## Methodology

- **Unless otherwise explicitly indicated:**
  - The sample corresponds to the whole financial sector
  - The balance sheet data analyzed in this publication results from an aggregation for the entire banking system, on an individual basis.
  - The solvency and profitability analysis of the banking sector are carried out based on consolidated data.
  - The credit to customers sample corresponds to gross data, and represents credit to both residents and non-residents.
  - Credit to customers includes loans, certificates of deposit, repurchase agreements, title loans and overdue and doubtful loans.



# OVERVIEW OF THE PORTUGUESE BANKING SYSTEM