

PORTUGUESE BANKING SECTOR OVERVIEW

PORTUGUESE BANKING SECTOR (I/II)

Main indicators in June 2015

69 Credit
institutions

EUR 462.5 billion in
assets

Loan-to-Deposit
ratio (Mar 15):
106.8%

Common Equity
Tier 1 ratio
(Mar 15): 11.1%

5,469 branches*

EUR 228.2 billion in
loans to customers

Credit at risk ratio
– NPLs (Mar 15):
12.3%

Tier 1 ratio
(Dec 14): 11%

53,589
employees*

EUR 219.2 billion in
deposits from the
non-monetary sector

Borrowing from
ECB:
EUR 27.712 billion

Total Solvency
ratio (Dec 14):
11.9%

* Data from June 2014 and the APB's member instructions. Unless otherwise indicated, all the data on the Portuguese banking sector refer to the entire system.

PORTUGUESE BANKING SECTOR (II/II)

Recent developments (March to June 2015)

- **Very slight reduction in sector's total assets (-0.5%) and slight rise in the amount of loans (+0.4%).**
- The banks reported a **small increase in demand for loans** in the private and business segments.
- **Deposits from the non-monetary sector** showed a small upward trend (+0.1%) and they continued to be the Portuguese banks' main source of funding.
- The amount of **borrowing from the ECB** by the Portuguese banking sector continued to **fall (-27.87% year on year)**.
- **Risk-weighted assets** followed their downward trend of recent years.
- The Portuguese banks continued to meet their **minimum capital ratios**. Their Common Equity Tier 1 ratio (**11.1%**) was comfortably above the required 7% minimum.

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- II. Lending
- III. Funding
- IV. Solvency
- V. Public recapitalisation schemes and personal guarantees by the state to credit institutions
- VI. Profitability

Annex I: Comprehensive assessment

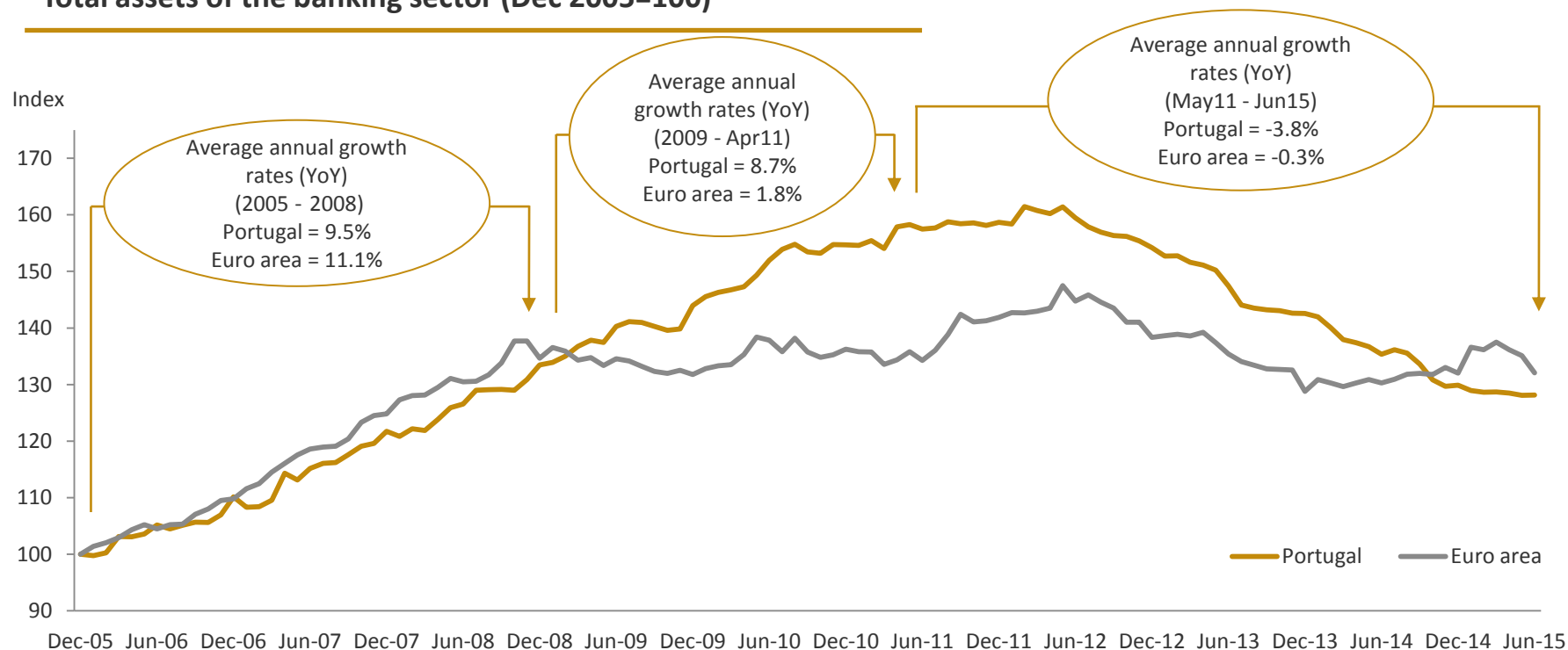
Annex II: Methodology

PORTUGUESE BANKING SECTOR OVERVIEW

- I. Importance of the banking sector to the economy

Contrary to the euro area, growth in the Portuguese banks' assets continued after the 2008-2010 financial crisis and only began to fall after the Economic and Financial Adjustment Programme (EFAP).

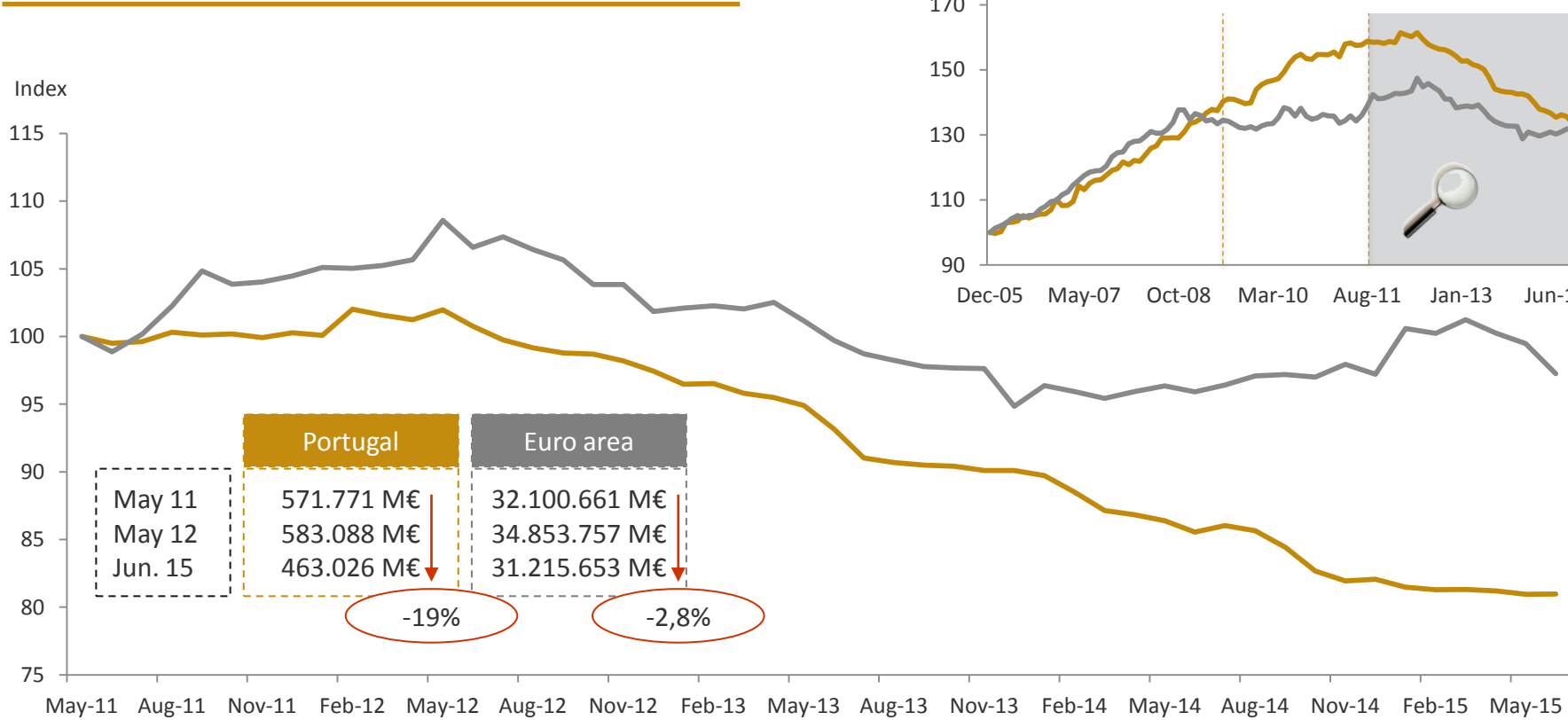
Total assets of the banking sector (Dec 2005=100)



Source: ECB

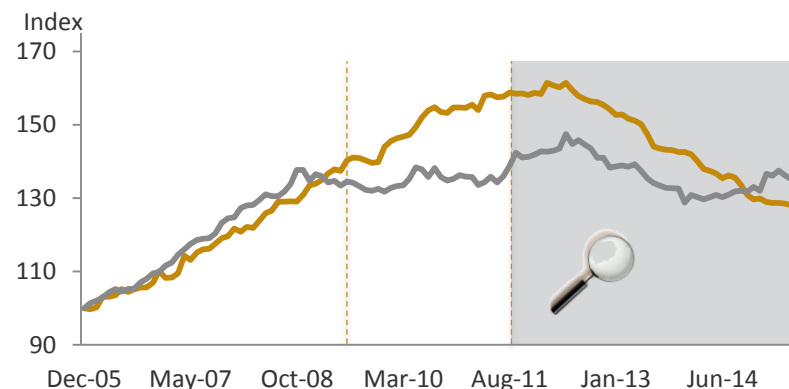
The deleveraging process began after the start of the EFAP. Its effects were visible after May 2012.

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



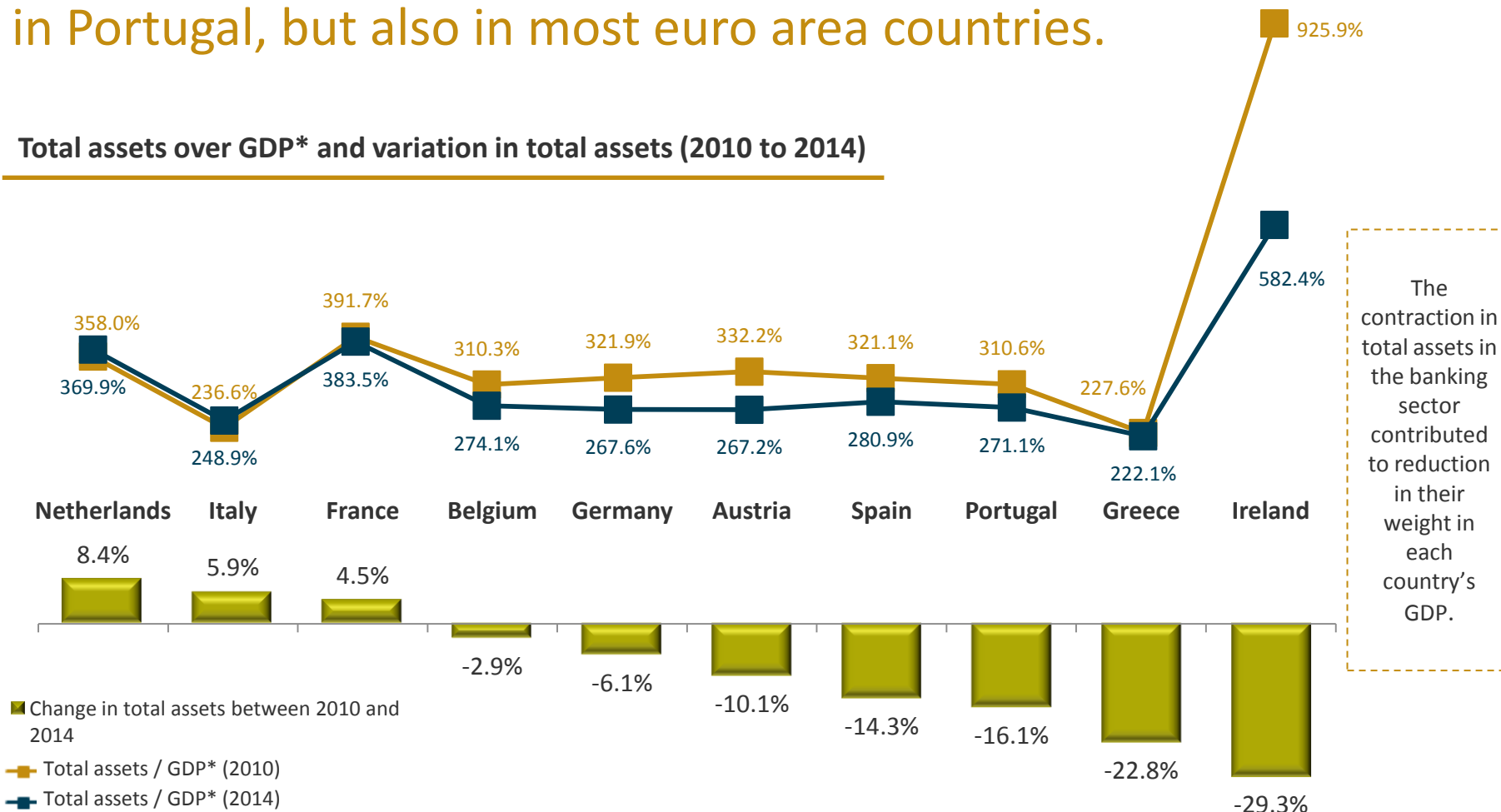
Source: ECB

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



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

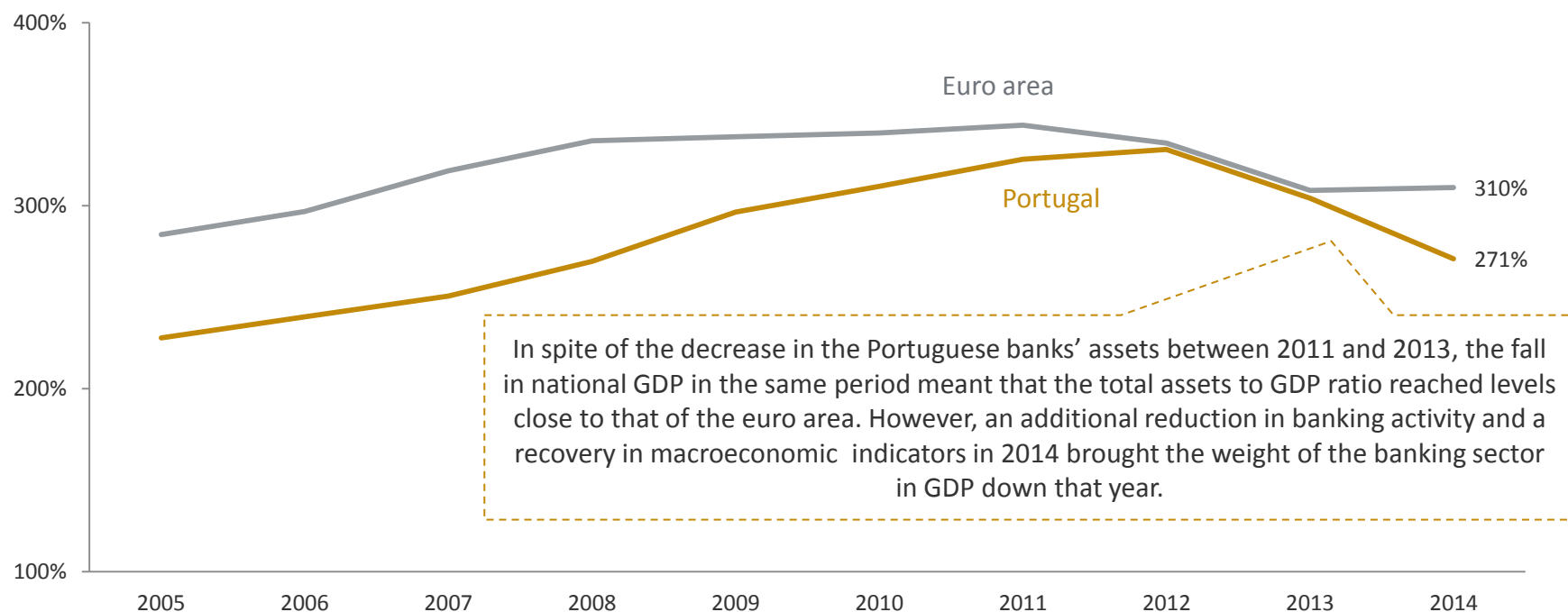
Total assets over GDP* and variation in total assets (2010 to 2014)



* Gross domestic product (nominal)
Source: ECB, Eurostat

The Portuguese banking sector plays an important role in the economy. Nonetheless, the weight of its assets in Portugal's GDP has been falling since the start of the EFAP.

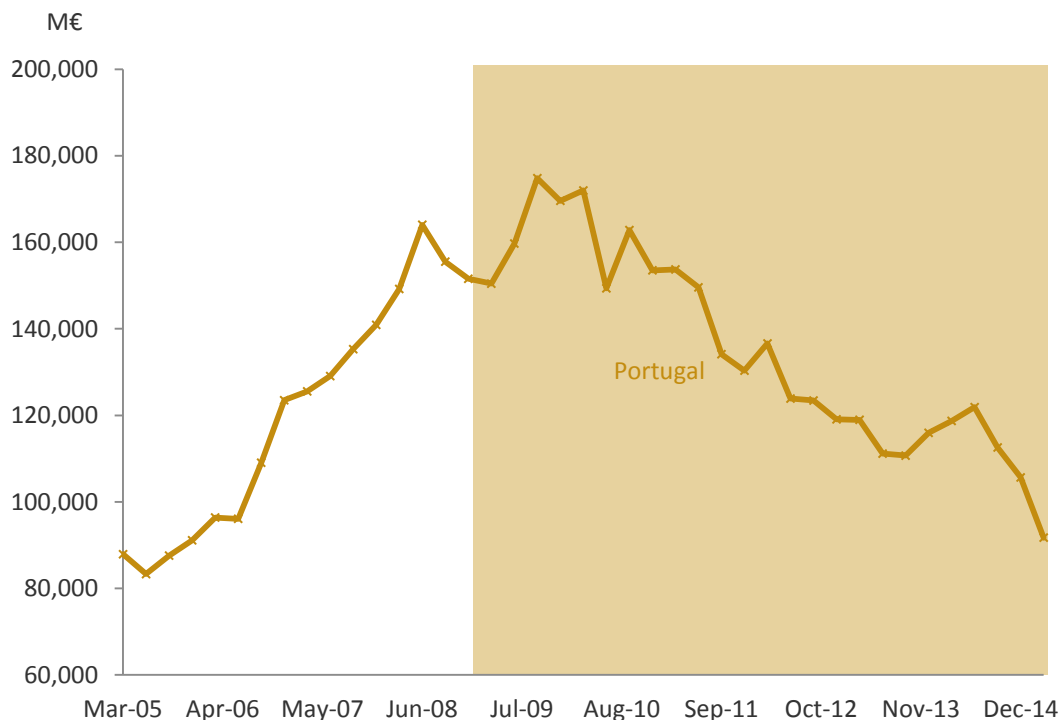
Total assets of the banking sector in proportion to GDP, in Portugal and the euro area



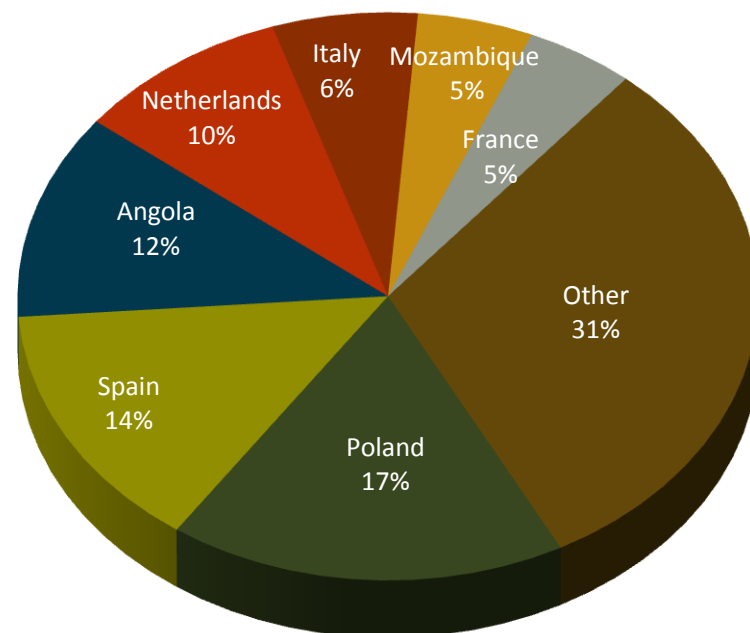
Source: ECB

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

Loans and liabilities of the Portuguese banking sector to other international entities*



Exposure by country (March 2015)

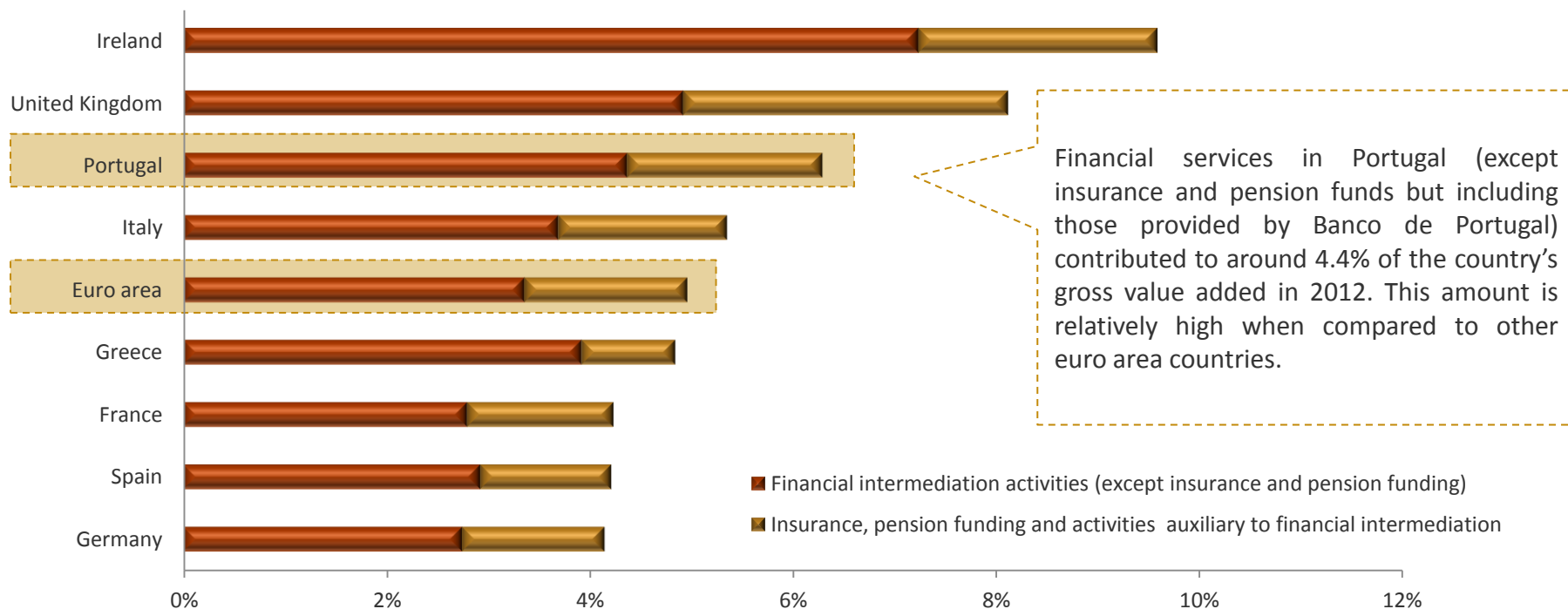


*Defined as loans and liabilities of Portuguese banking groups on a consolidated basis, excluding intra-group exposure in relation to international entities, including loans and deposits with other banks, loans to non-banking entities and debt securities. It excludes derivatives and other risk-transfer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

Source: Bank for International Settlements

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

GVA* of financial services in proportion to total GVA in Portugal and other European Union countries (2012)

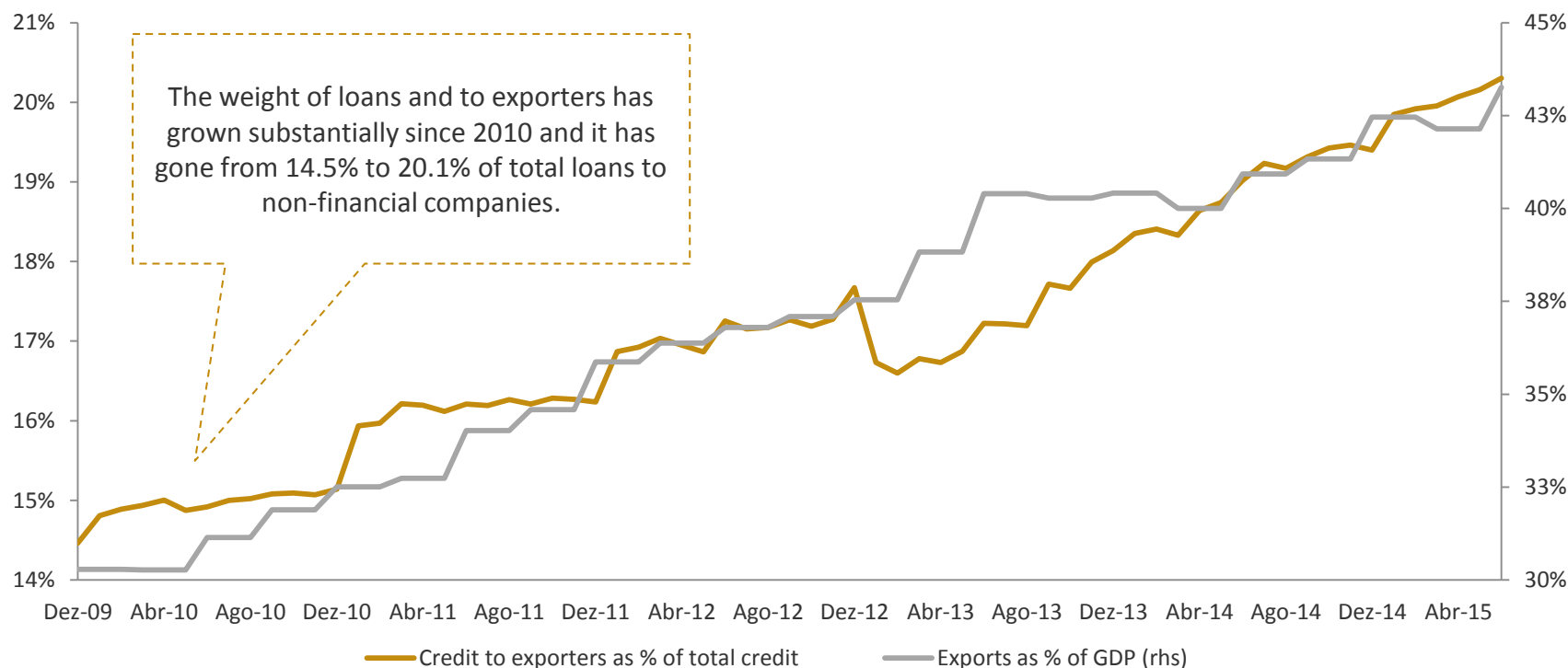


*Gross value added at current prices.

Source: Eurostat, INE, Central Statistics Office Ireland

The increase in the weight of exports in GDP accompanied the trend towards growth in loans to exporters by the Portuguese banking sector.

Exports as % of GDP and credit to exporters as % of total credit



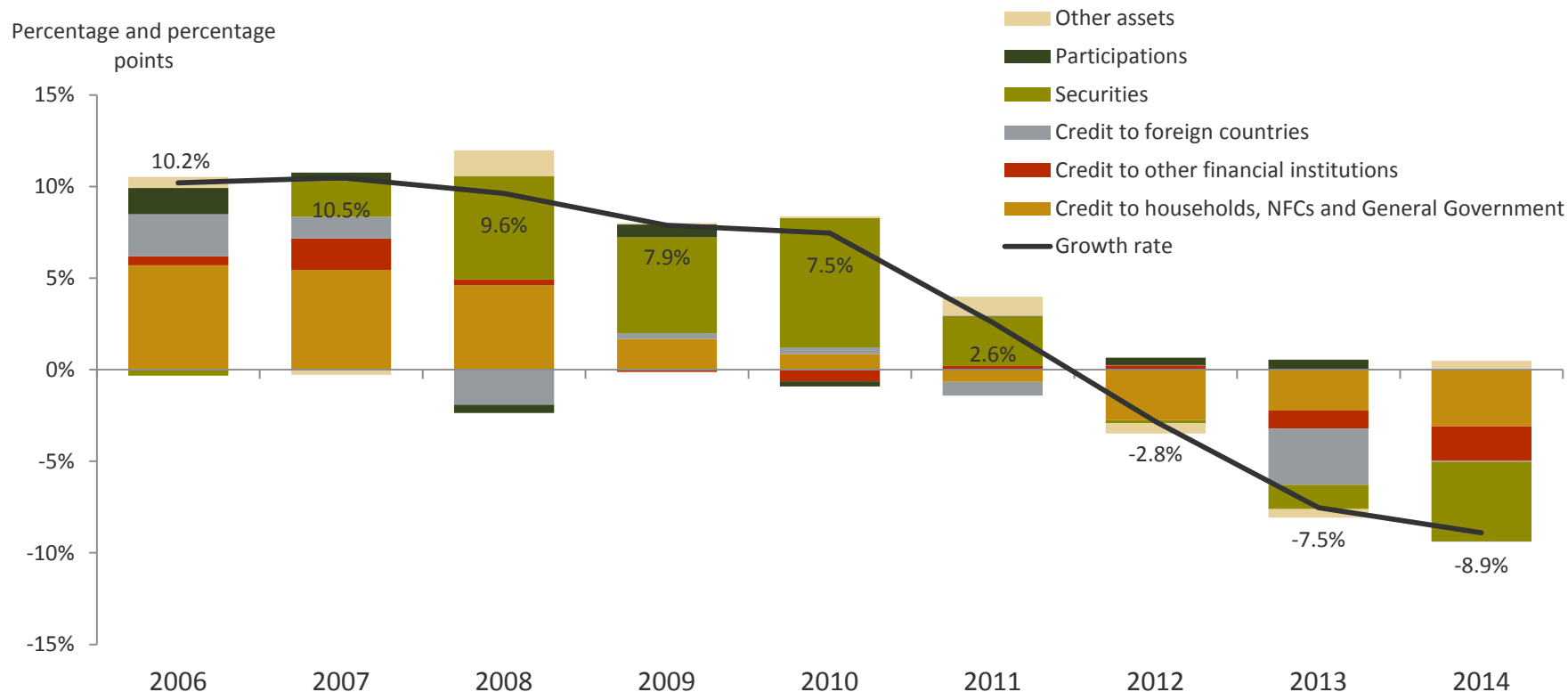
Source: INE, Banco de Portugal

OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

II. Lending

The performance of total assets in 2014 was mainly due to a contraction in loans and in securities portfolios.

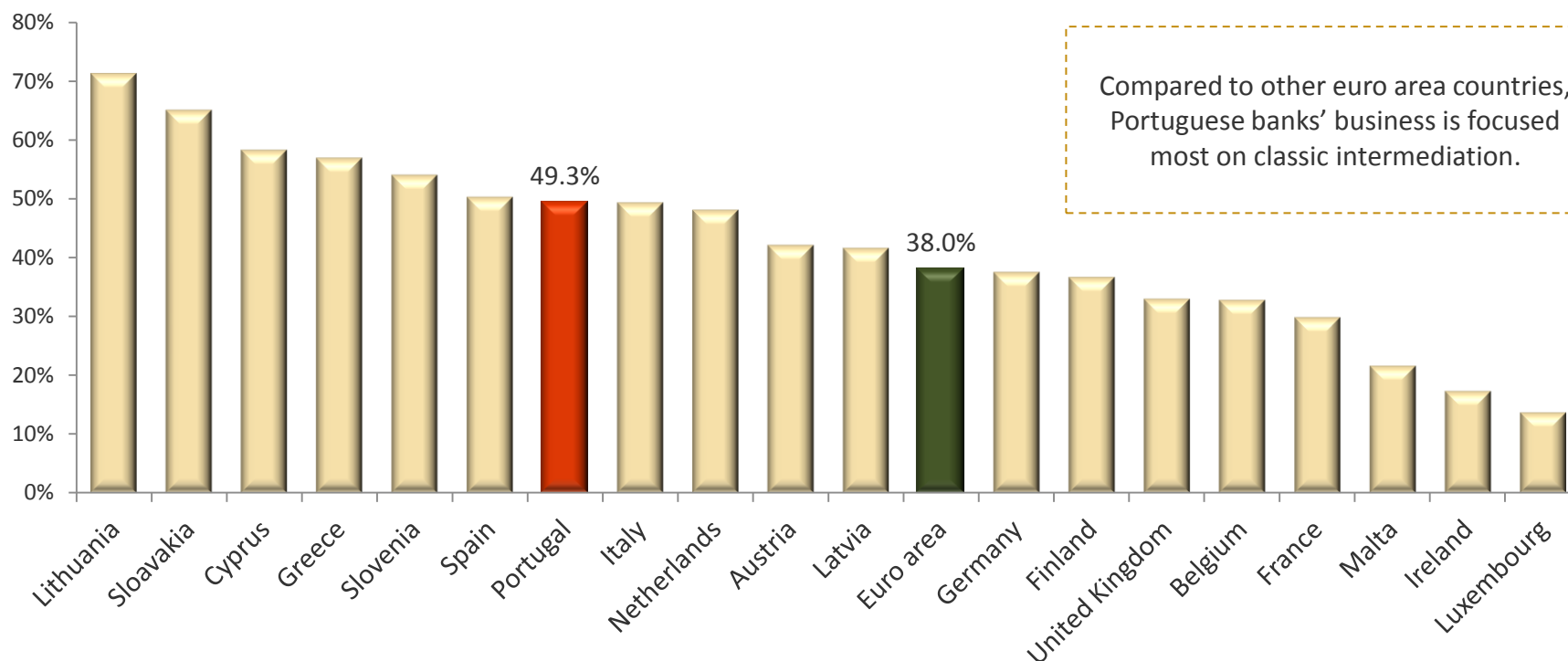
Contribution of each asset item to aggregate annual variation



Source: Banco de Portugal

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

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

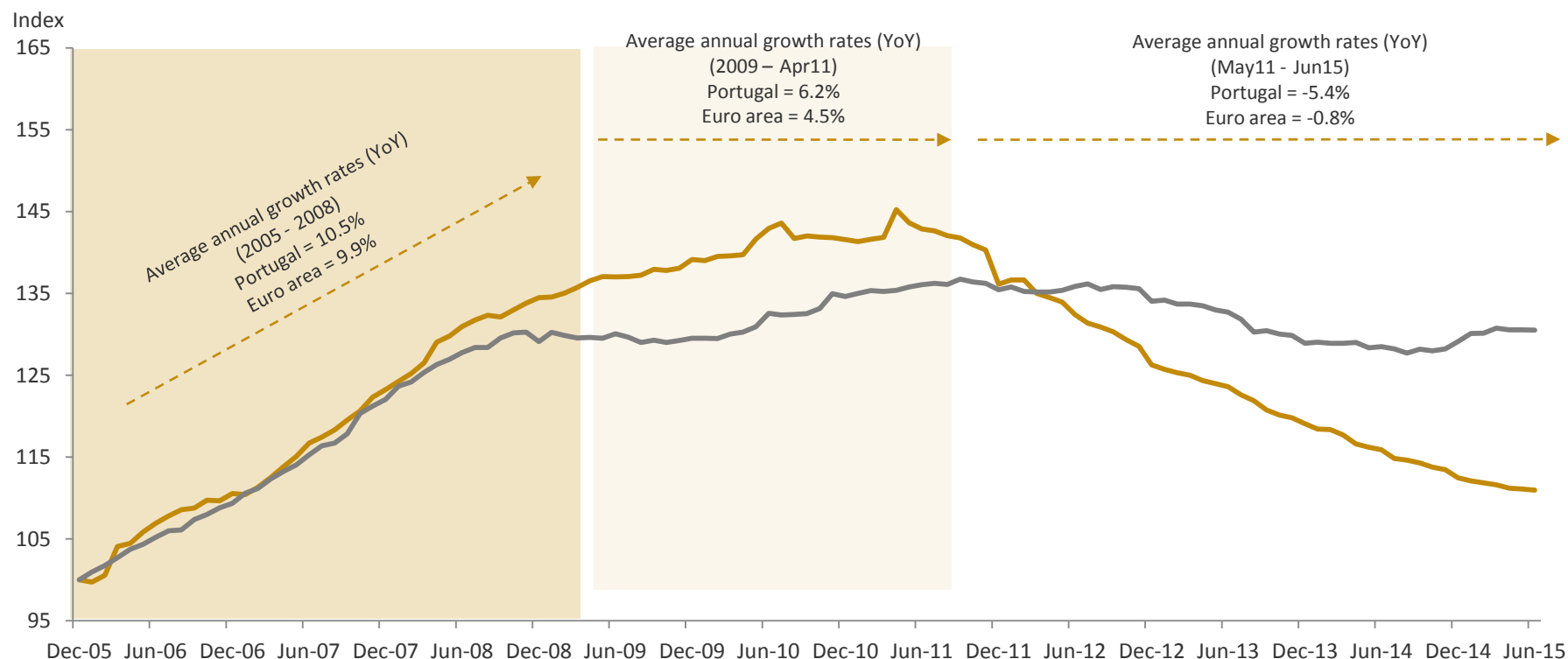


* Loans to the non-monetary sector (gross outstanding amounts at the end of period)

Source: ECB

Before the financial crisis, loans were showing a sharp upward trend in Portugal and the rest of the euro area.

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



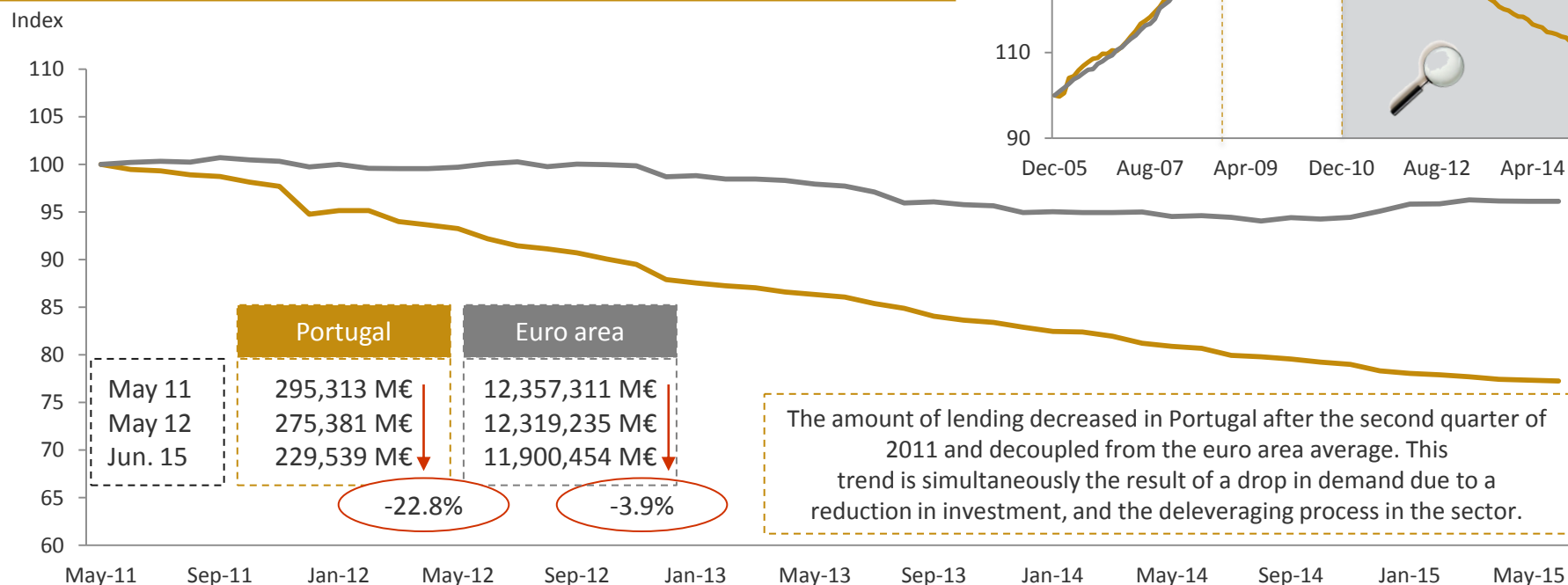
* Loans to the non-monetary sector (gross outstanding amounts at the end of period)

Source: ECB

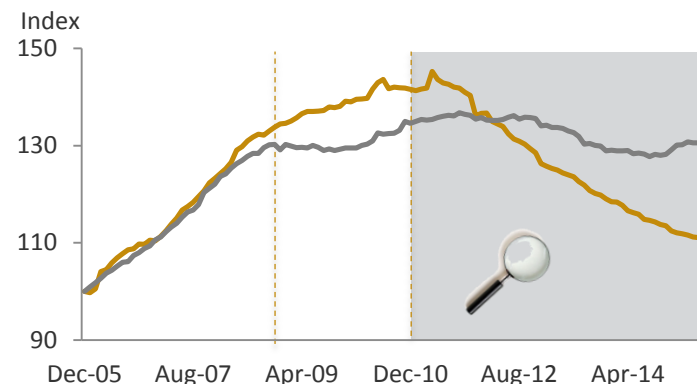
— Portugal — Euro area

After Portugal was affected by the sovereign debt crisis, loans decreased more than in the euro area and this was the main factor in the reduction in the sector's assets.

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



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



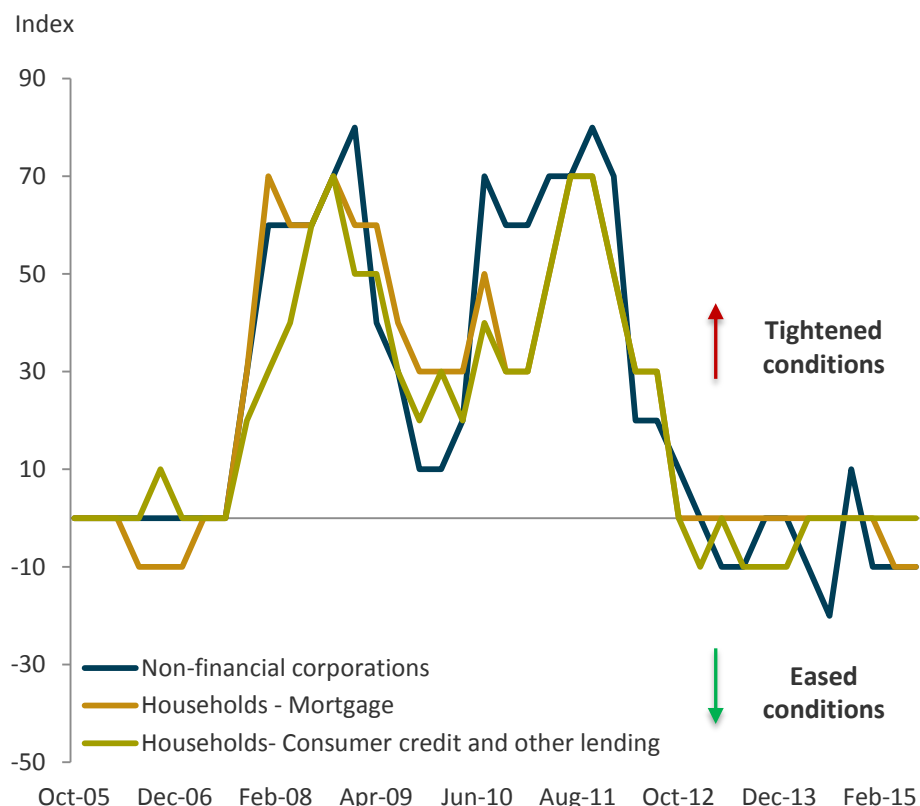
* Loans to the non-monetary sector (gross outstanding amounts at the end of period)

Source: ECB

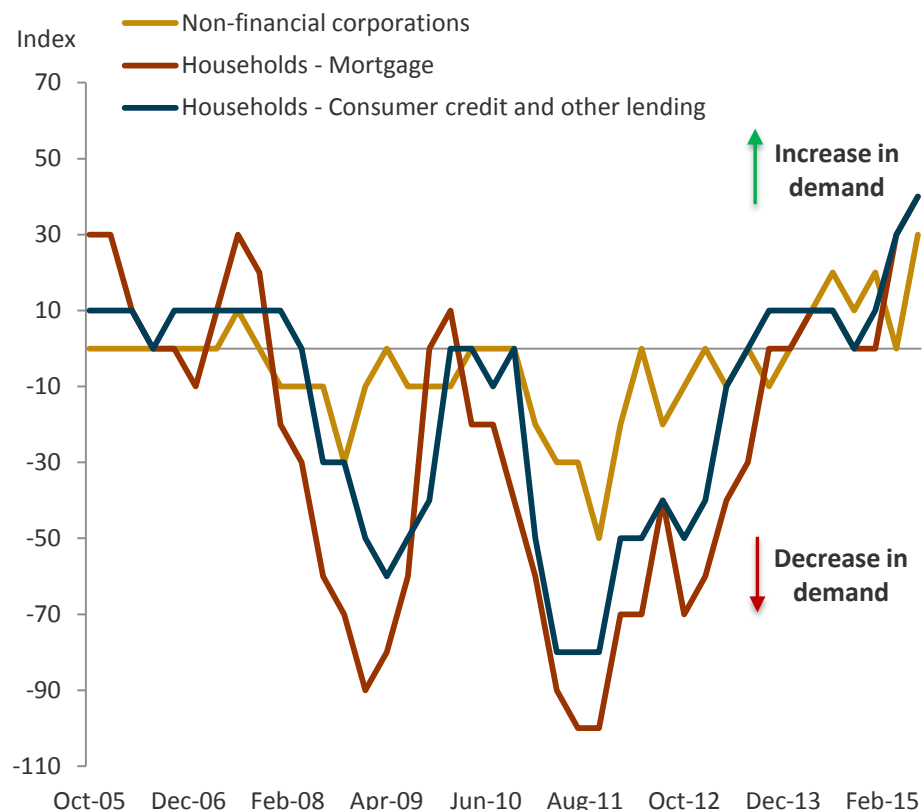
— Portugal — Euro area

Demand for loans increased recently and lending conditions became more expansive.

Diffusion index – Lending conditions



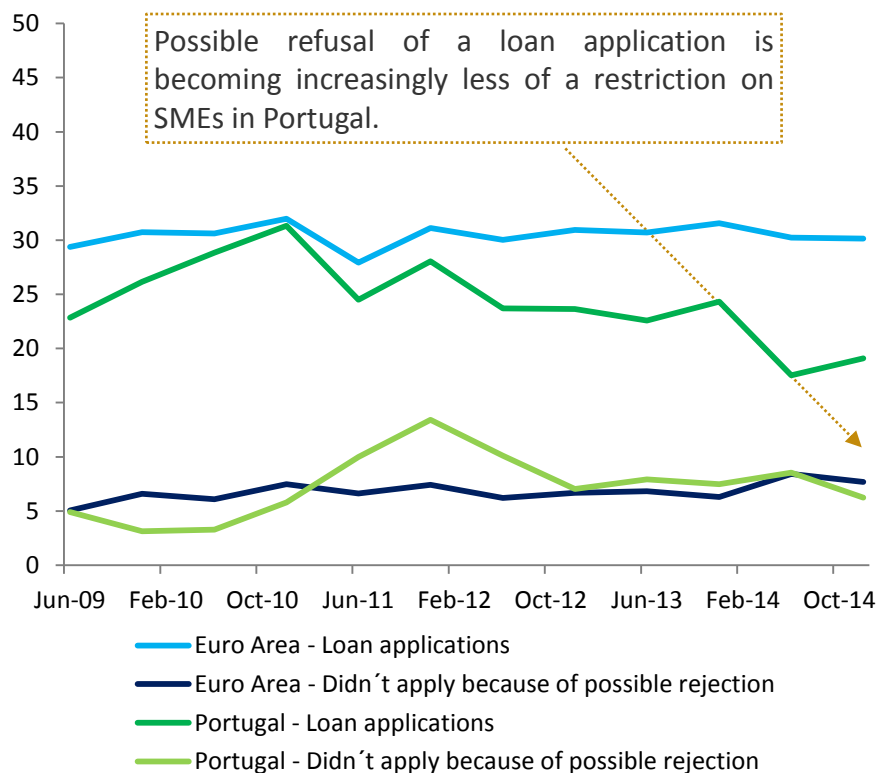
Diffusion index - Demand for loans



Source: Banco de Portugal (Bank lending survey)

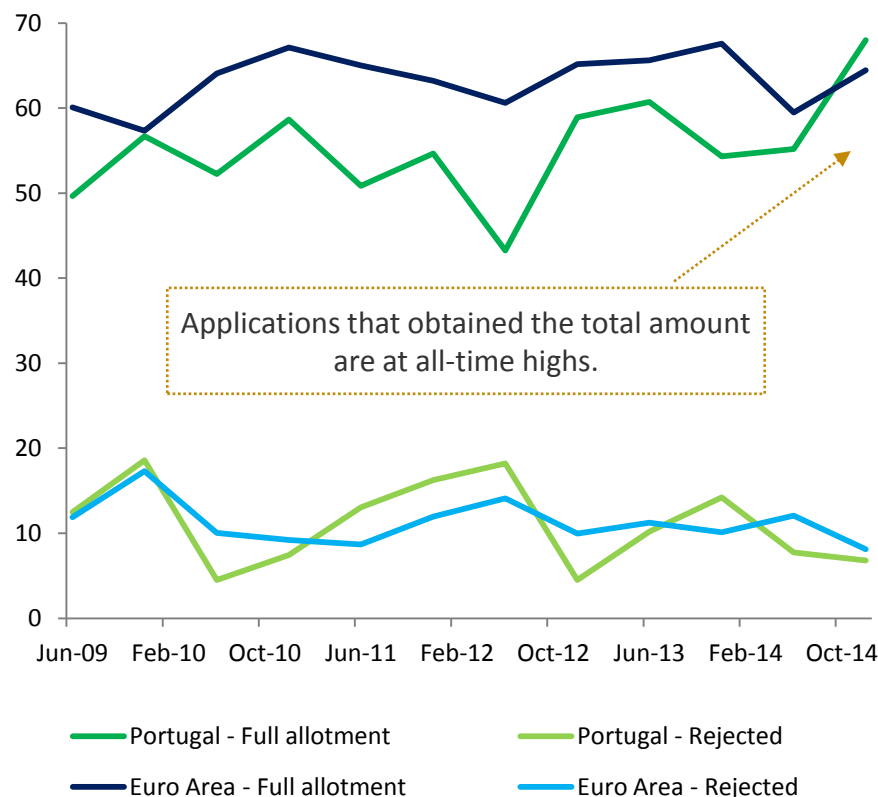
According to the ECB, the number of applications for bank loans from SMEs that obtained the total amount is at all-time highs.

Diffusion index – Applications for bank loans from SMEs



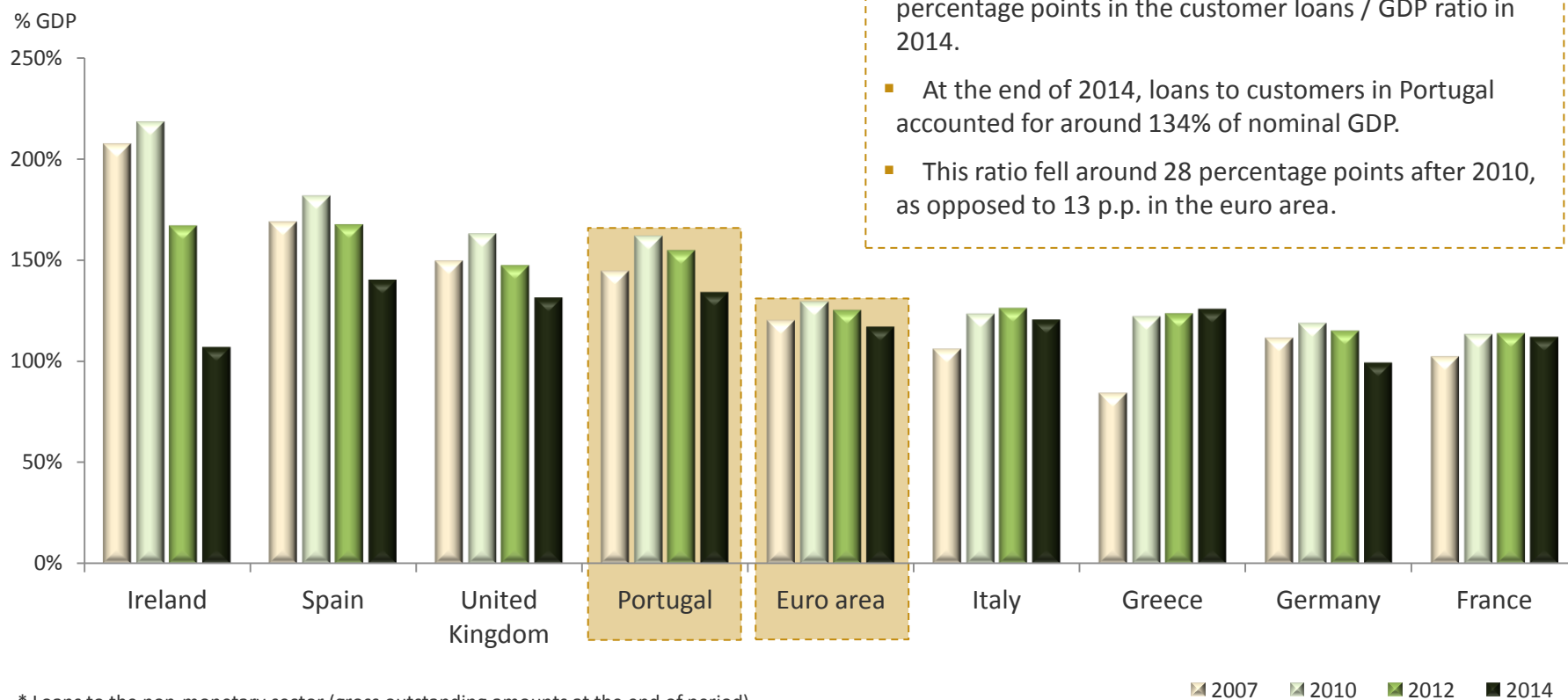
Source: ECB

Diffusion index – Results of applications for bank loans from SMEs



The level of borrowing from banks in the Portuguese economy has been decreasing, coming closer to the rest of Europe.

Loan to customers* / GDP ratio

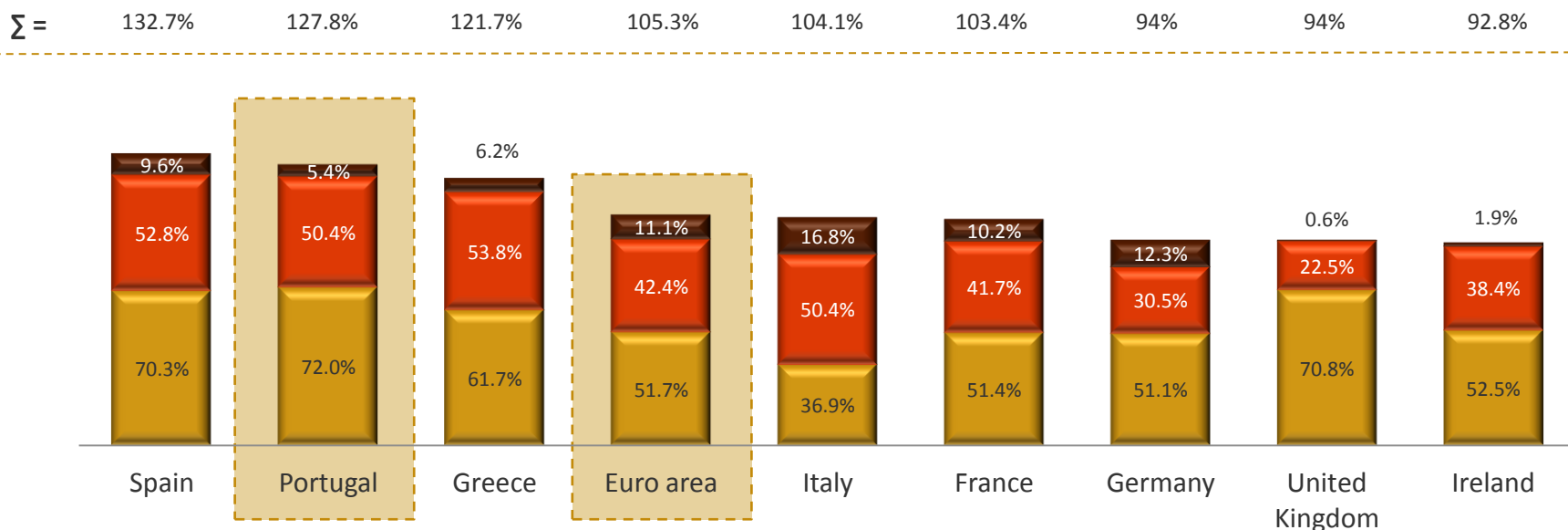


* Loans to the non-monetary sector (gross outstanding amounts at the end of period)

Source: ECB, Eurostat

Private customers and non-financial corporations (NFCs) in Portugal are more dependent on bank loans than in the euro area.

Weight of credit to households, non-financial corporations and general government in GDP, in Portugal and other EU countries (December 2014)



* Includes only loans but not public debt securities

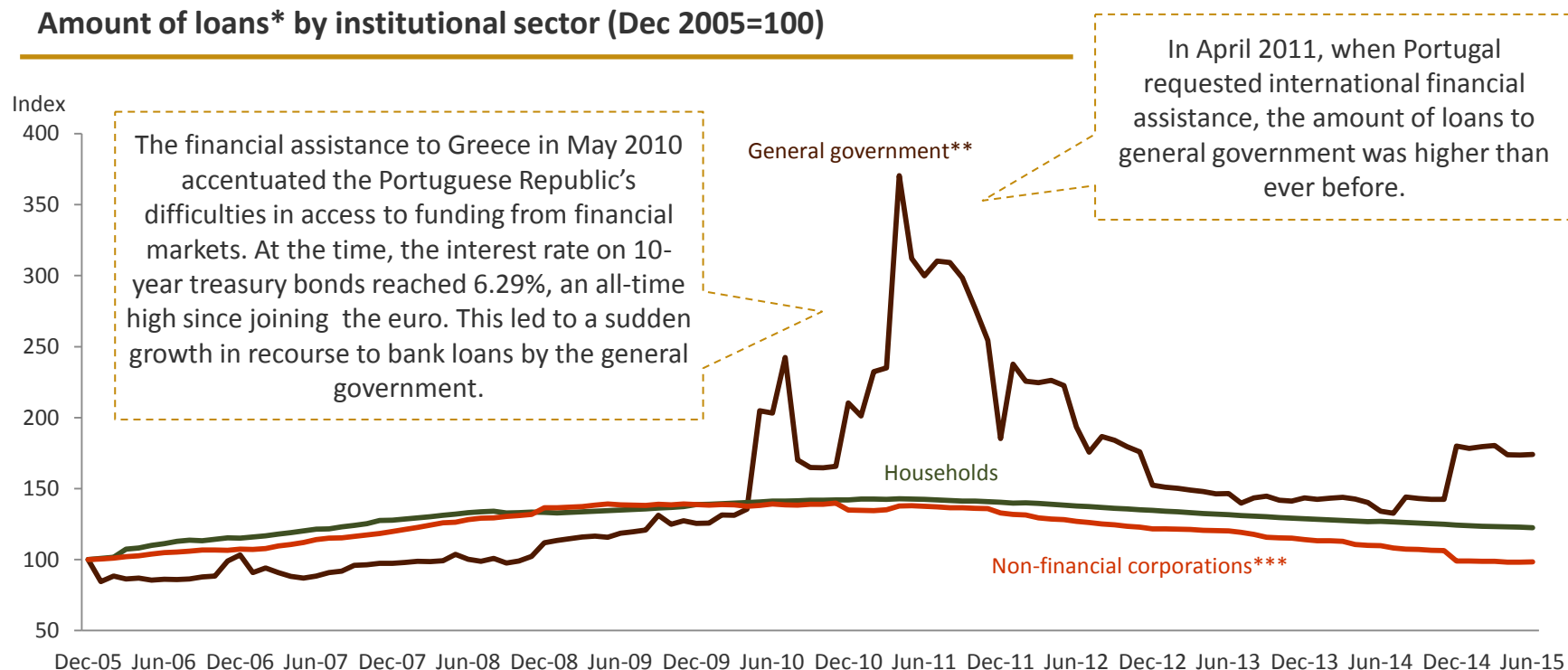
** Includes state-owned companies

Source: Ameco, ECB

- General government*
- Non-financial corporations**
- Households

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

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

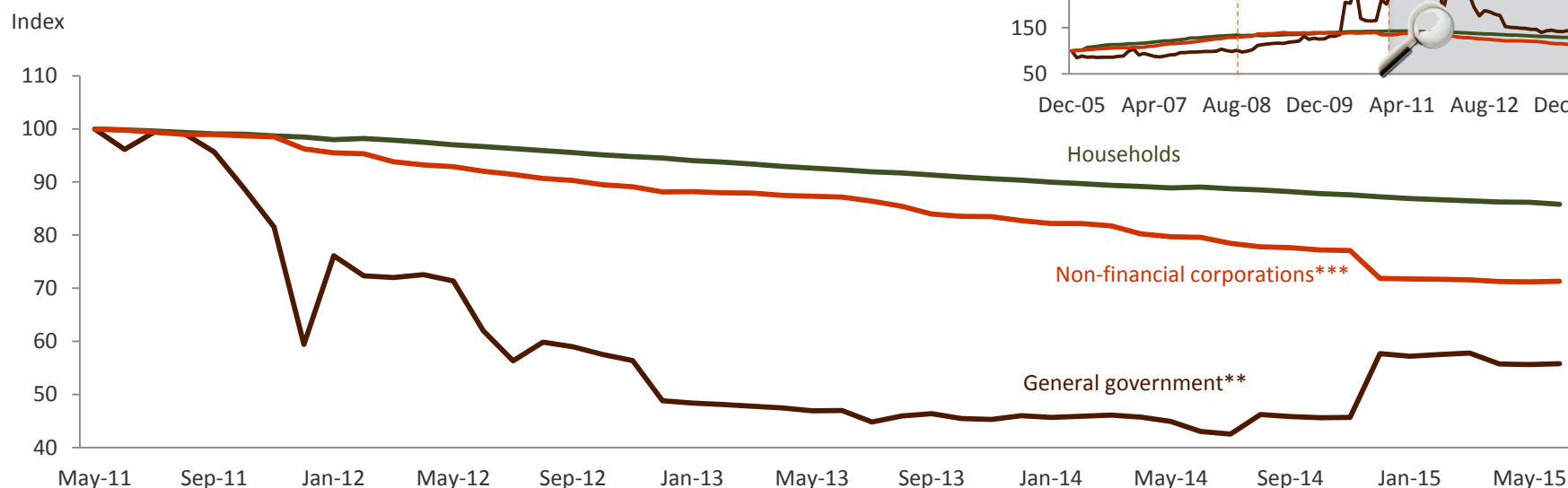


* Gross outstanding amounts at the end of the period.
 ** Includes only loans (does not include public debt securities).
 *** Includes state-owned non-financial corporations.

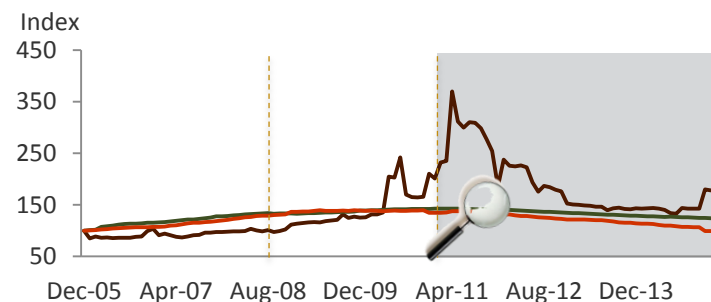
Source: Banco de Portugal

After the start of the EFAP, the stock of loans to the general government decreased faster than loans to private customers and non-financial corporations.

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



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

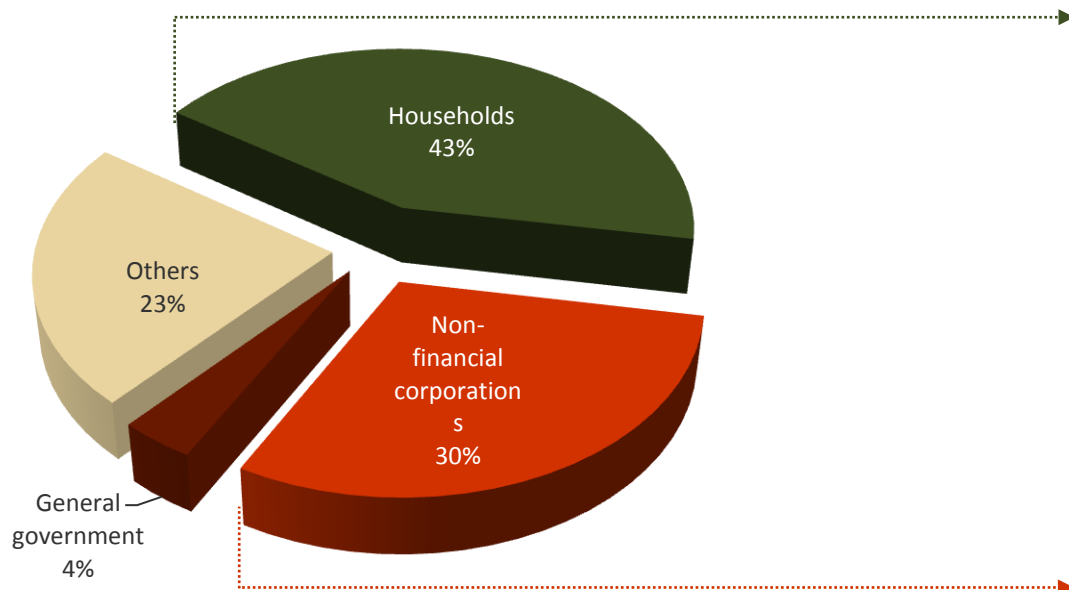


* Gross outstanding amounts at the end of the period.
 ** Includes only loans (does not include public debt securities).
 *** Includes state-owned non-financial corporations.

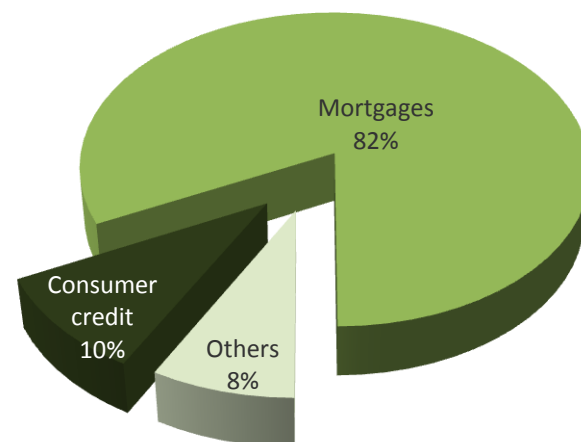
Source: Banco de Portugal

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

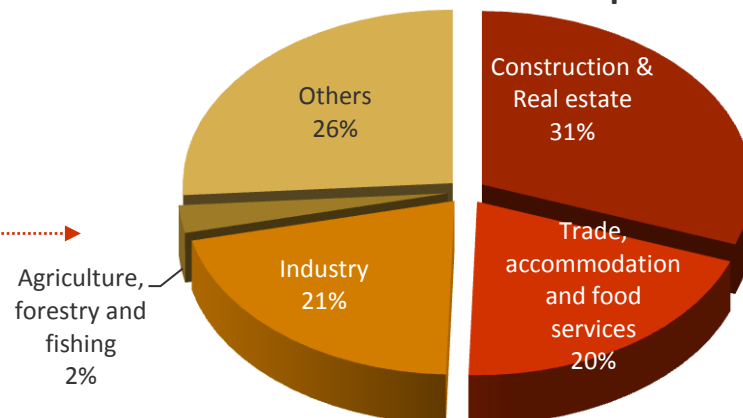
Loans* (June 2015)



Loans to households



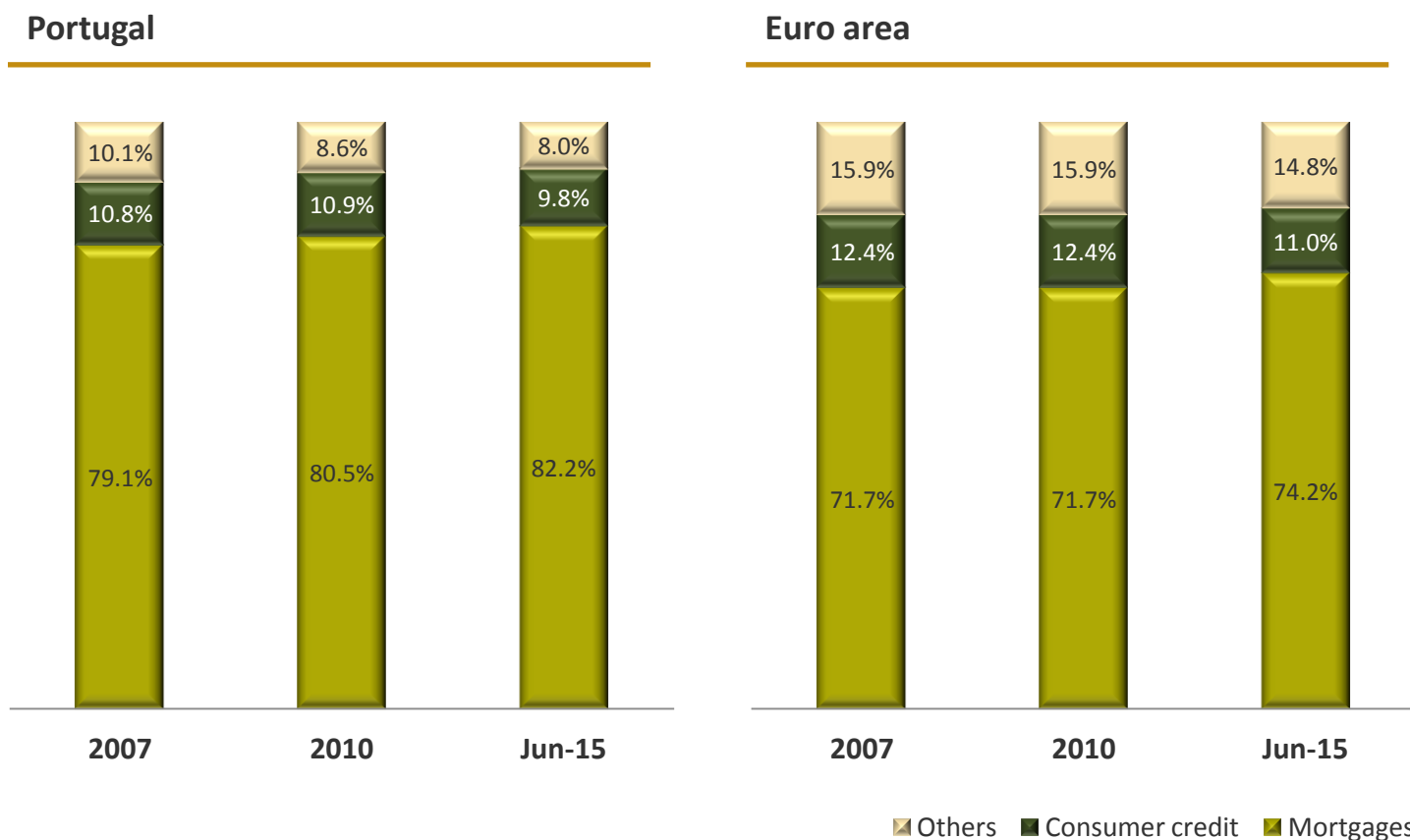
Loans to non-financial corporations



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

Source: Banco de Portugal

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

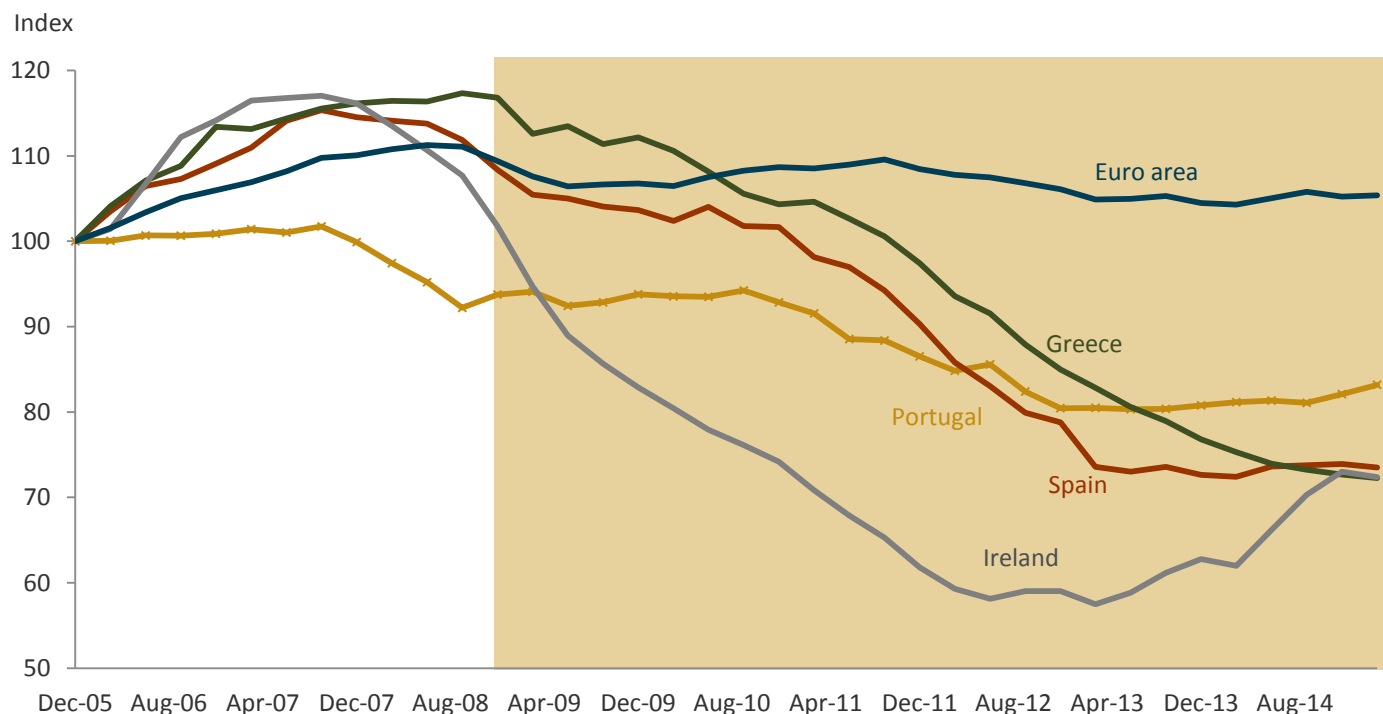


The weight of consumer credit in total loans granted to private customers has been falling in Portugal and in the euro area. This type of credit is less important in Portugal than in the euro area, however.

Source: ECB

Housing prices in the peripheral euro countries have been falling, though less markedly in Portugal.

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



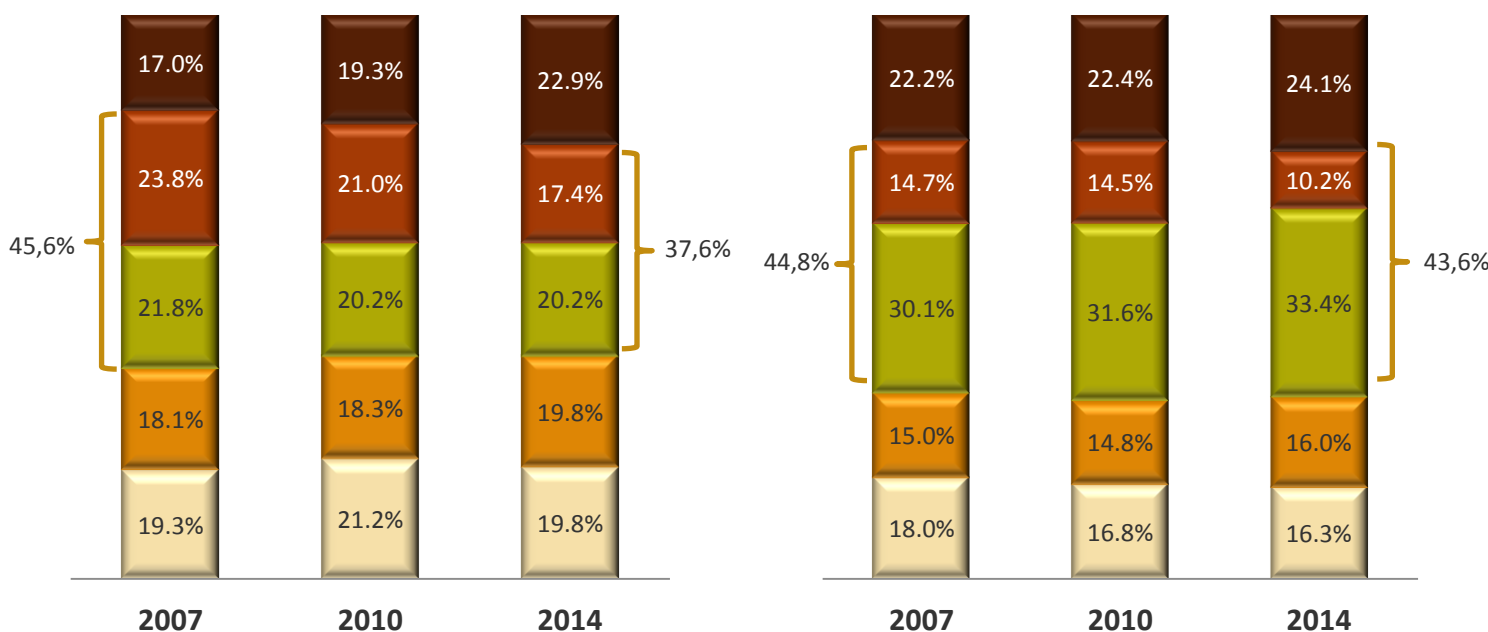
The property sector in Portugal did not experience a speculative boom prior to the sub-prime crisis, unlike Spain, Ireland and Greece.

Source: ECB

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

Portugal

Euro area



The weight of the construction and real estate sectors has been falling in aggregate terms 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.

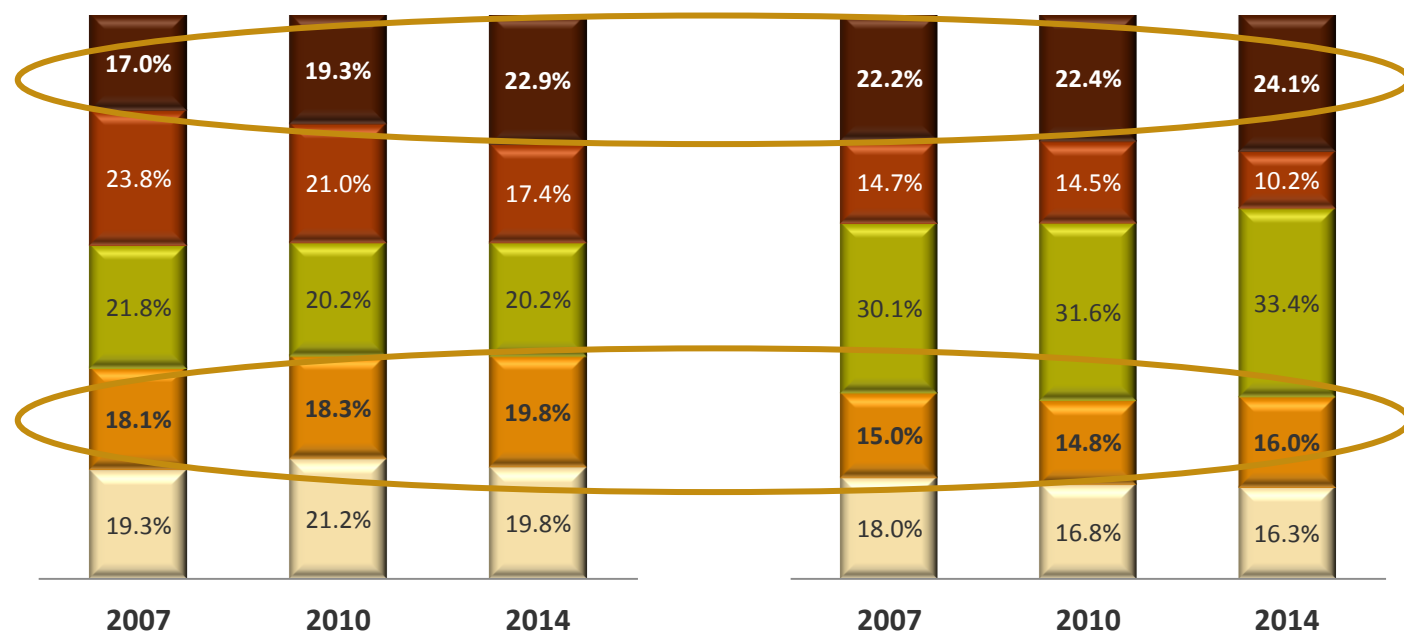
■ Agriculture & industry ■ Construction ■ Real estate, professional, technical and administrative activities ■ Trade, accommodation and food service activities ■ Others

Source: Banco de Portugal, ECB

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

Portugal

Euro area



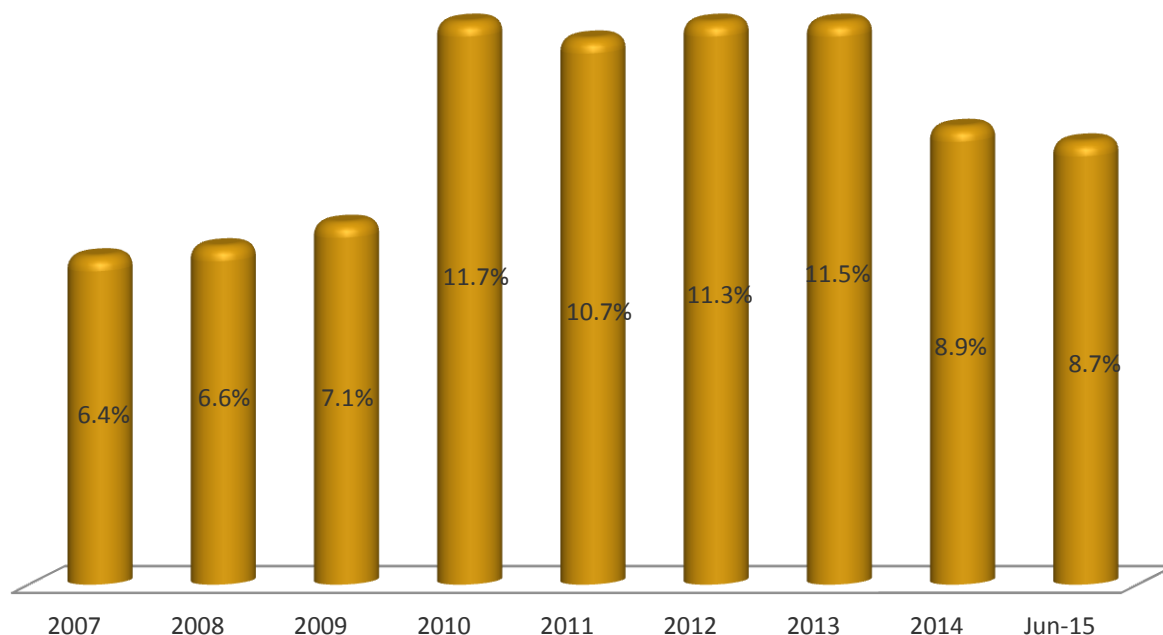
Loans for the agricultural and industrial sectors are in higher percentage in the euro area than in Portugal. Even so, this segment's share in total loans to NFCs has increased substantially in Portugal in the last seven years.

■ Agriculture & industry ■ Construction ■ Real estate, professional, technical and administrative activities ■ Trade, accommodation and food service activities ■ Others

Source: Banco de Portugal, ECB

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

Debt of state-owned non-financial corporations to the financial sector in Portugal*



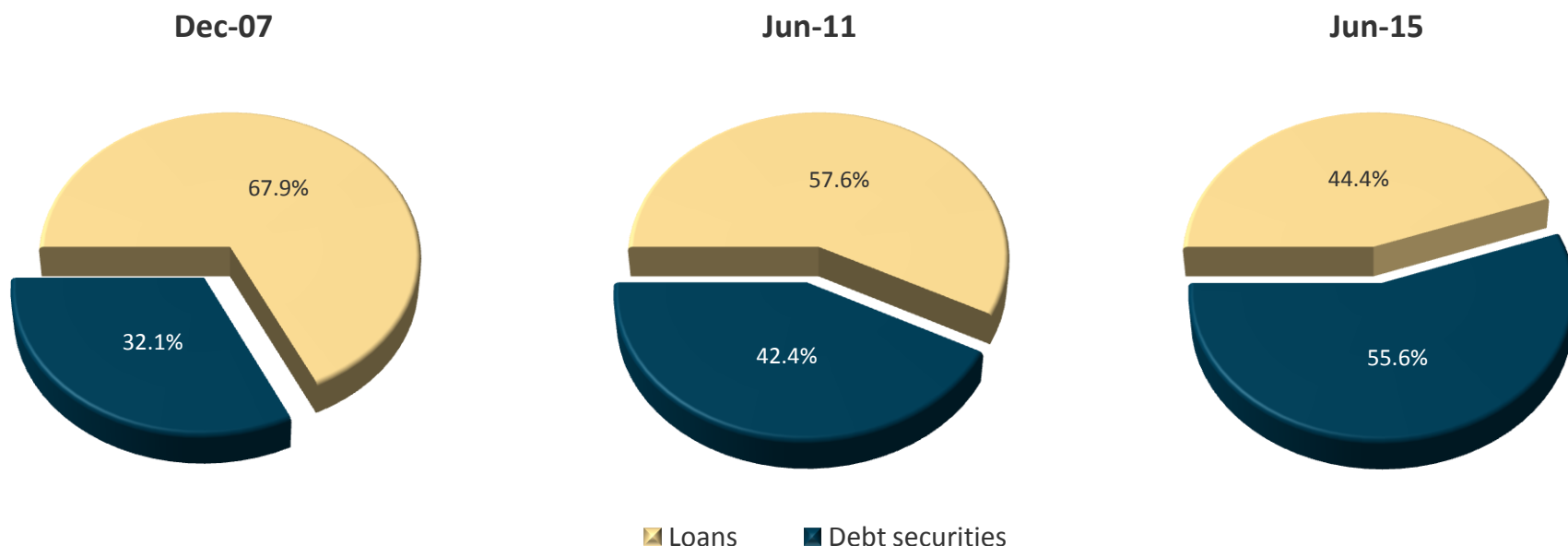
The debt of the state-owned non-financial corporations account for a substantial part of total funding to non-financial corporations in Portugal. The amount increased considerably after 2009 due to the sovereign debt crisis. In spite of a reduction up to 2015, it is still higher than before 2010.

* As a percentage of the balances of loans obtained and bonds issued by non-financial corporations against the resident financial sector. The concept of resident financial sector includes banks and other financial institutions.

Source: Banco de Portugal

The debt of state-owned companies to the resident financial sector in the form of securities has been gaining importance over loans.

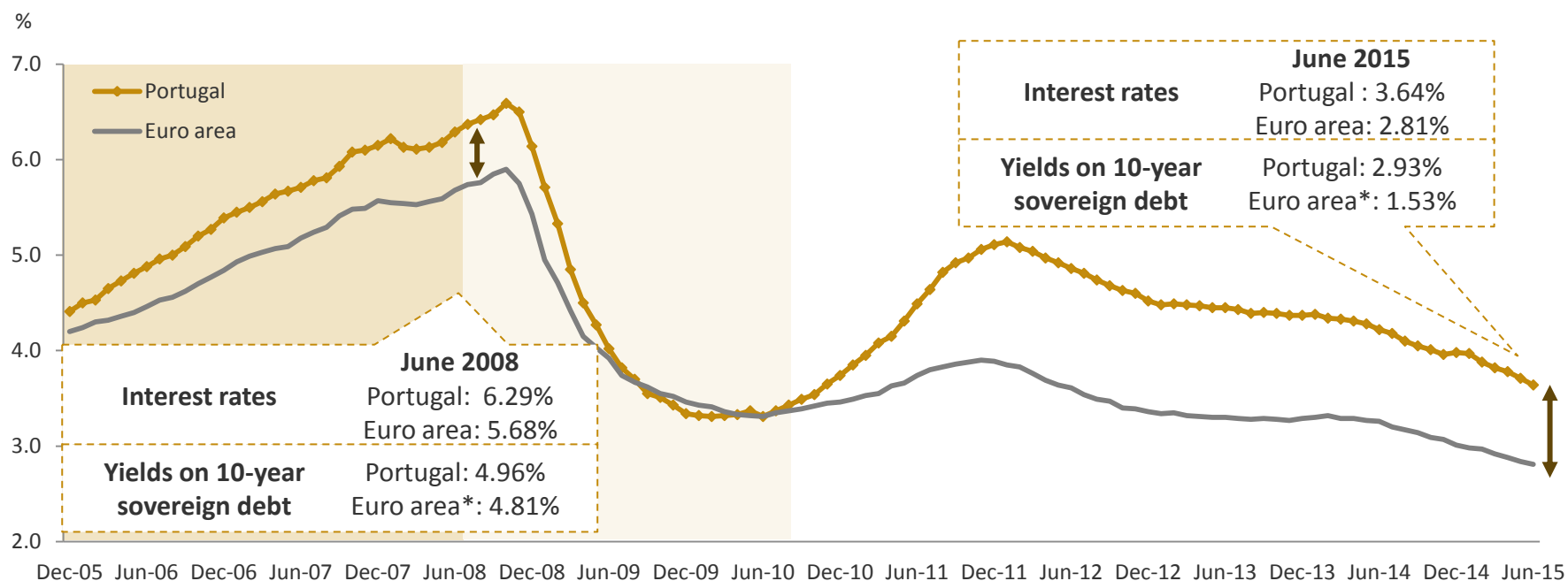
Debt of state-owned non-financial corporations to the financial sector in Portugal, by instrument



Source: Banco de Portugal

The difference between 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 balance sheet) to non-financial corporations in Portugal and the euro area

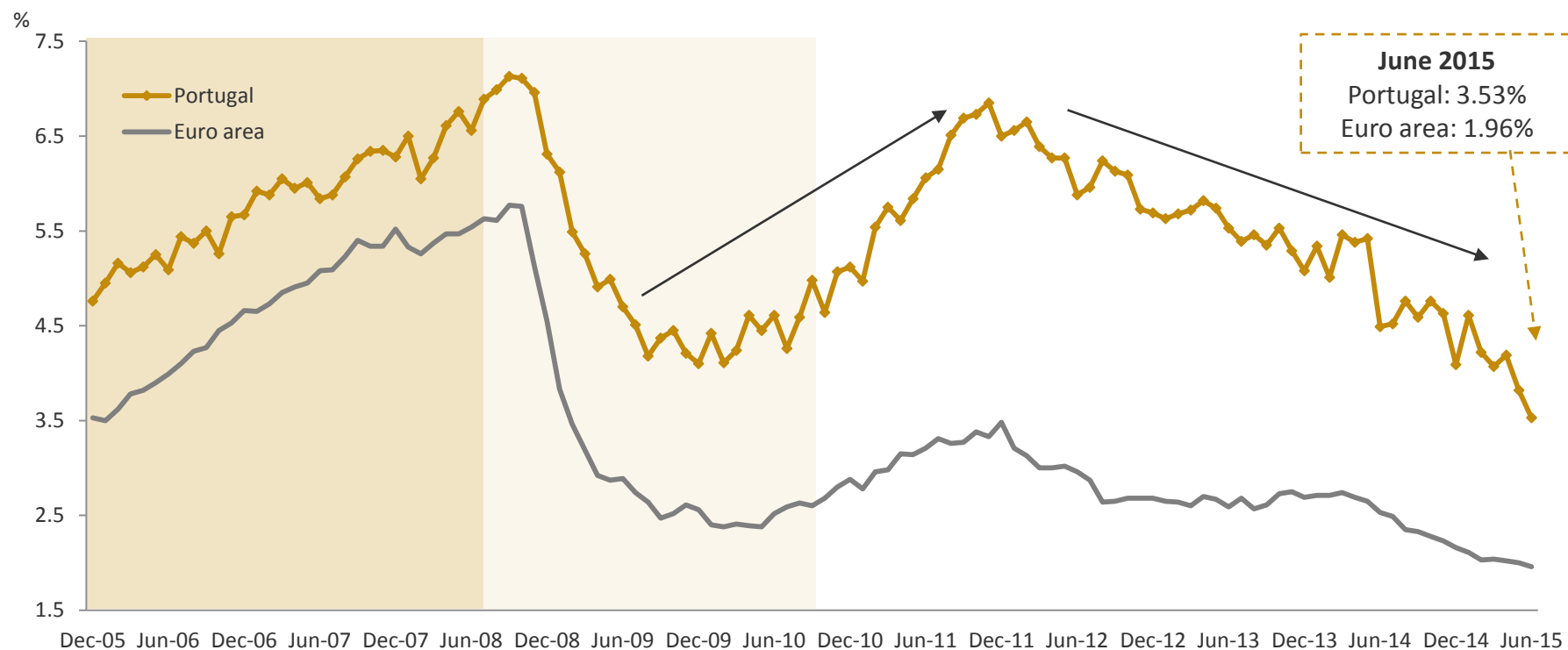


* Euro area benchmark bond – Changing composition. Calculated as a weighted average of yields on sovereign debts of euro area countries using the outstanding amounts of 10-year sovereign debt as weights.

Source: ECB

Interest rates on new loans to NFCs in Portugal 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 corporations in Portugal and the euro area

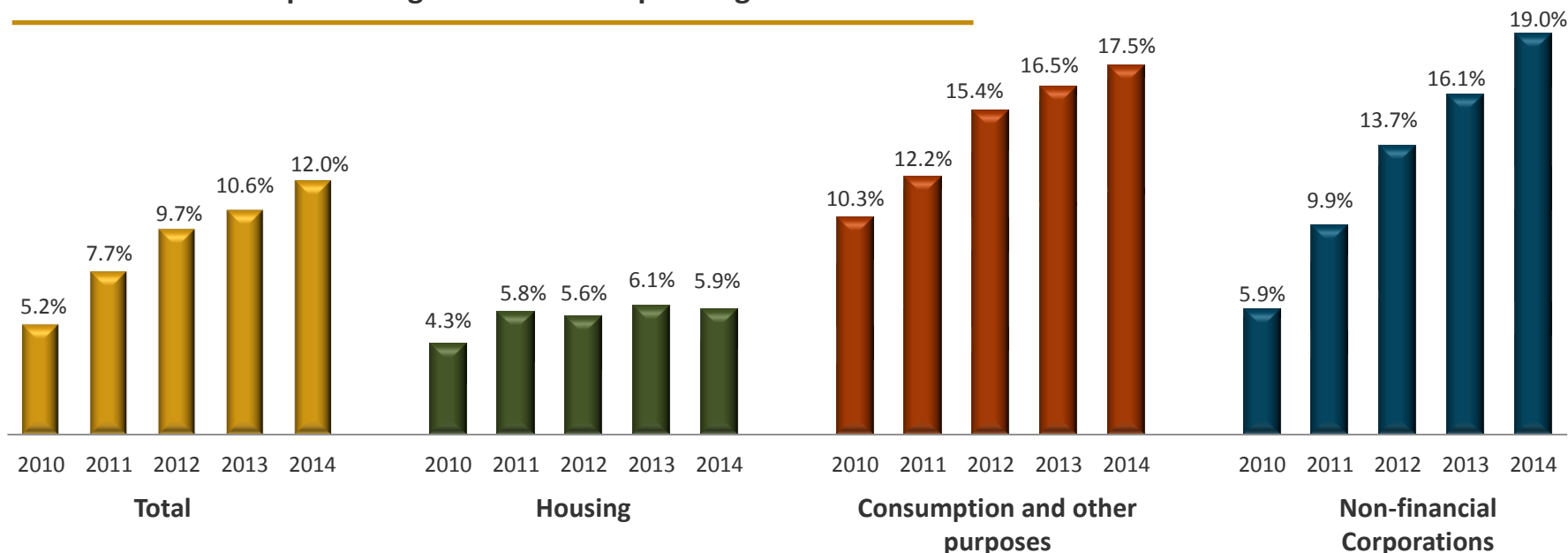


Source: ECB

In 2011, pursuant to EFAP requirements, Banco de Portugal introduced a non-performing loan (NPL) ratio in line with international practices.

The new ratio includes all credit in default and not only the amounts overdue.

Credit at risk* as a percentage of total corresponding credit

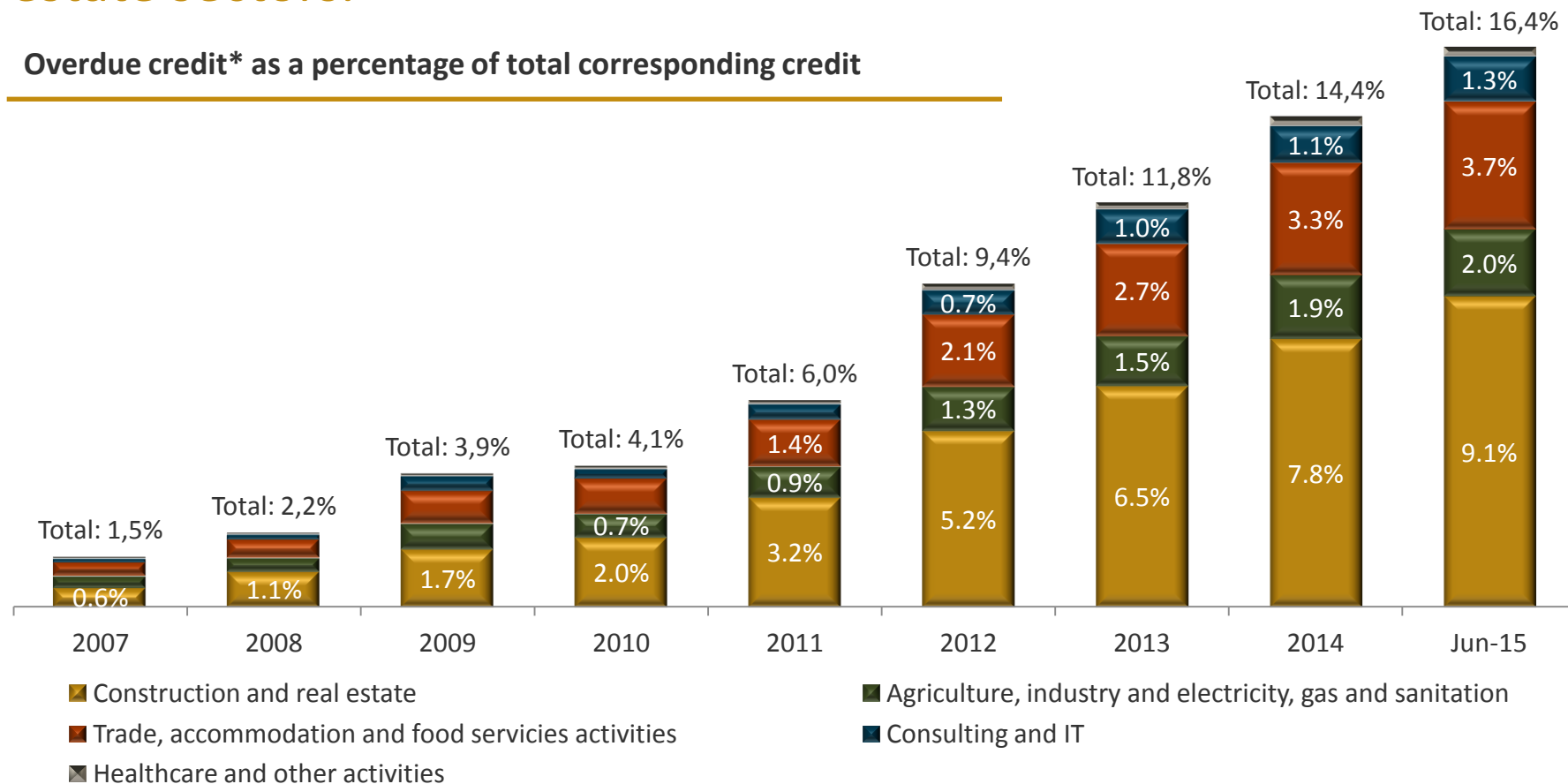


* Including the total amount owed : i) of loans that have repayments of principal or interest in arrears for more than 90 days, ii) restructured loans whose repayments of principal or interest have been in arrears for 90 days or more and their repayments have been capitalised or refinanced or their payment date postponed, but the guarantees provided have not been reinforced or the debtor has not fully paid up overdue interest and other 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

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

Overdue credit* as a percentage of total corresponding credit



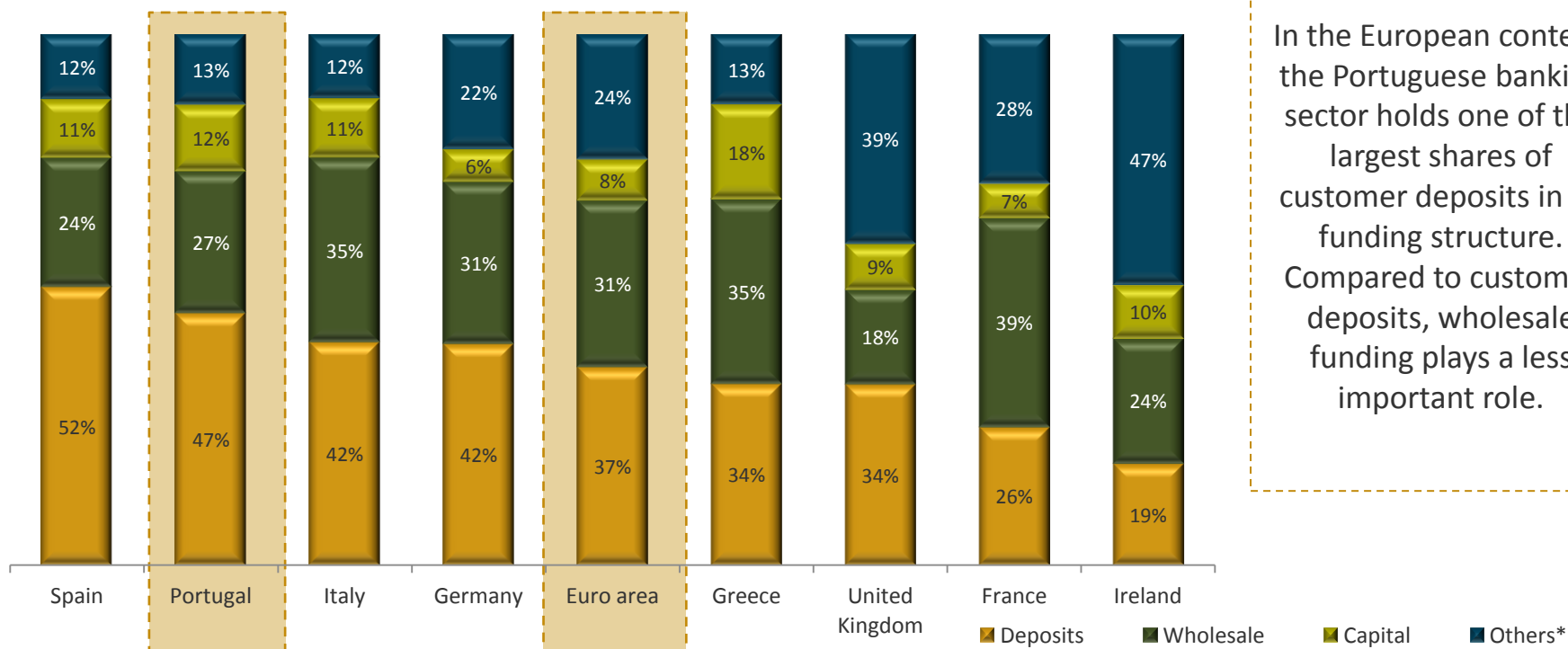
Source: Banco de Portugal

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 2015)



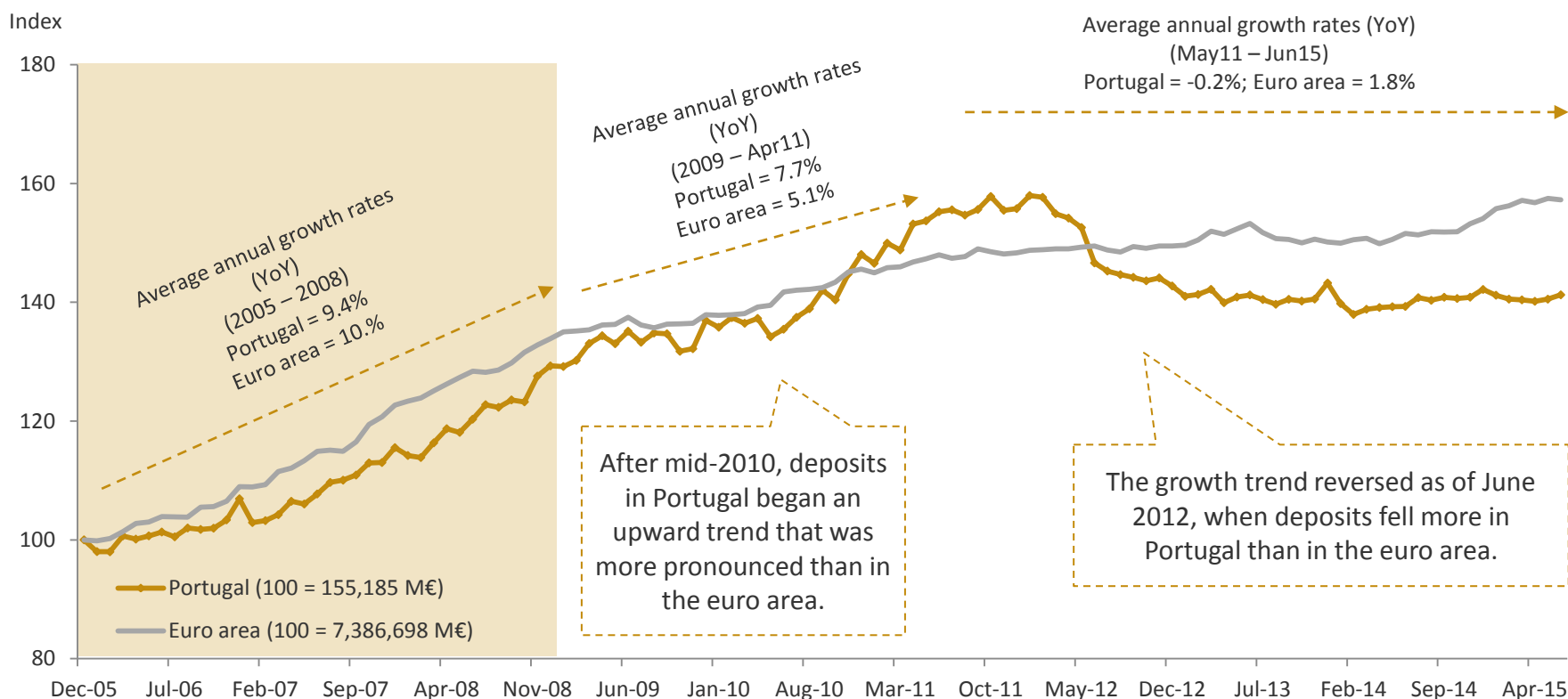
In the European context, the Portuguese banking sector holds one of the largest shares of customer deposits in its funding structure. Compared to customer deposits, wholesale funding plays a less important role.

* 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 in the euro area has been more stable than in Portugal.

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

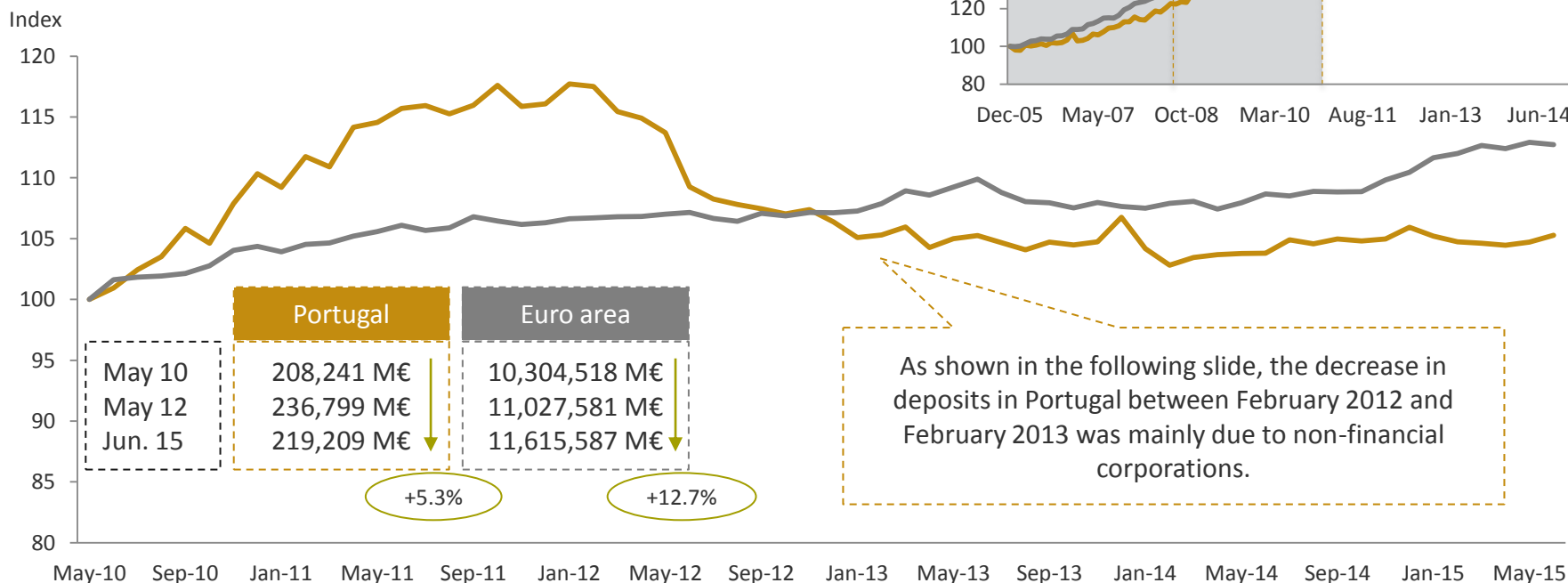


* Deposits from the non-monetary sector (end-of-period balances)

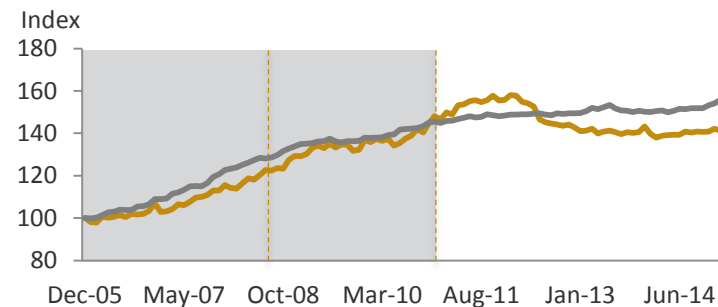
Source: ECB

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

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



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



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

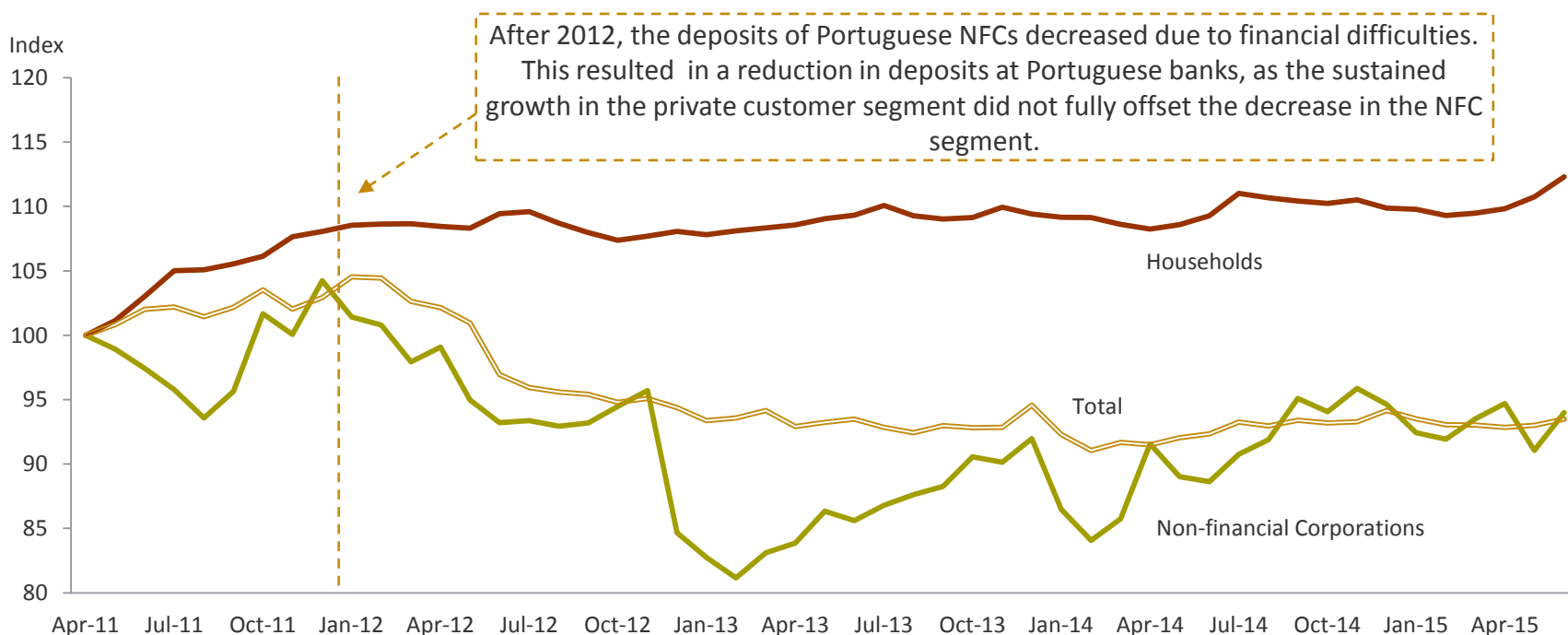
* Deposits from the non-monetary sector (end-of-period balances)

Source: ECB

— Portugal — Euro area

After the fall in private customers' deposits due to the austerity imposed by the EFAP in Portugal, they reached their highest ever in June.

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

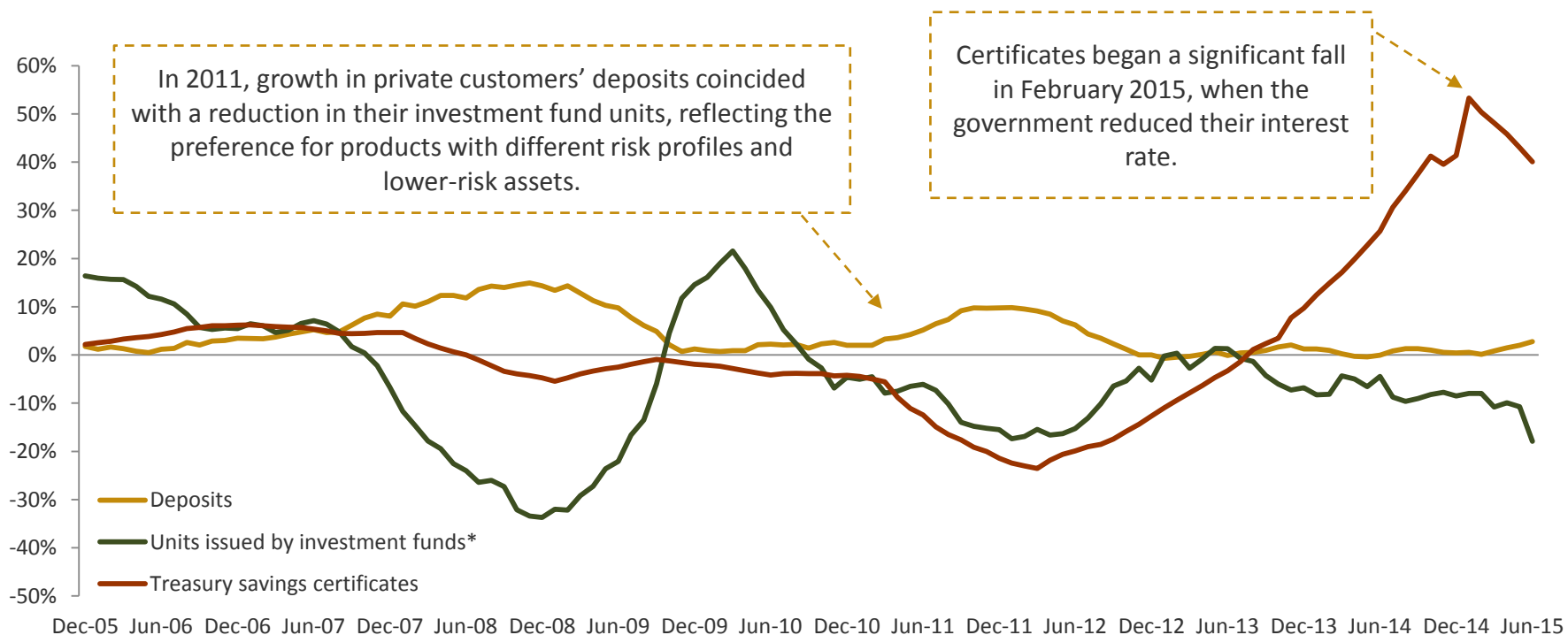


* Deposits from the non-monetary sector (end-of-period balances), including emigrants

Source: Banco de Portugal

Attractive returns from savings certificates have stimulated their growth since 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%)

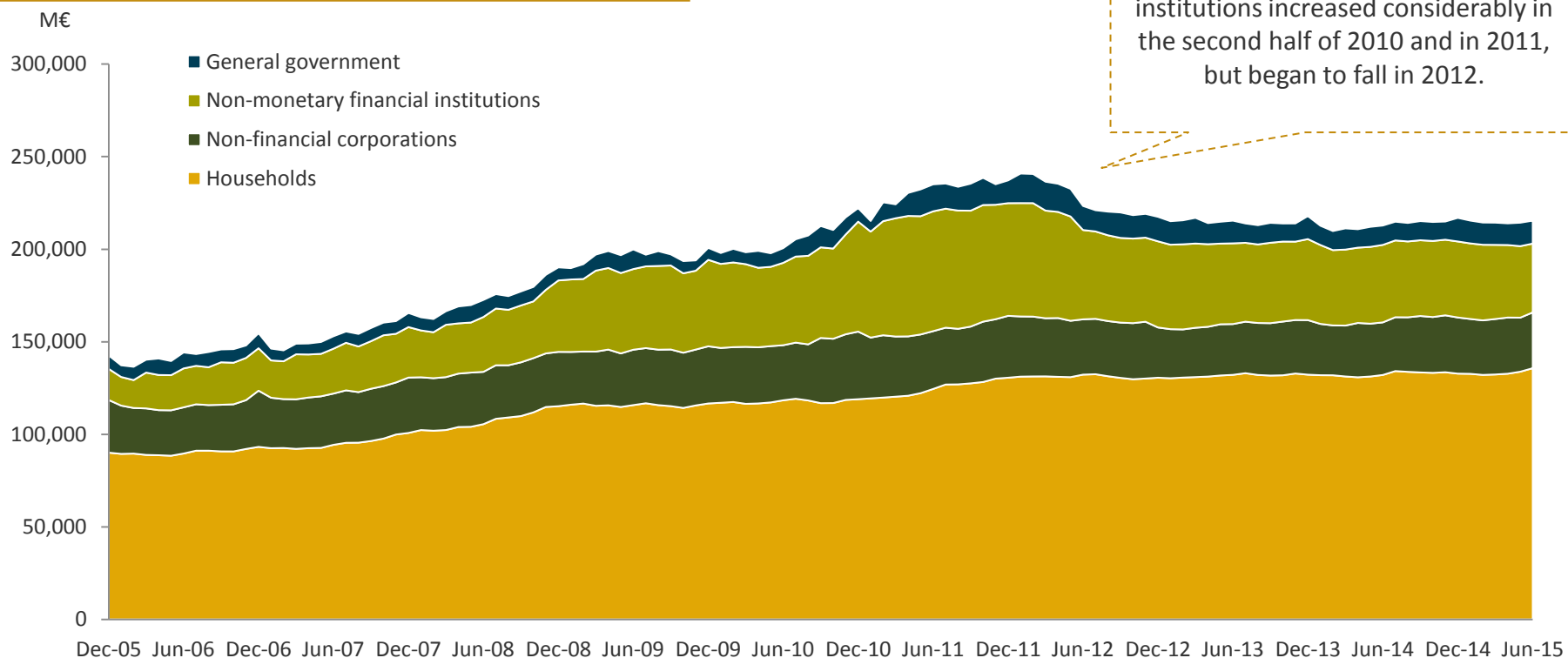


* Includes stock funds, bond funds, treasury funds, money market funds, retirement savings funds, funds of funds and mixed funds.

Source: Banco de Portugal

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

Deposits* in Portugal by institutional sector

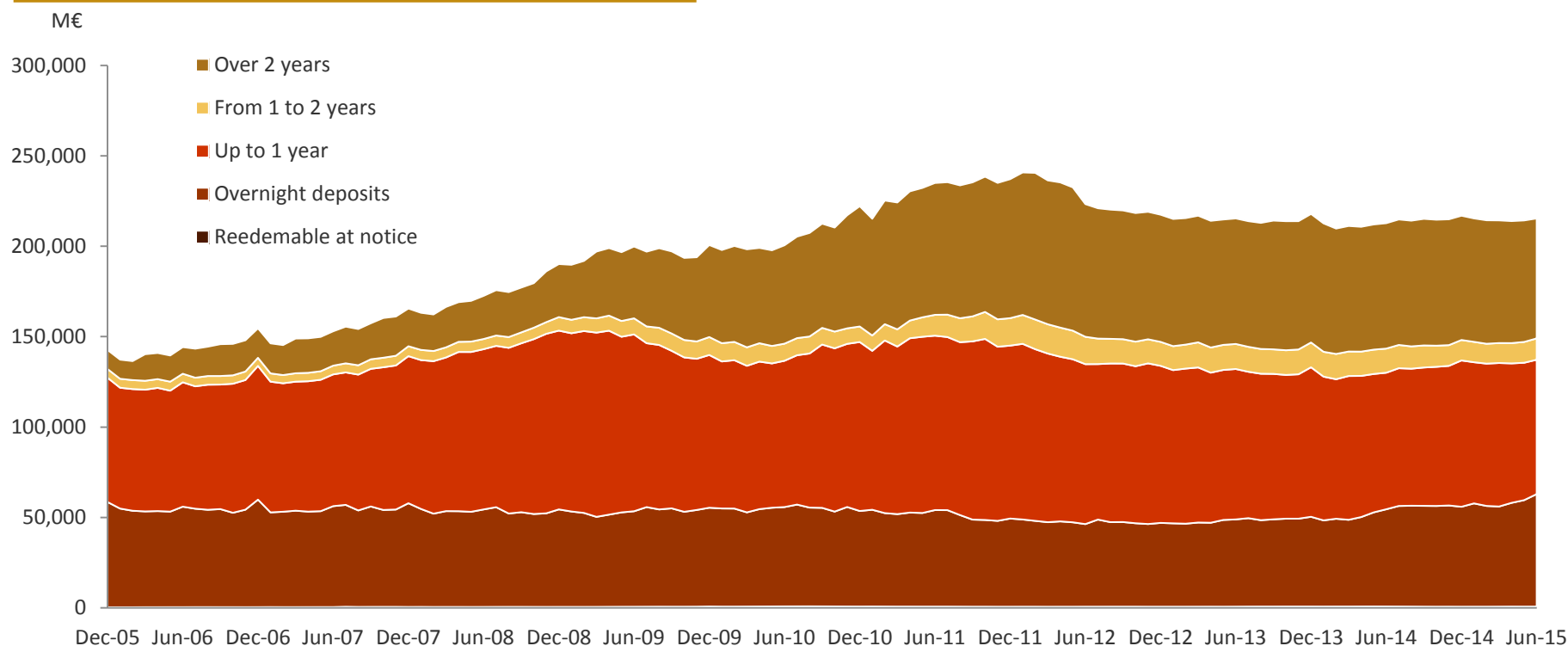


* Deposits from the non-monetary sector (end-of-period balances)

Source: Banco de Portugal

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

Deposits* in Portugal by maturity

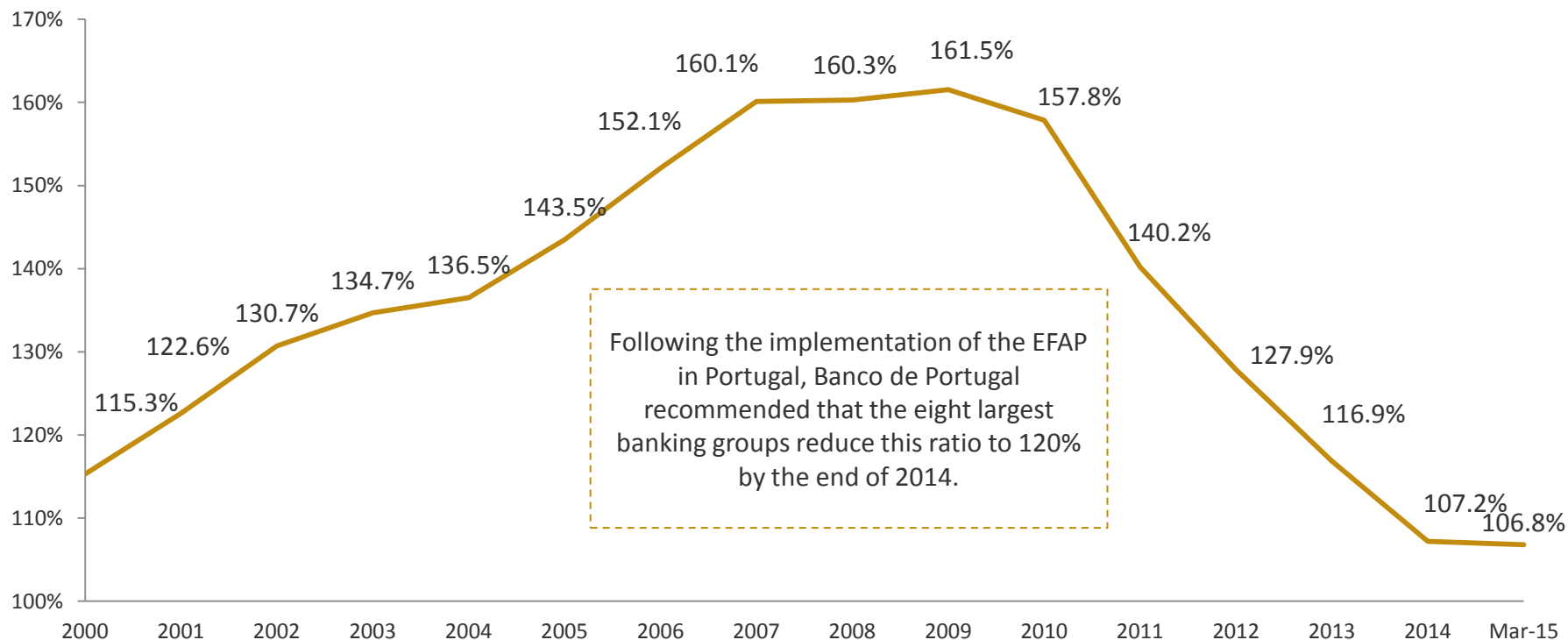


* Deposits from the non-monetary sector (end-of-period balances)

Source: Banco de Portugal

A reduction in the credit-to-deposit ratio reflects deleveraging by the Portuguese banking system.

Consolidated credit* to deposit ratio

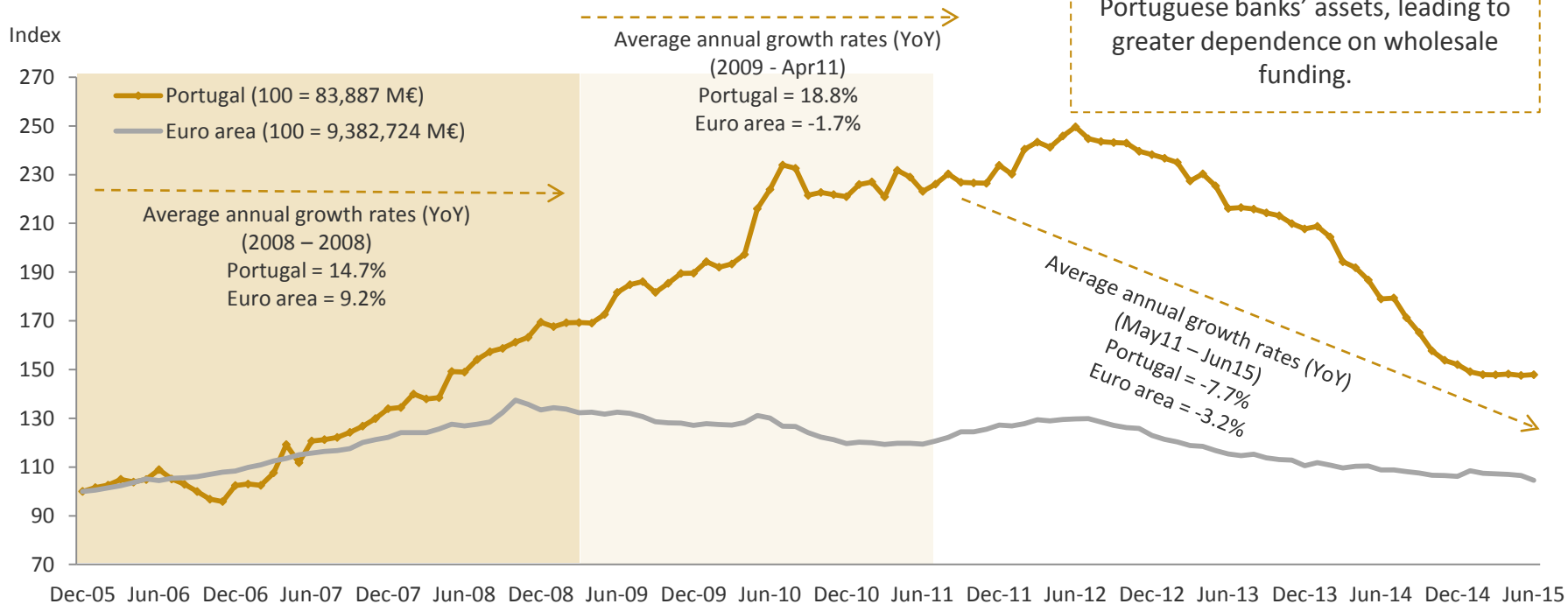


* Credit net of impairments (including securitised and non-derecognised loans). End-of-of period balances

Source: Banco de Portugal

Recourse to wholesale funding by the Portuguese banks was growing much faster than in the euro area, a trend that has reversed in recent years.

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

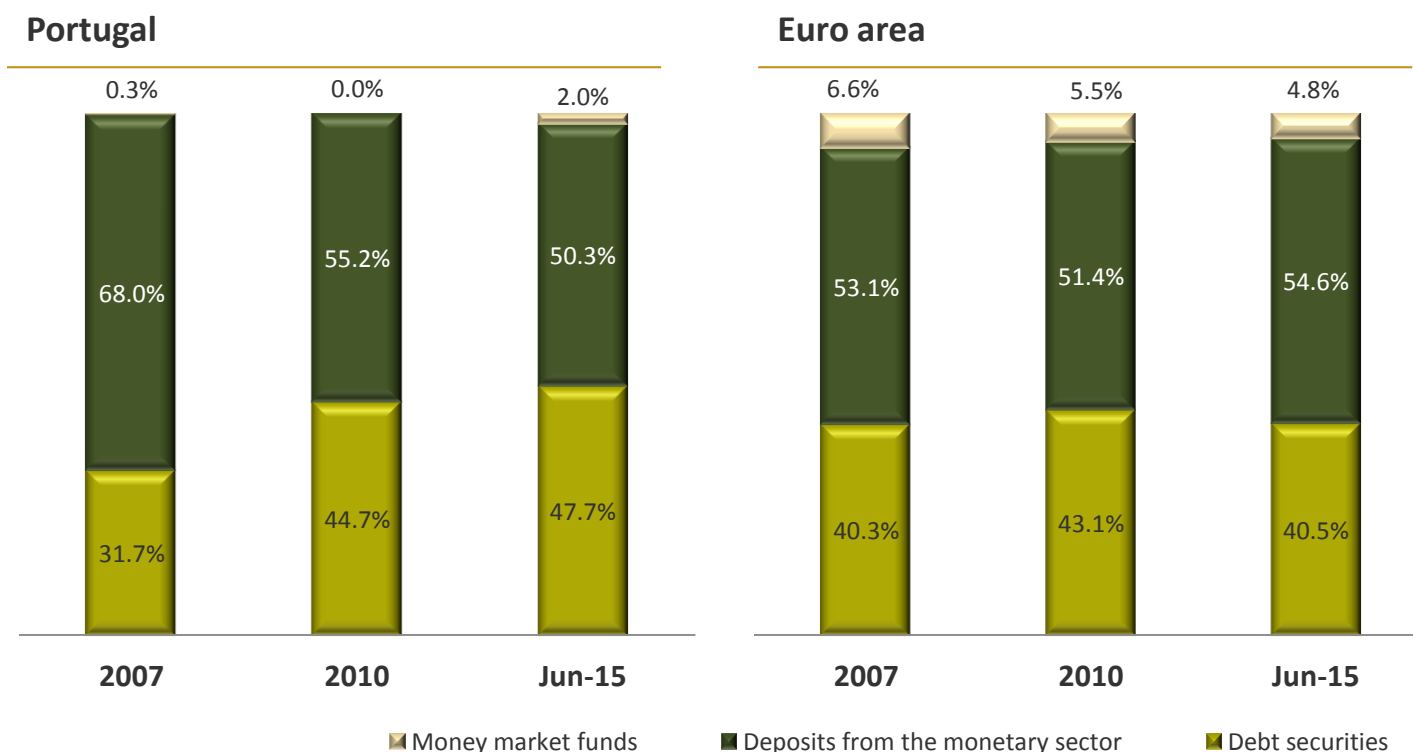


* Wholesale funding includes deposits in the monetary sector, debt securities issued and money market funds (end-of-period balances).

Source: ECB

Both in Portugal and 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



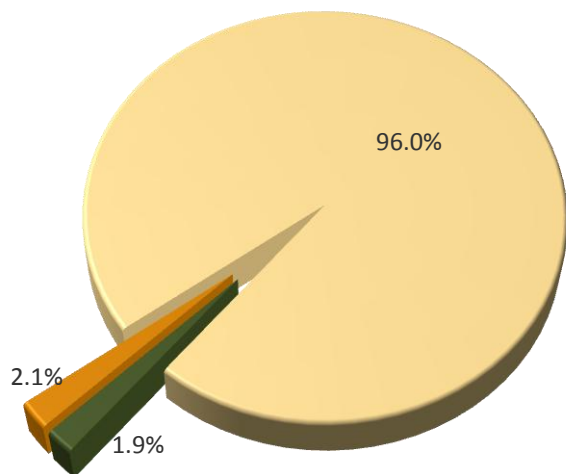
In Portugal, however, the weight of the debt securities issuing market increased against 2007. This source of funding is more important to the Portuguese banks than for those in the euro area.

Source: ECB

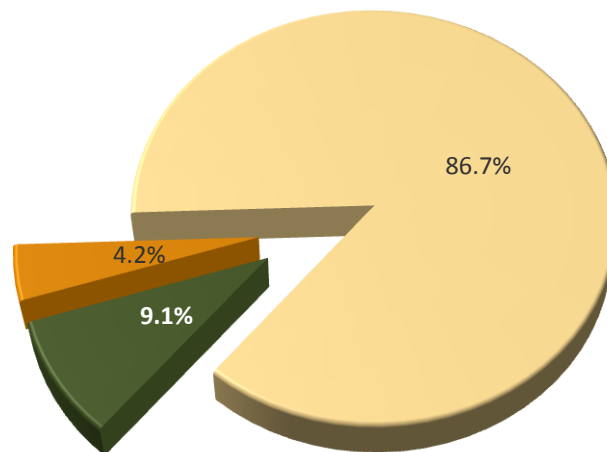
Both in Portugal and the euro area, debt securities issued by banks are predominantly long term.

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

Portugal



Euro area



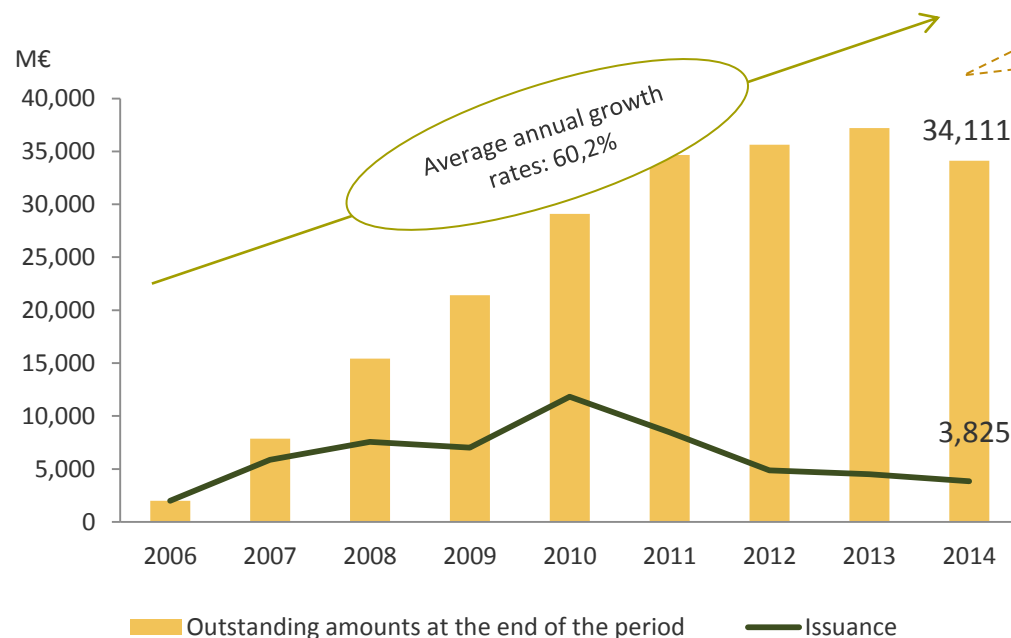
■ Up to 1 year ■ From 1 to 2 years ■ Over 2 years

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

Source: ECB

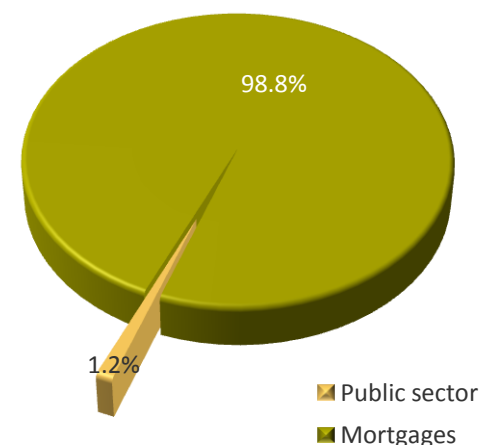
Up to 2011, covered bonds gained importance as a source of funding for Portuguese banks. More recently, however, the amount issued had been falling.

Issue and balances of covered bonds in Portugal



At the end of 2014, the balance of covered bonds represented around 7.3% of Portuguese banks' funding.

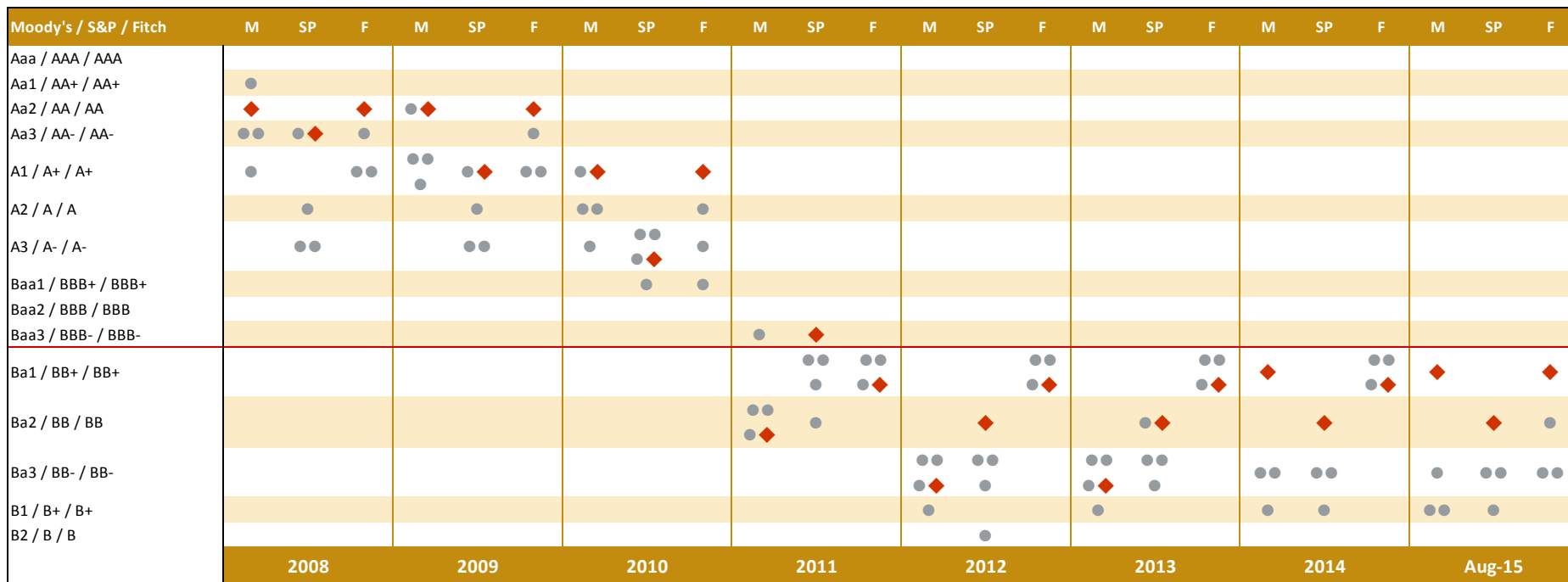
Covered bonds by type of underlying asset (2014)



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

The downgrades of the Portuguese Republic's risk adversely affected the Portuguese banks' ratings*

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

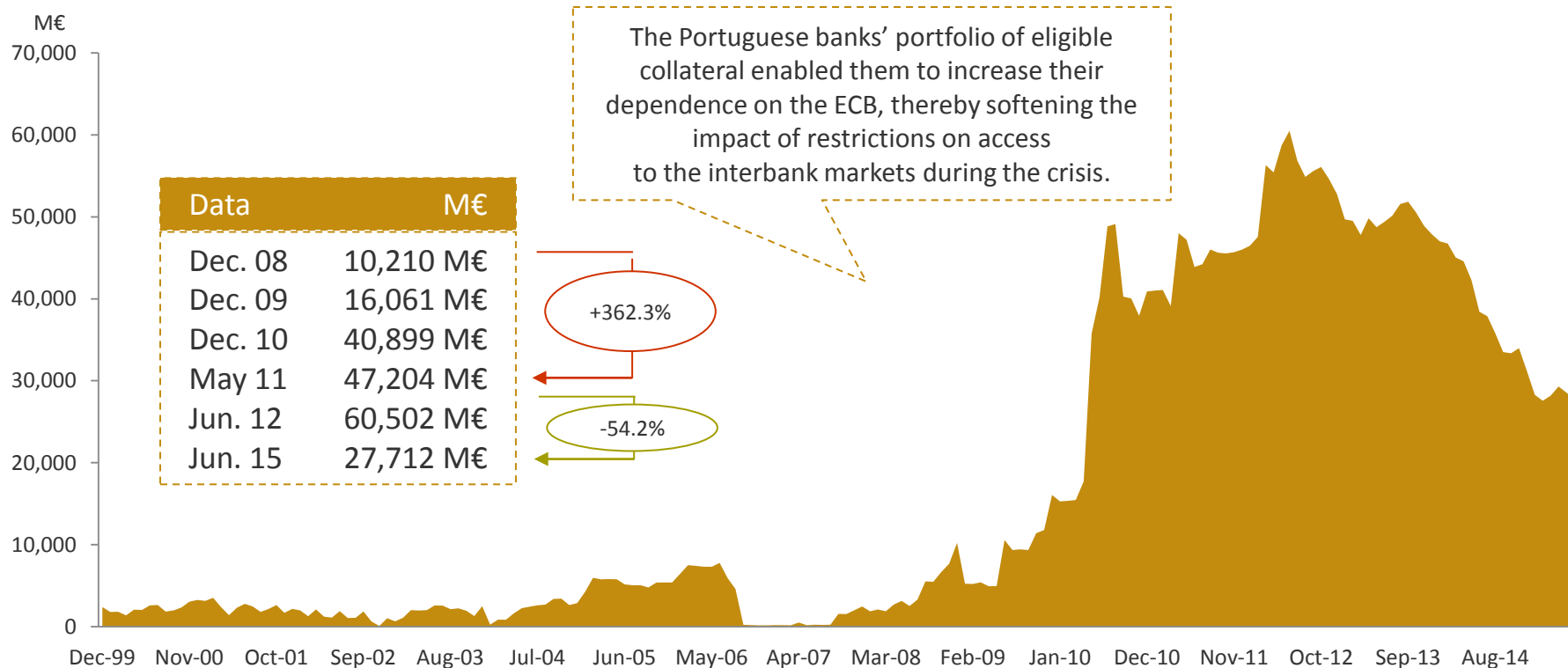


- ◆ Portuguese Republic
- Portuguese Banks (CGD, BCP, BPI and BES up to 2013)

*At the end of the period.

The amount of borrowing from the ECB by Portuguese banks has been decreasing steadily since June 2012.

Borrowing from the European Central Bank*

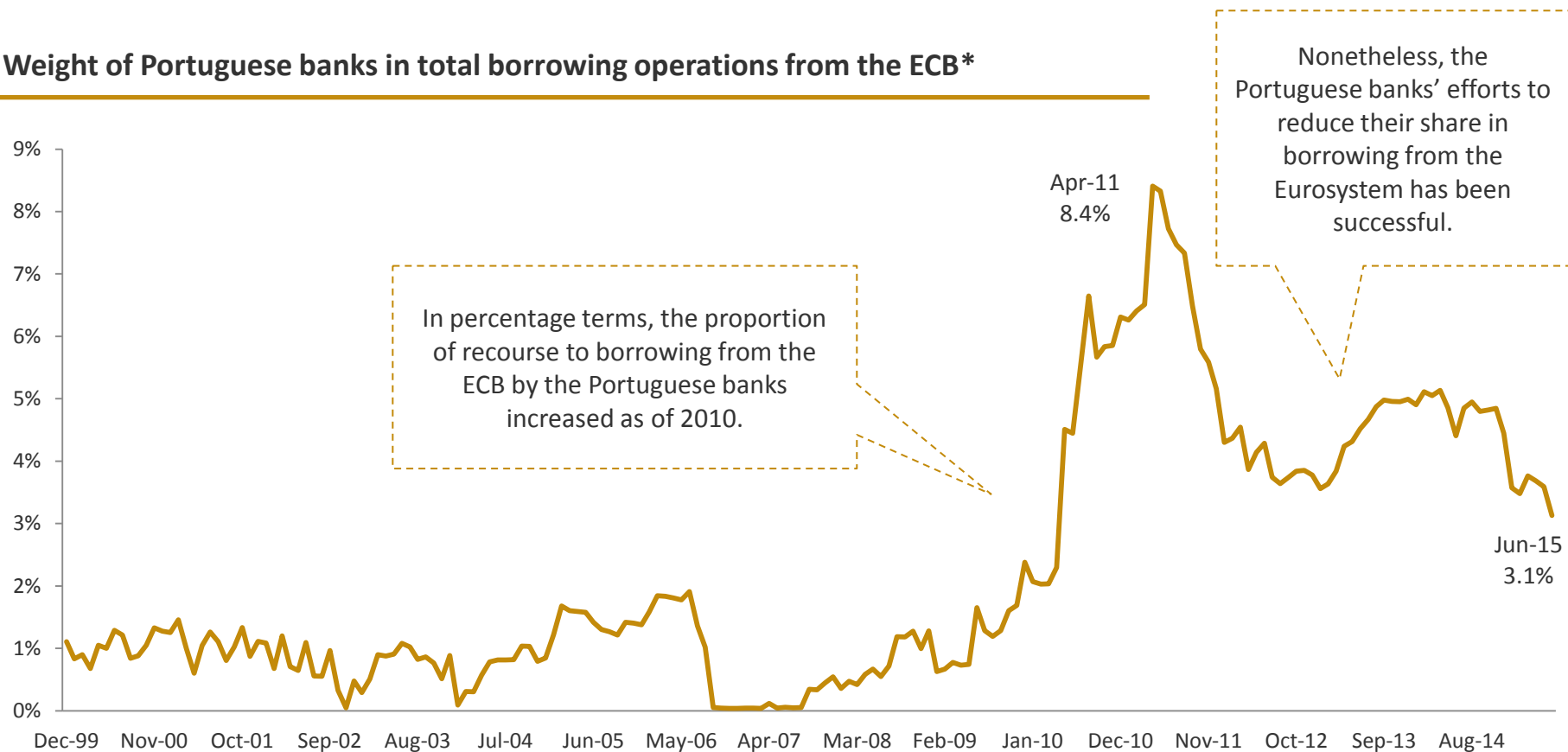


* Outstanding amounts at the end of the period.

Source: Banco de Portugal

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

Weight of Portuguese banks in total borrowing operations from the ECB*



* Lending to Portuguese banks as a percentage of the total granted by the Eurosystem to all countries in the euro area (balances at the end of the period).

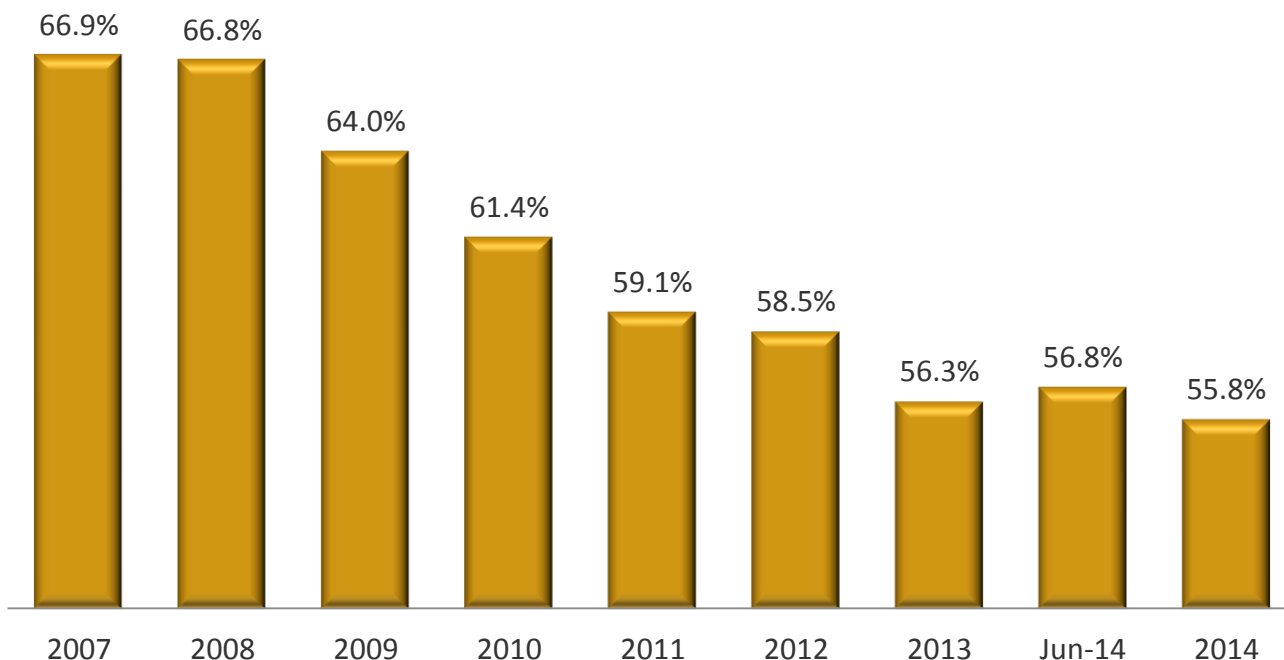
Source: Banco de Portugal, ECB

OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

IV. Solvency

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

Risk-weighted assets in proportion to total assets*



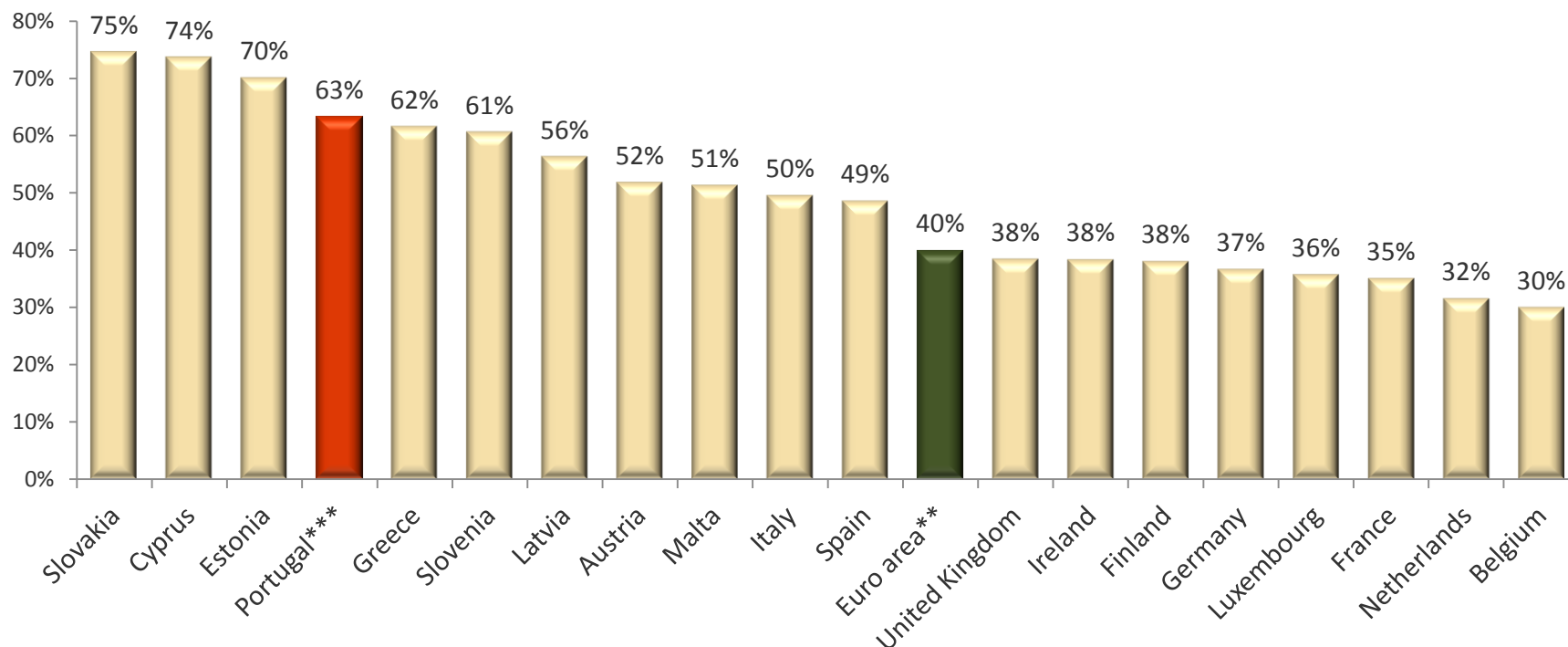
The risk-weighted assets to total assets ratio of the Portuguese banks fell considerably in recent years. This trend grew after the EFAP and reflects a reduction in the average risk of assets making up the Portuguese banks' balance sheet. In the first six months of 2014, this ratio increased slightly due to changes in the calculation of RWAs introduced by CRD IV / CRR, but began to fall again at the end of the year.

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

Source: Banco de Portugal

The risk-weighted asset to total risk ratio is above the euro area average, however.

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



* Risk-weighted assets include off-balance-sheet items. The data differ from the previous slide as they refer only to bank groups and domestic banks on a consolidated basis.

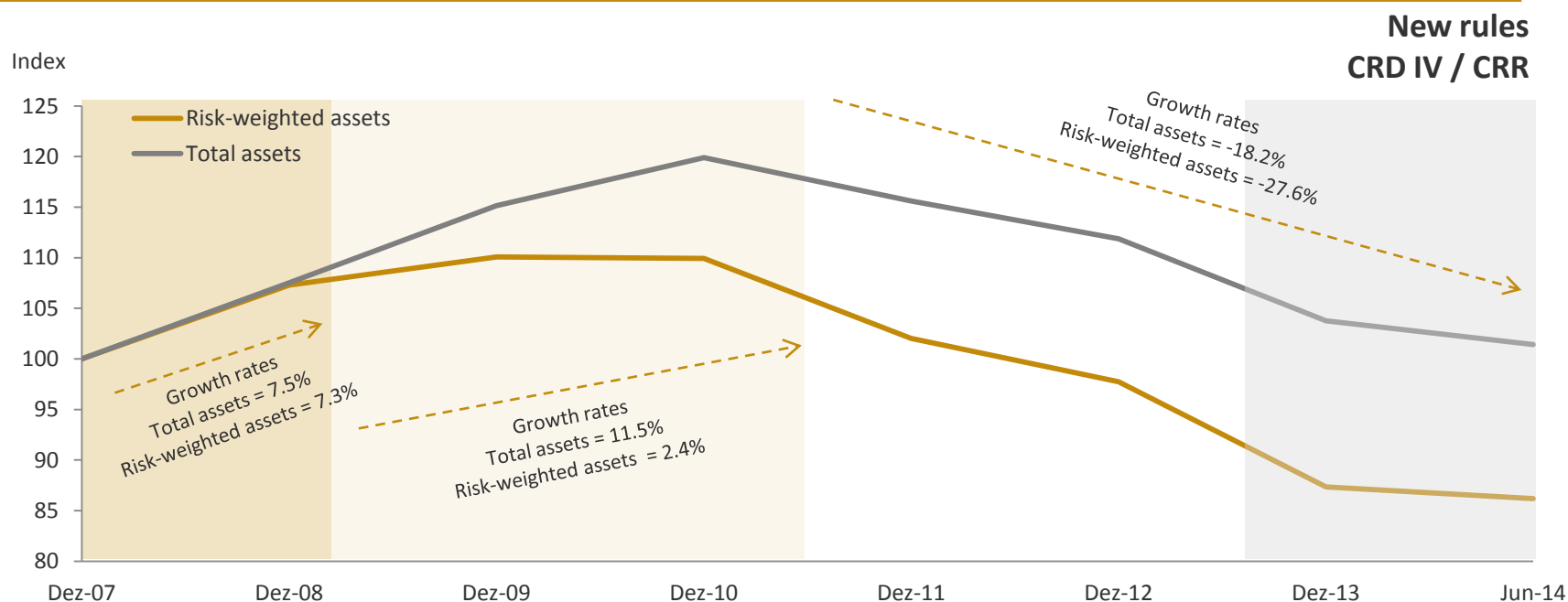
** Euro area with 18 countries

*** The data for Portugal may differ from those shown in the previous slide due to slight differences in 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 exposure to risk by the Portuguese banks.

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

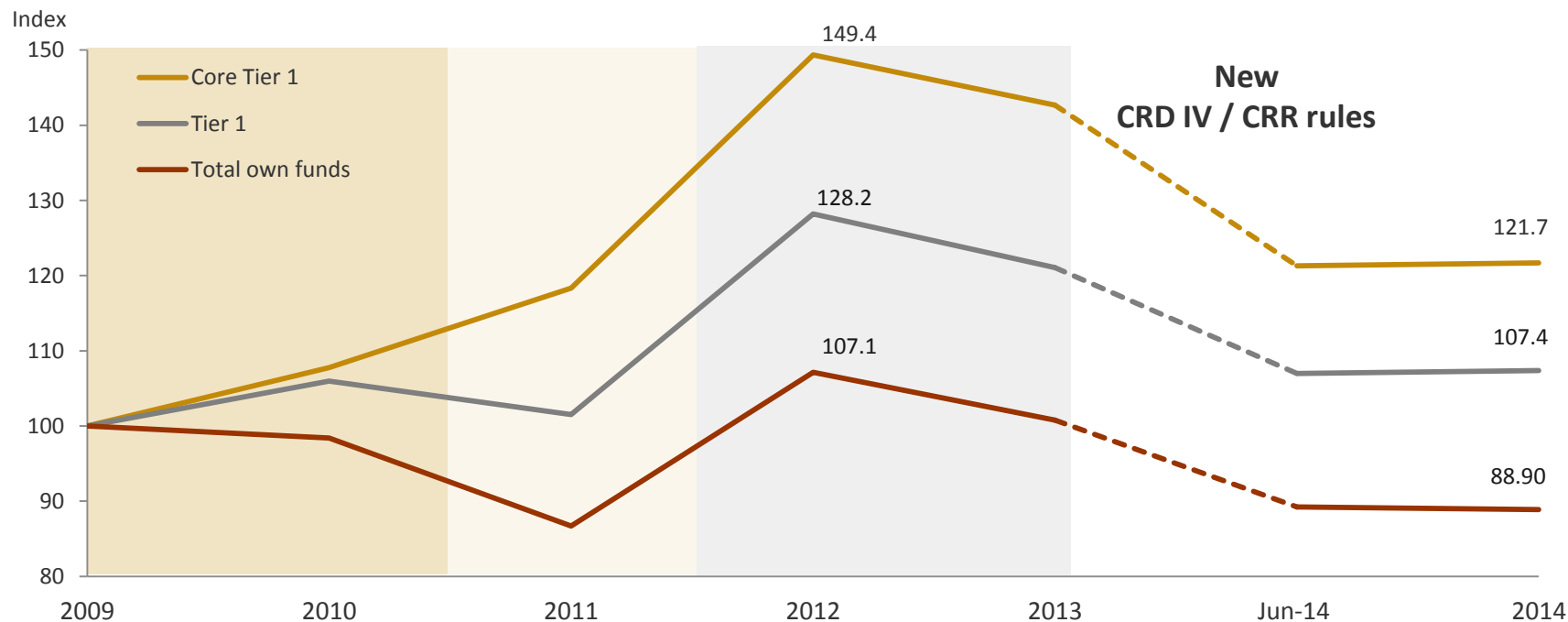


* Data from bank groups and domestic banks on a consolidated basis, excluding the insurance business

Source: ECB

Better quality own funds at the Portuguese banks, core Tier 1, have increased significantly since 2009.

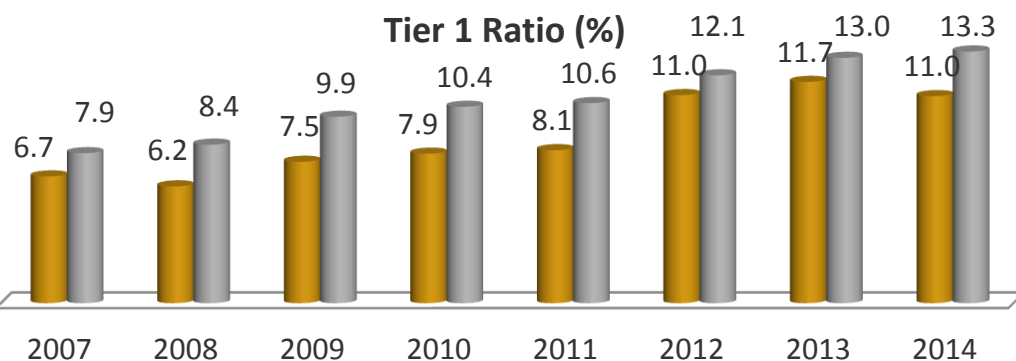
Own funds of Portuguese banks* (Dec 2009=100)



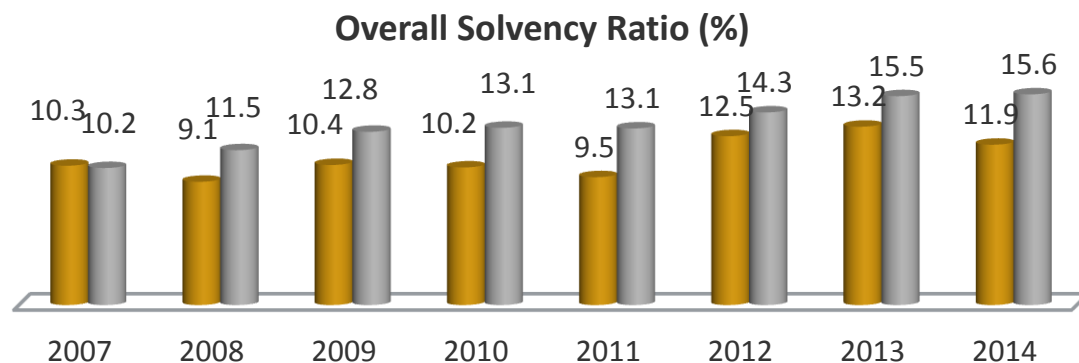
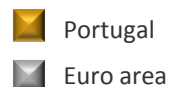
* Data from bank groups and domestic banks on a consolidated basis, excluding the insurance business

Source: Banco de Portugal

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



Basel II required financial institutions' Tier 1 ratio to be 4% or more and their solvency ratio to be no lower than 8%. The new regulatory framework adopted after Basel III, which has been in effect since the beginning of 2014, focuses on the Common Equity Tier 1 ratio. In 2014, according to the CRD IV/CRR transitional arrangements, the requirement was 6% for the Tier 1 ratio and 8% for the solvency ratio.

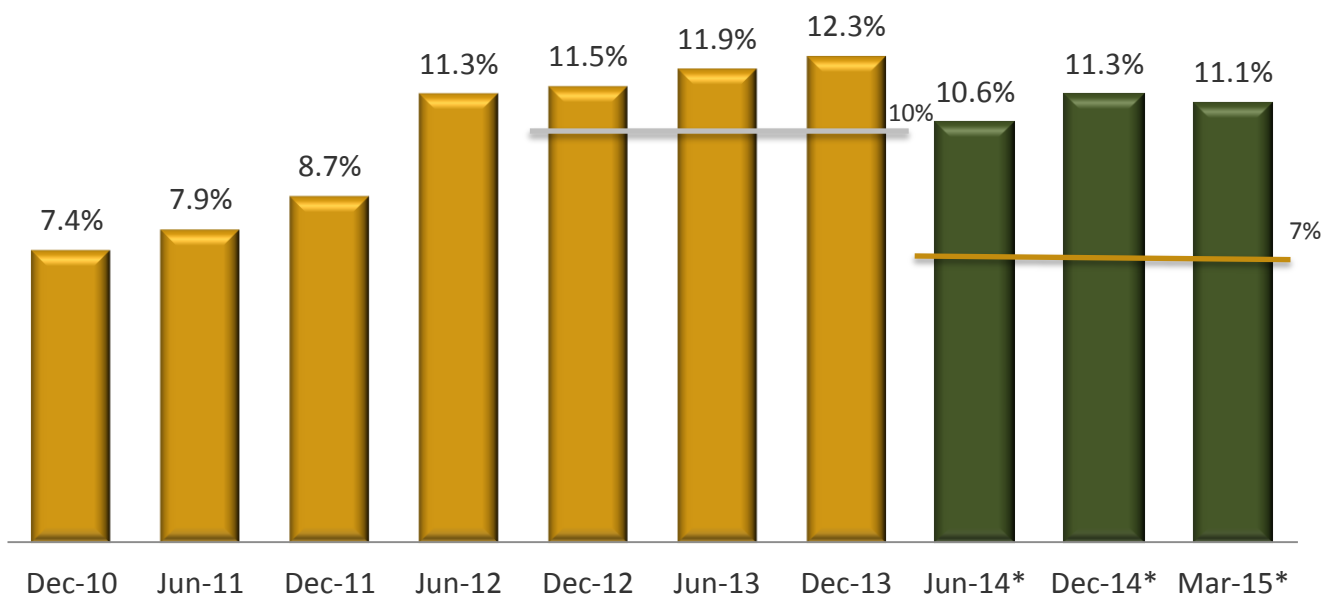


* Data from bank groups and domestic banks on a consolidated basis, excluding the insurance business

Source: ECB

The solvency of the Portuguese banks improved substantially after 2011, so that the new CET 1 ratio is comfortably above the minimum requirements.

Core Tier 1 ratio / Common Equity Tier 1 ratio



Since the beginning of 2014, the Portuguese banks have had to follow the new CRD IV/CRR transitional arrangements for adequacy of own funds, which imposes 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 CRD IV/CRR transitional arrangements

Source: Banco de Portugal

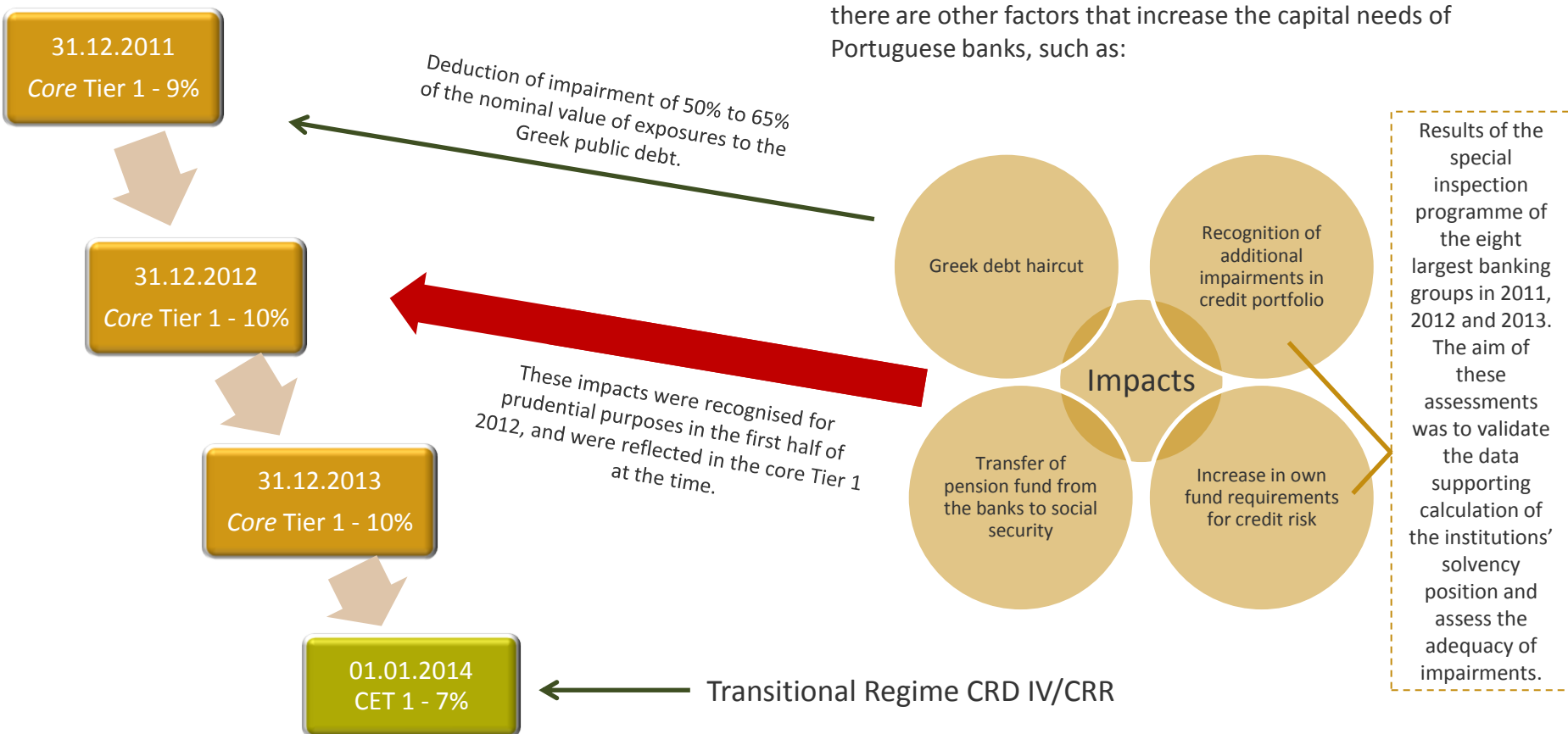
In the recent past, the banking sector has had to face new regulatory requirements ...

	Basel I 1992	Basel II 2004	Basel 2.5 2009	Basel III 2014
Capital requirements	<ul style="list-style-type: none"> • Definition of Tier 1 and Tier 2 • Requirements: Tier 1 – 4%; Own funds – 8% 	<ul style="list-style-type: none"> • Requirements same as Basel I 		<ul style="list-style-type: none"> • New definition of capital • New buffers • Leverage ratio • Systemic risk
RWA requirements	<ul style="list-style-type: none"> • Pillar 1 – market risk (change made in 1997) • Pillar 1 – Credit risk • Requirement: 8% 	<ul style="list-style-type: none"> • New Pillar 1 – credit risk • Pillar 2 – ICAAP • Pillar 3 – disclosures • Requirements same as Basel I 	<ul style="list-style-type: none"> • Revisions of securitisation instruments and trading book 	<ul style="list-style-type: none"> • Counterparty risk • Requirements: CET – 4.5%; Tier 1 – 6%; Tier 1 + Tier 2 – 8%
Liquidity requirements				<ul style="list-style-type: none"> • Liquidity coverage ratio (LCR) • Net stable funding ratio (NSFR)

All figures are for full implementation of the Basel agreements.
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

OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

V. Public recapitalisation schemes and personal guarantees from the state to credit institutions

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 Commission – DGCOMP, Portuguese Ministry of Finance (DGTF)

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



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 Dec 2013	Prorogued until Jun 2014	Prorogued until Jun 2015	Prorogued until Dec 2014	Prorogued until Dec 2015
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Recapitalisation Scheme

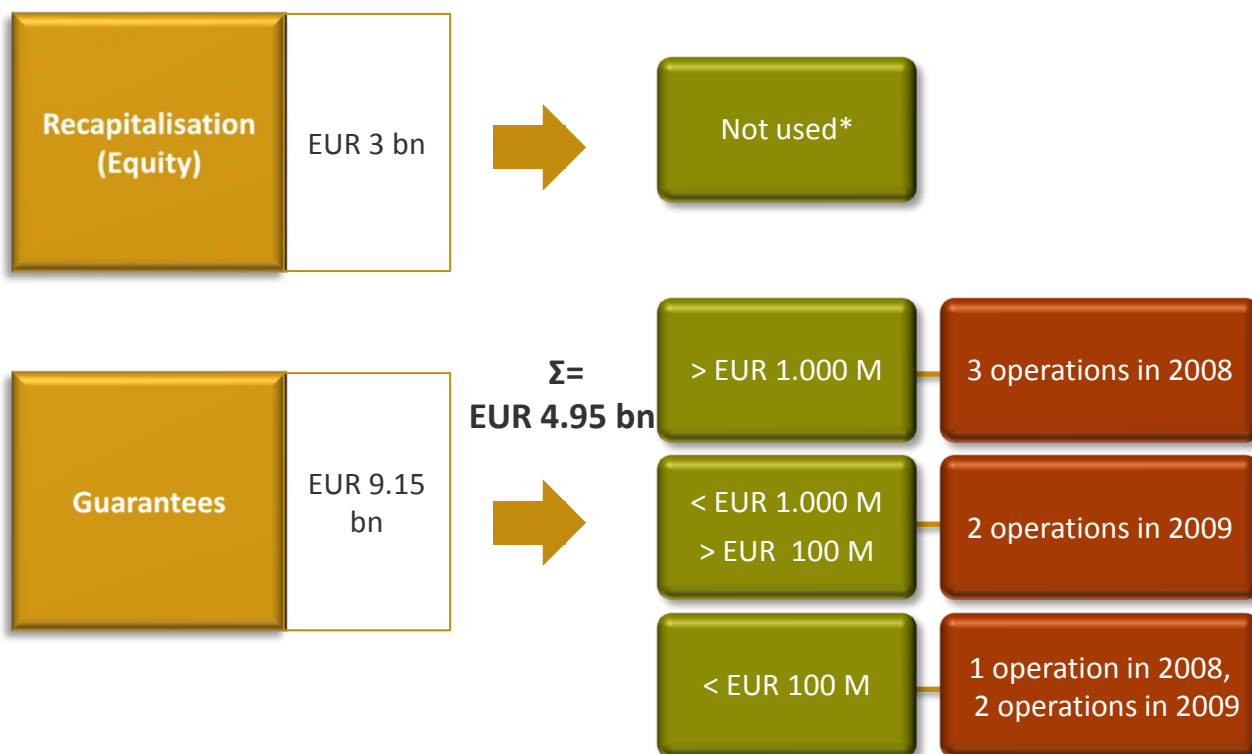
Prorogued 31 Dec 2011 Budget amended € 12 bn		Prorogued until Dec 2012	Prorogued until Dec 2013					
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Law 48/2011
Law
4/2012

Source: APB, European Commission – 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



By the end of June 2011:

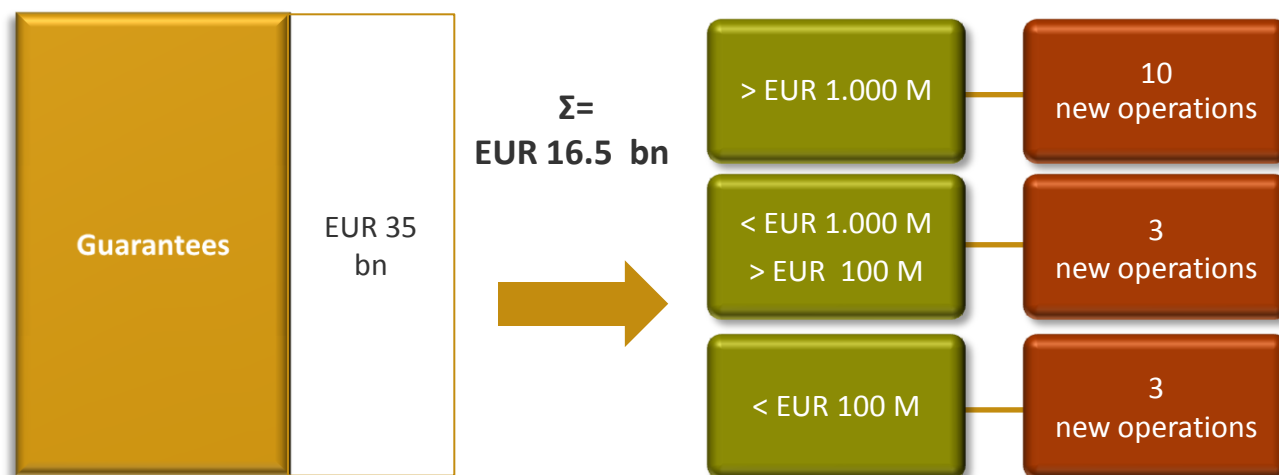
- 6 banks (including CGD) had used the guarantee scheme
- 2 operations to the amount of EUR 75 m had been amortised (one in 2009, the other in 2010)
- The amount of guarantees in effect totalled EUR 4.875 bn, i.e. 53% of existing budget

* 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 Commission– 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.

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

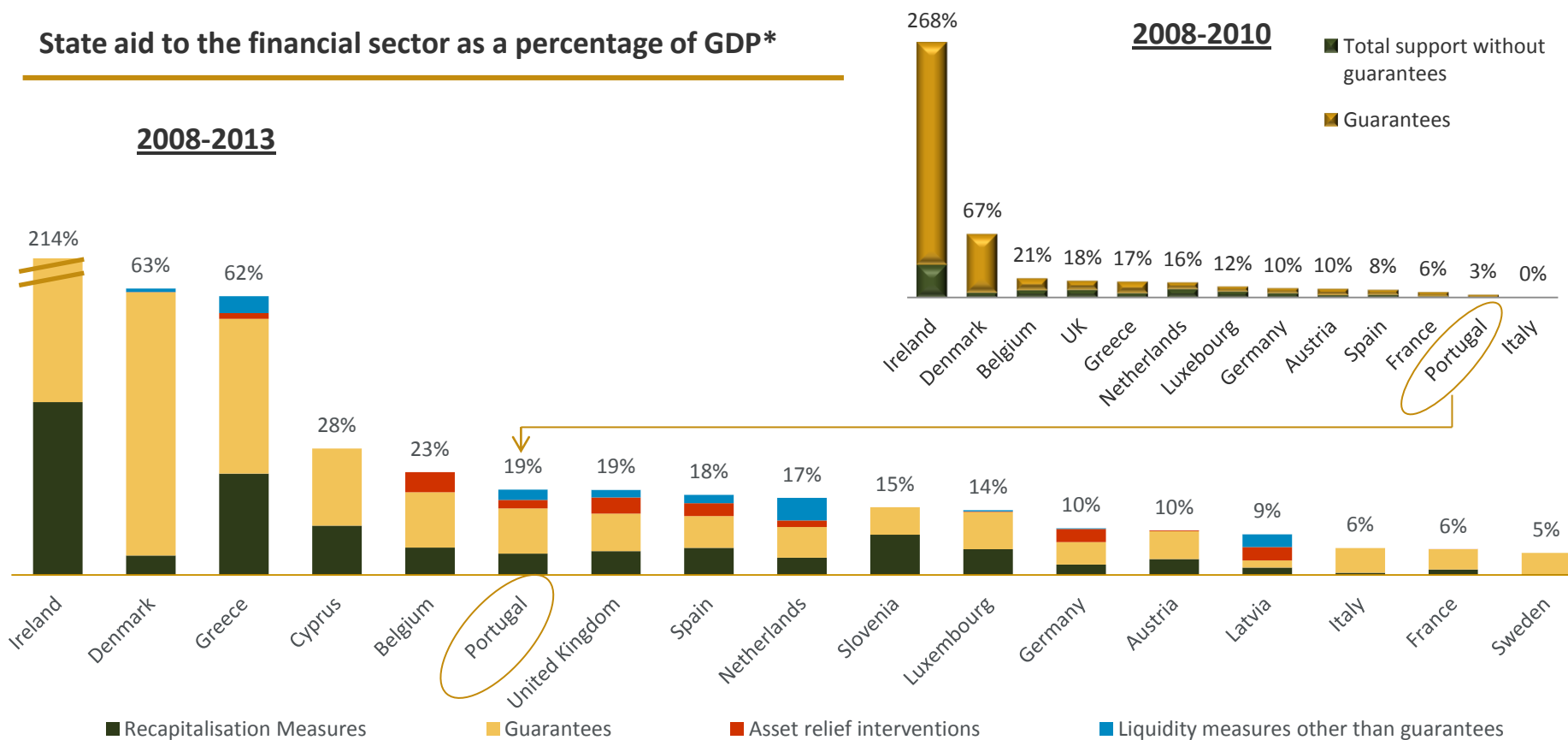


* Not including recapitalisation of CGD in June 2012 to the amount of EUR 1.65 million.

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

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

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

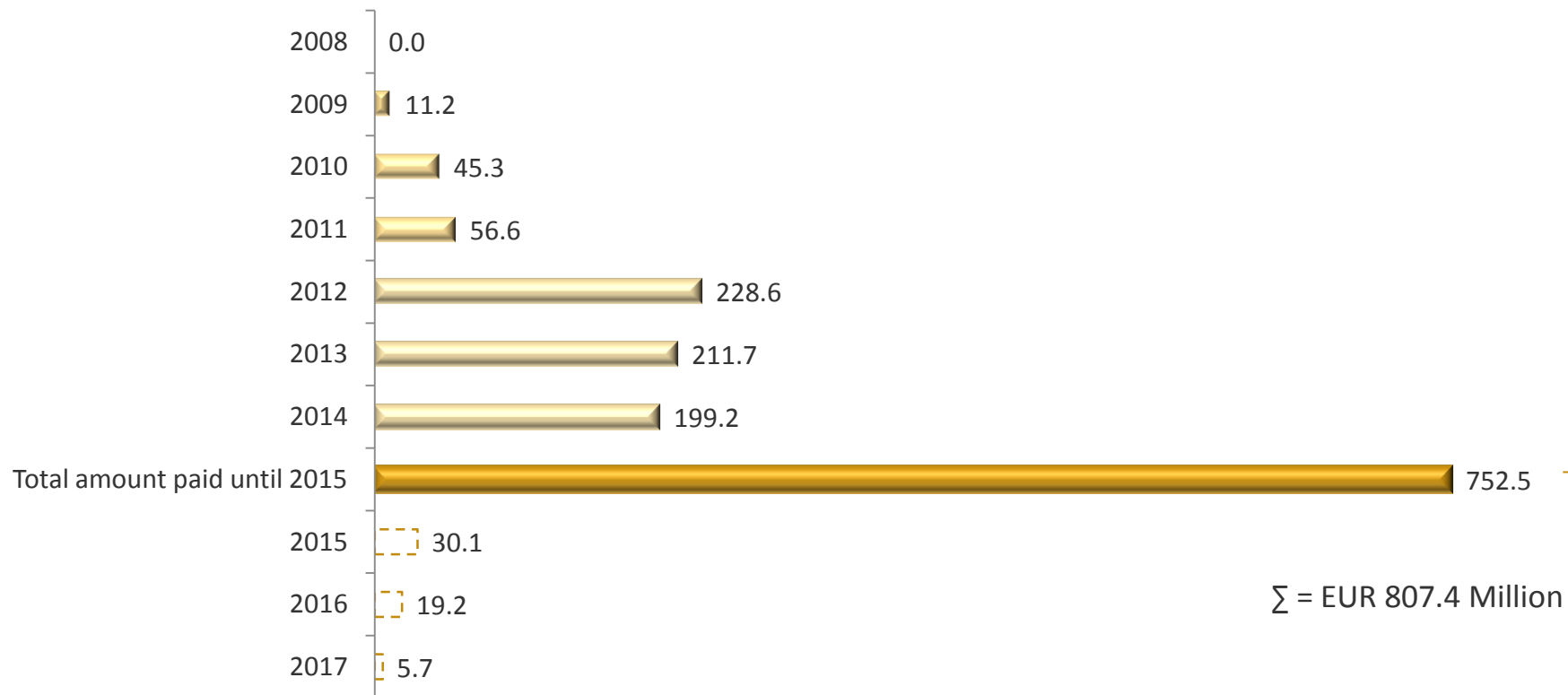


* The data on guarantees and injections of cash are for 2009, at the peak of use of these instruments in Europe.

Source: European Commission

Guarantee commissions paid and payable by credit institutions.

Commissions paid and due annually* (EUR millions)



* Estimates.

Source: APB, Direcção Geral do Tesouro e Finanças

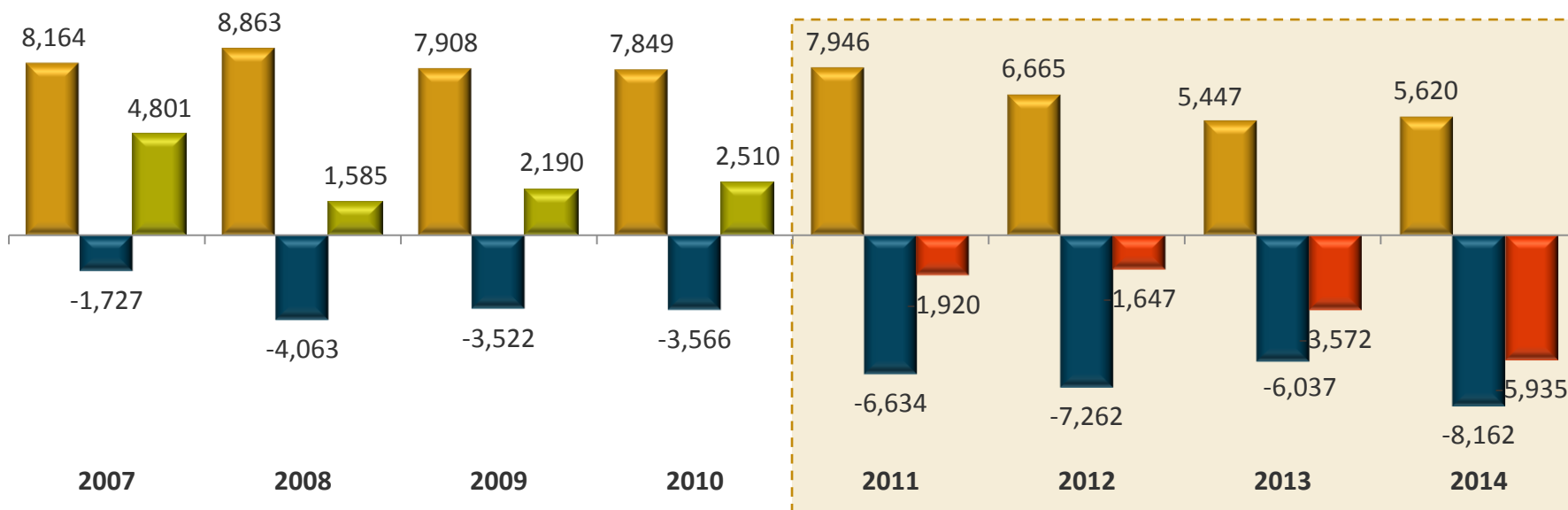
OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

VI. Profitability

The rise in credit risk in Portugal led to an increase in impairments recorded by the banks, which affected their profits.

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

- Net interest income
- Impairments
- Income before tax



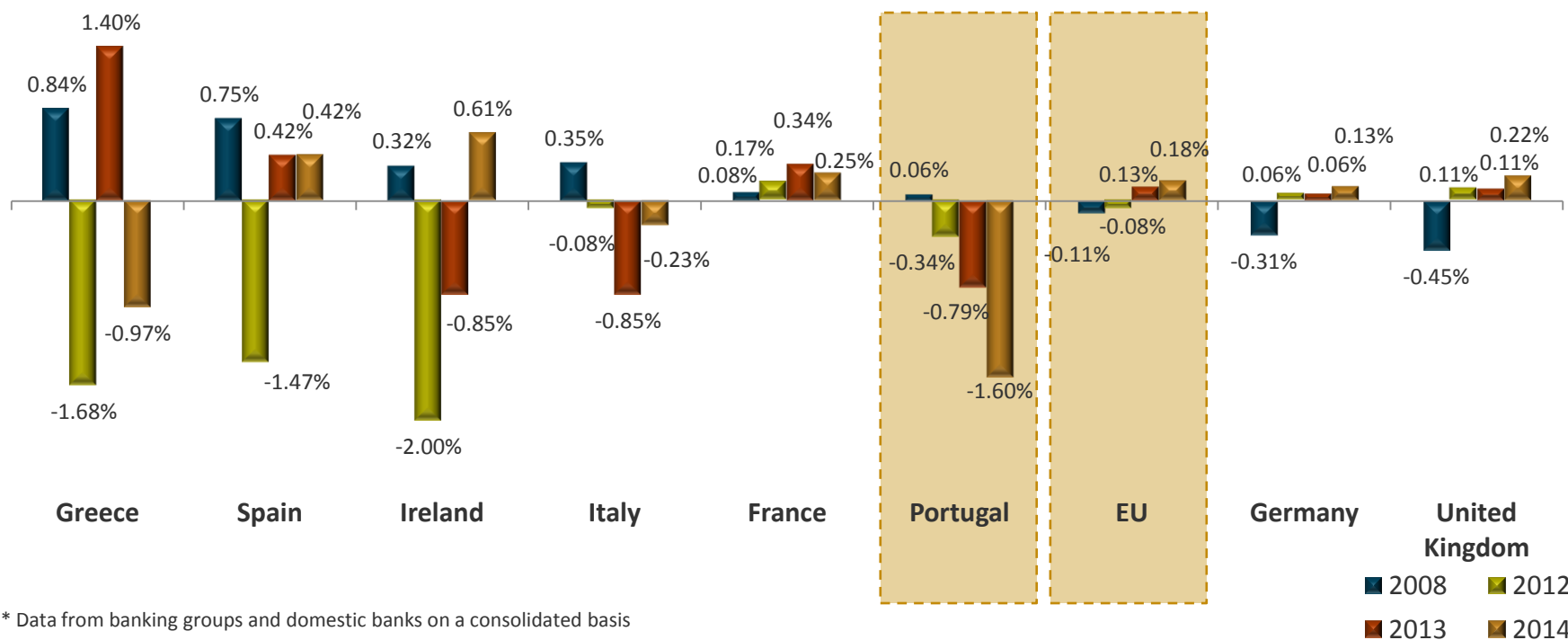
In the recent past, the profits of the Portuguese banking sector were adversely affected not only by an increase in impairments but also a reduction in net interest income, a fall in average interest rates and an increase in funding costs.

Source: Banco de Portugal

Return on Portuguese banking assets has fallen in recent years and has not kept up with the European recovery.

ROA - return on assets*

According to Banco de Portugal, in the first half of 2015, ROA and ROE in the Portuguese banking sector were positive, year-on-year, for the first time since 2012. Profits benefitted from lower impairments and operating costs and gains on financial operations.

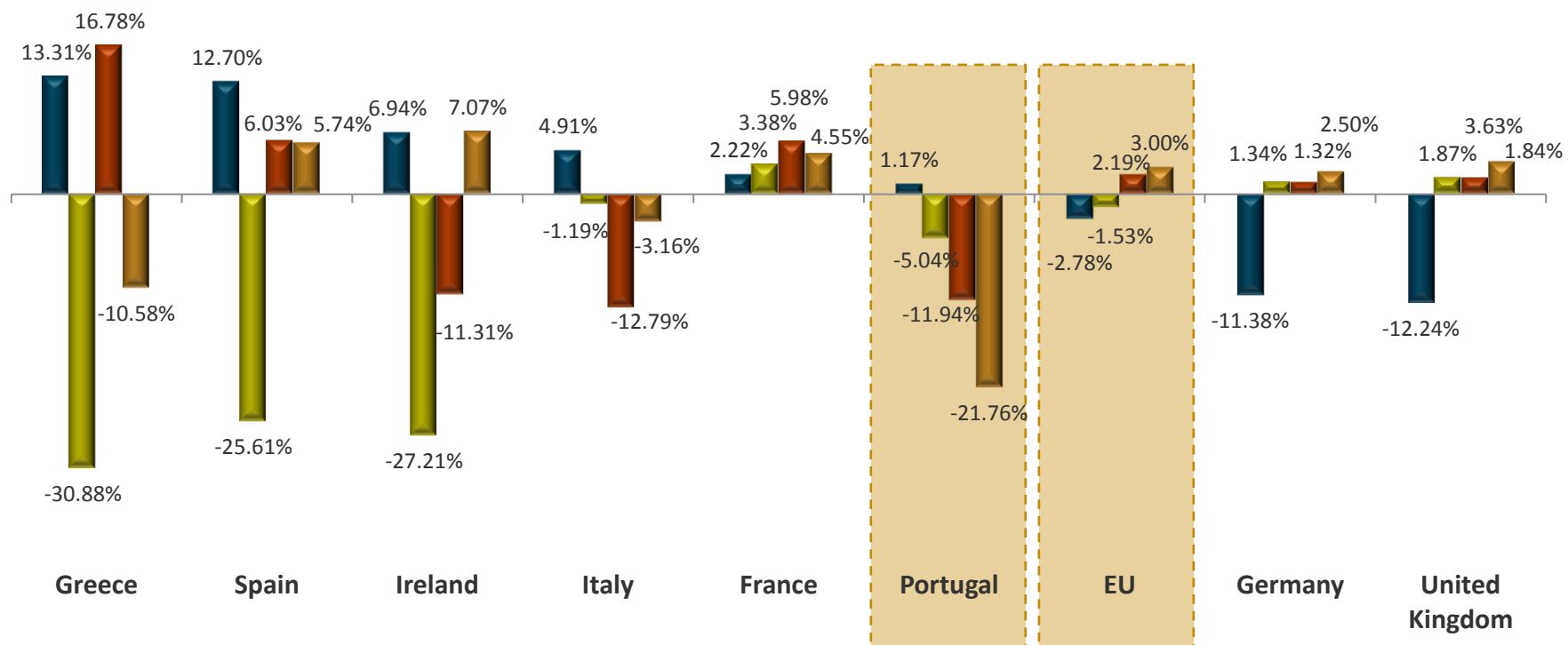


* Data from banking groups and domestic banks on a consolidated basis

Source: ECB

Performance was similar if we look at return on equity.

ROE - return on equity*



According to Banco de Portugal, in the first half of 2015, ROA and ROE in the Portuguese banking sector were positive, year-on-year, for the first time since 2012. Profits benefitted from lower impairments and operating costs and gains on financial operations.

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

Source: ECB

■ 2008 ■ 2012
■ 2013 ■ 2014

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

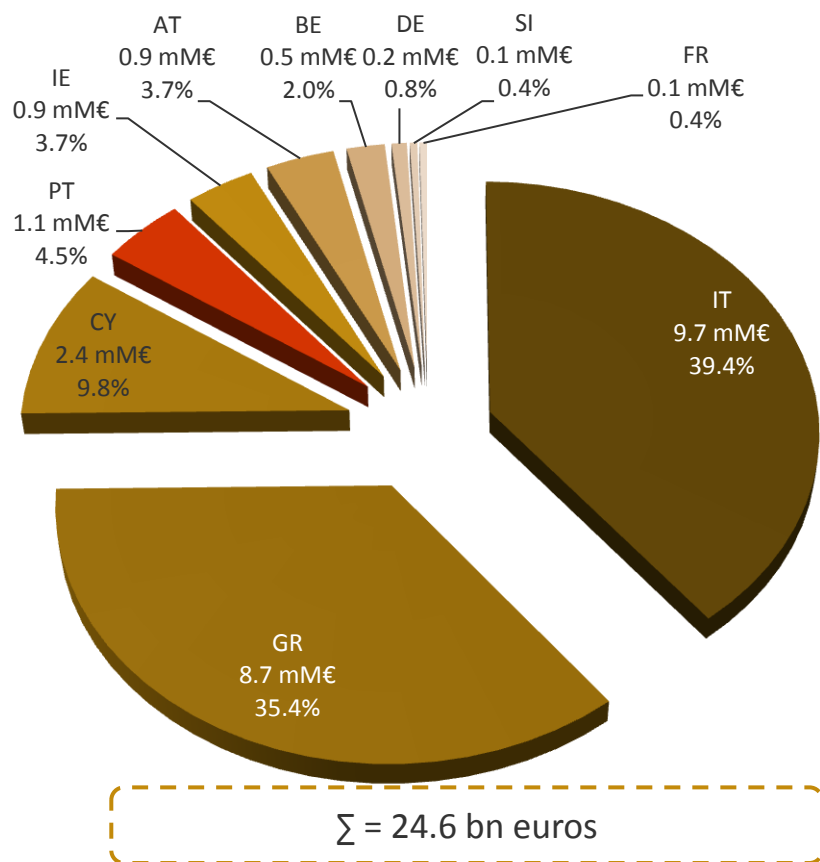
	1 st Exercise 2 nd half 2011	2 nd Exercise 2 nd half 2012	3 rd Exercise Jun – Jul 2013	4 th Exercise Oct 2013 – Mar 2014
Reference date:	30 June 2011	30 June 2012	30 April 2013	30 September 2013
Scope:	<ul style="list-style-type: none"> Assessment of credit portfolio (EUR 281 bn - 72% to 100% of each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

Source: Banco de Portugal

OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

Annex I:
Comprehensive Assessment

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

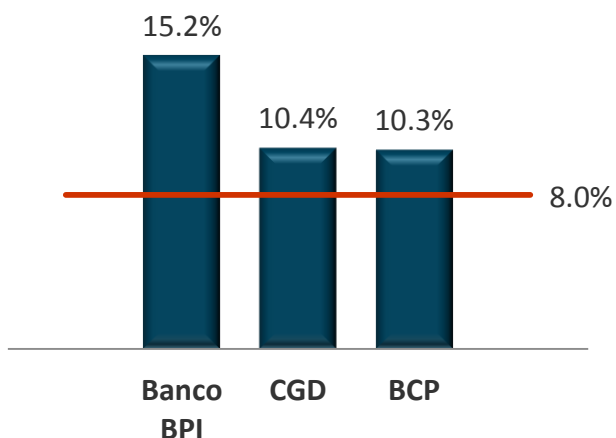


Source: APB, EBA

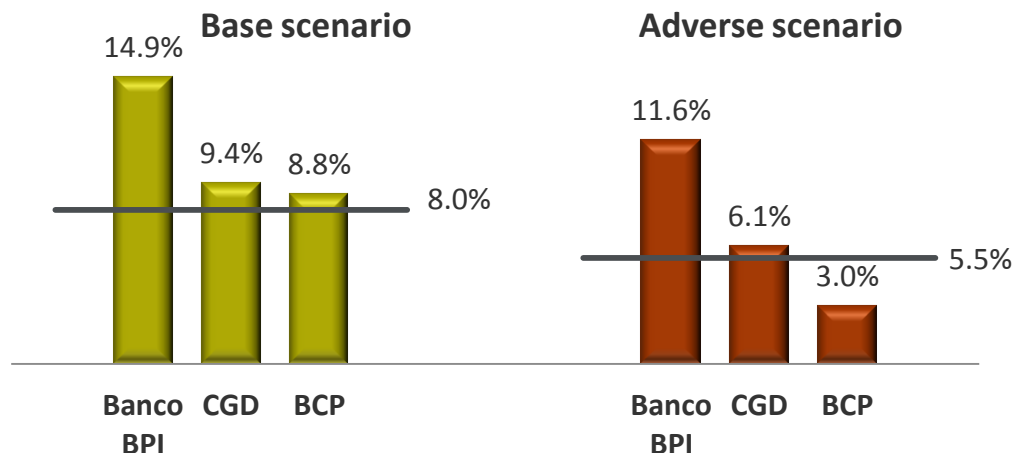
- In October 2014, the European Banking Authority published the results of the comprehensive assessment of 130 European banks, which at the end of 2013 accounted for 81.6% of total assets of the banking sectors in the participating countries in the single supervision mechanism.
- The Comprehensive Assessment 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 for 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 particularly punishing for the Portuguese banks, as the base of reference 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

OVERVIEW OF THE PORTUGUESE BANKING SYSTEM

Annex II:
Metodology

Methodology

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

PORTUGUESE BANKING SECTOR OVERVIEW