PORTUGUESE BANKING SECTOR OVERVIEW

ASSOCIAÇÃO PORTUGUESA DE BANCOS

OCTOBER 2012

AGENDA

I. Importance of the banking sector for the economy

II. Credit activity

III. Funding

IV. Solvency

V. State guarantee and recapitalisation schemes for credit institutions

PORTUGUESE BANKING SECTOR OVERVIEW

I. Importance of the Banking Sector for the Economy

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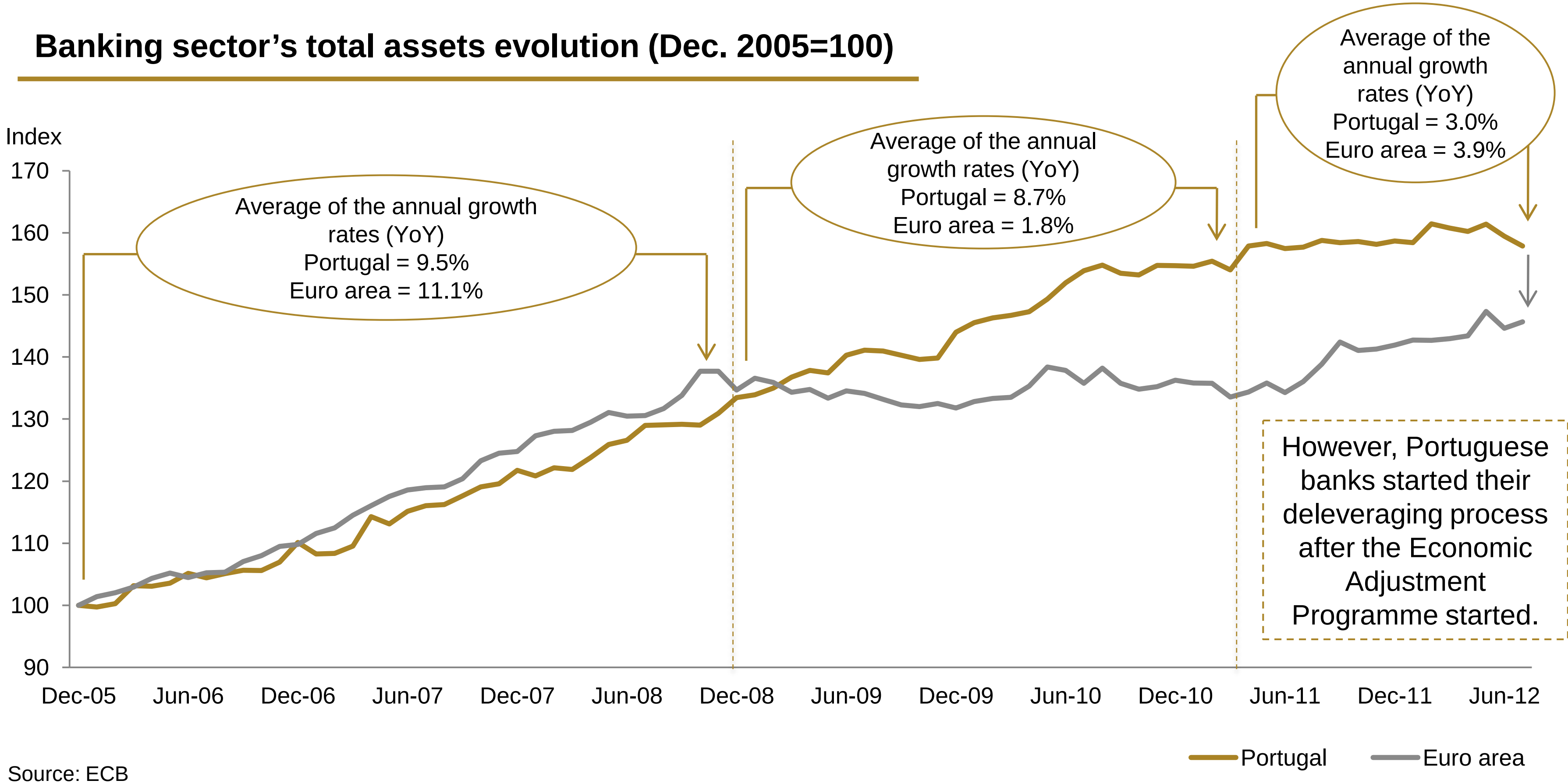
Contrary to what occurred in the Euro area, the 2008 financial crisis did not slow down the total assets growth of Portuguese banks.

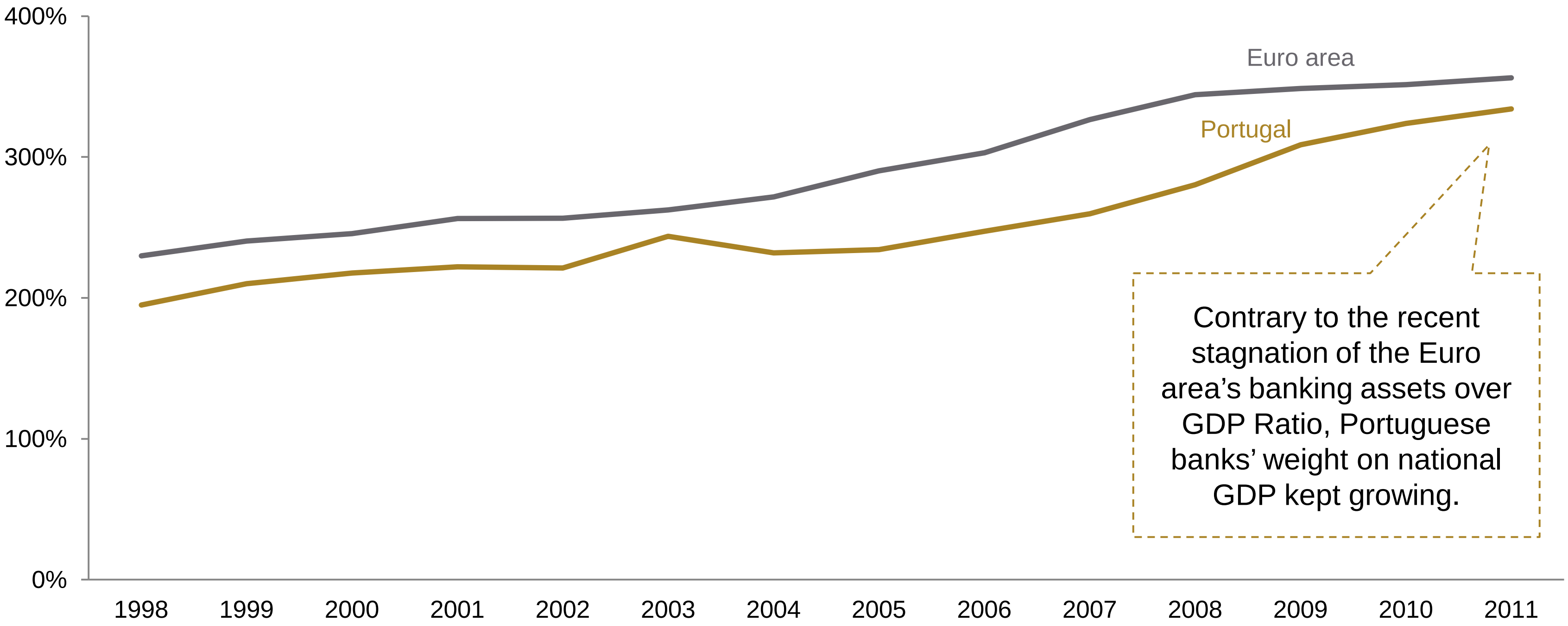
Banking sector's total assets evolution (Dec. 2005=100)



Source: ECB

The Portuguese banking sector plays an important role in the economy; nevertheless, its weight on the national GDP is still below Euro area's level.

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

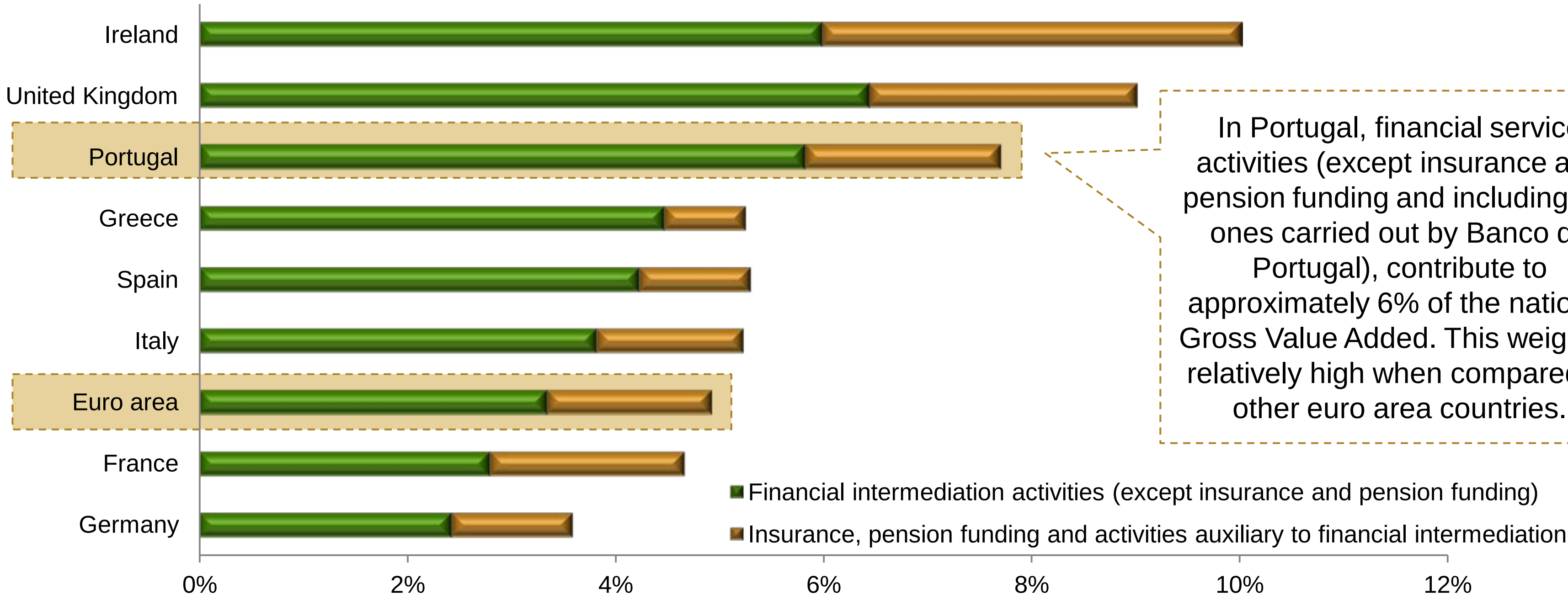


* Nominal Gross Domestic Product.

Source: ECB

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

Financial intermediation GVA relative to total GVA for Portugal and selected European Union countries (2008)



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

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

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II. Credit Activity

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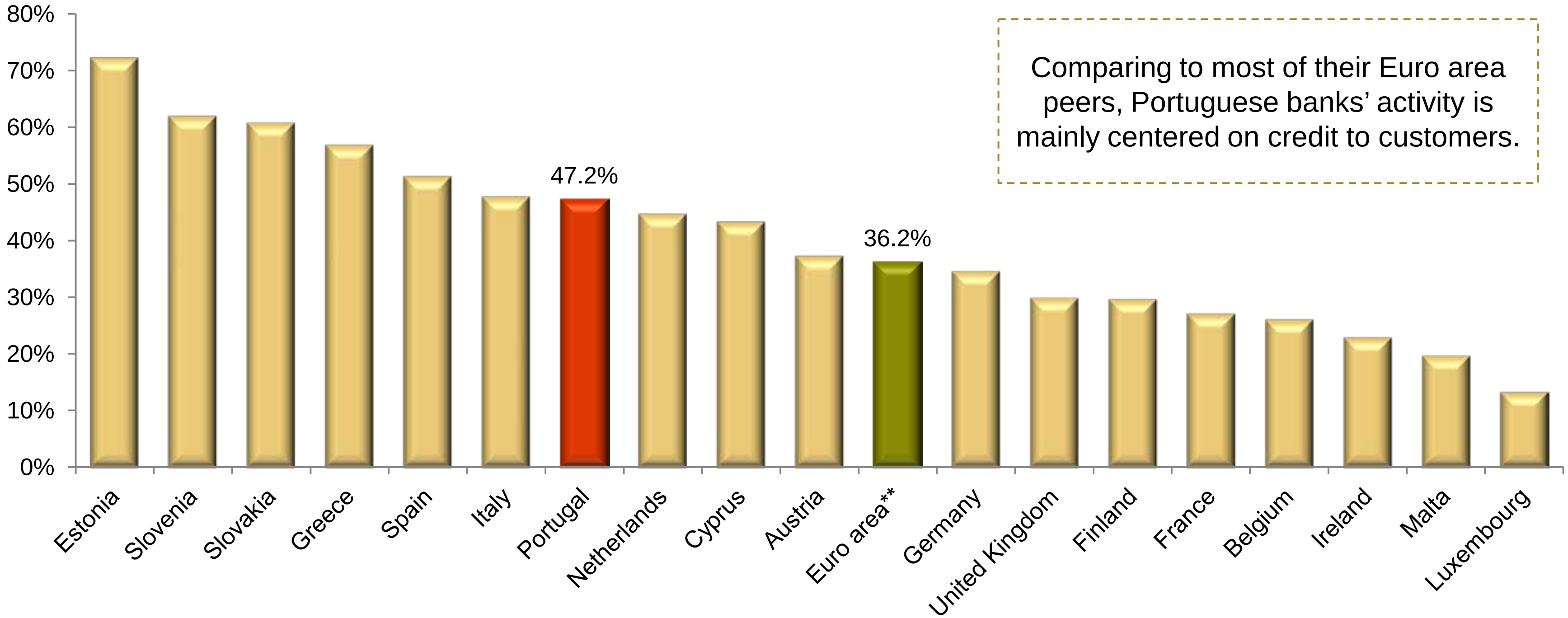
For Portuguese banks, credit to customers absorbs almost 50% of total assets.

Credit to customers* as a percentage of total assets (June 2012)



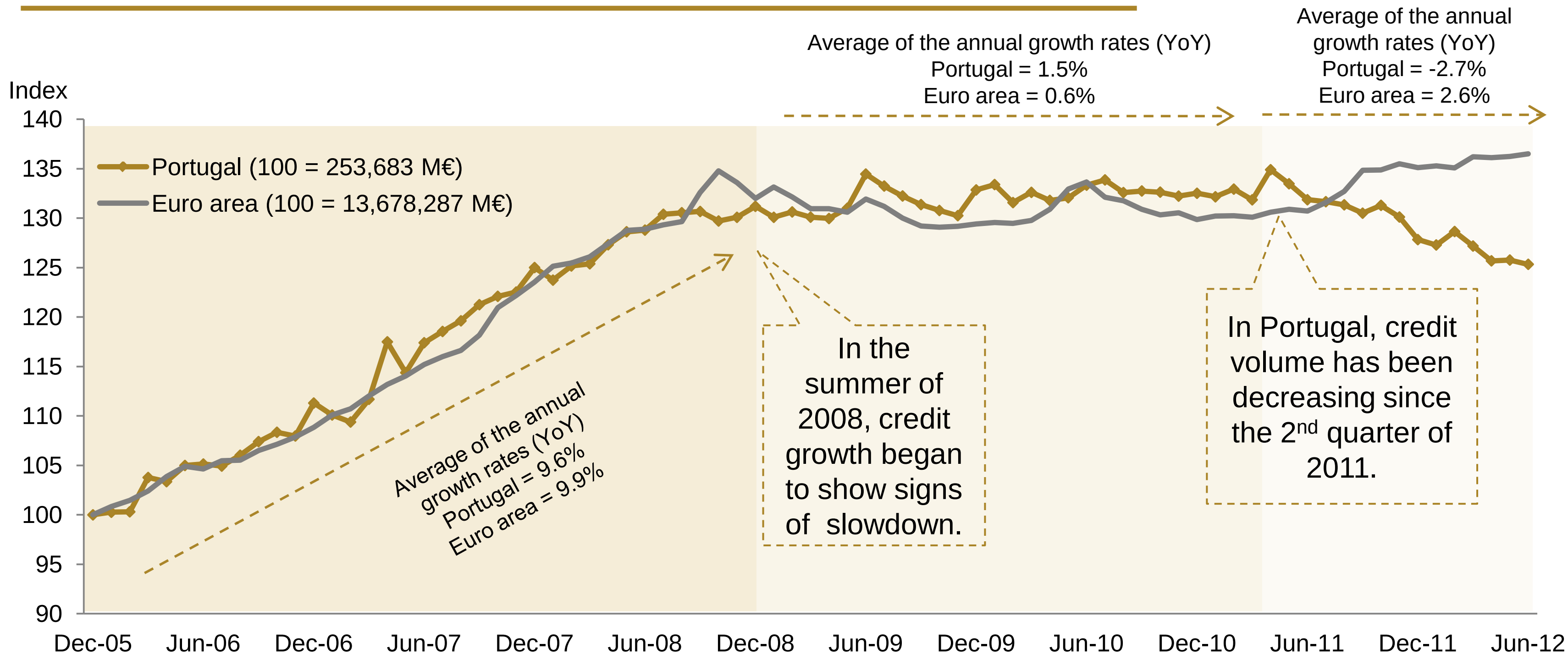
Comparing to most of their Euro area peers, Portuguese banks' activity is mainly centered on credit to customers.

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

Source: ECB

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

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

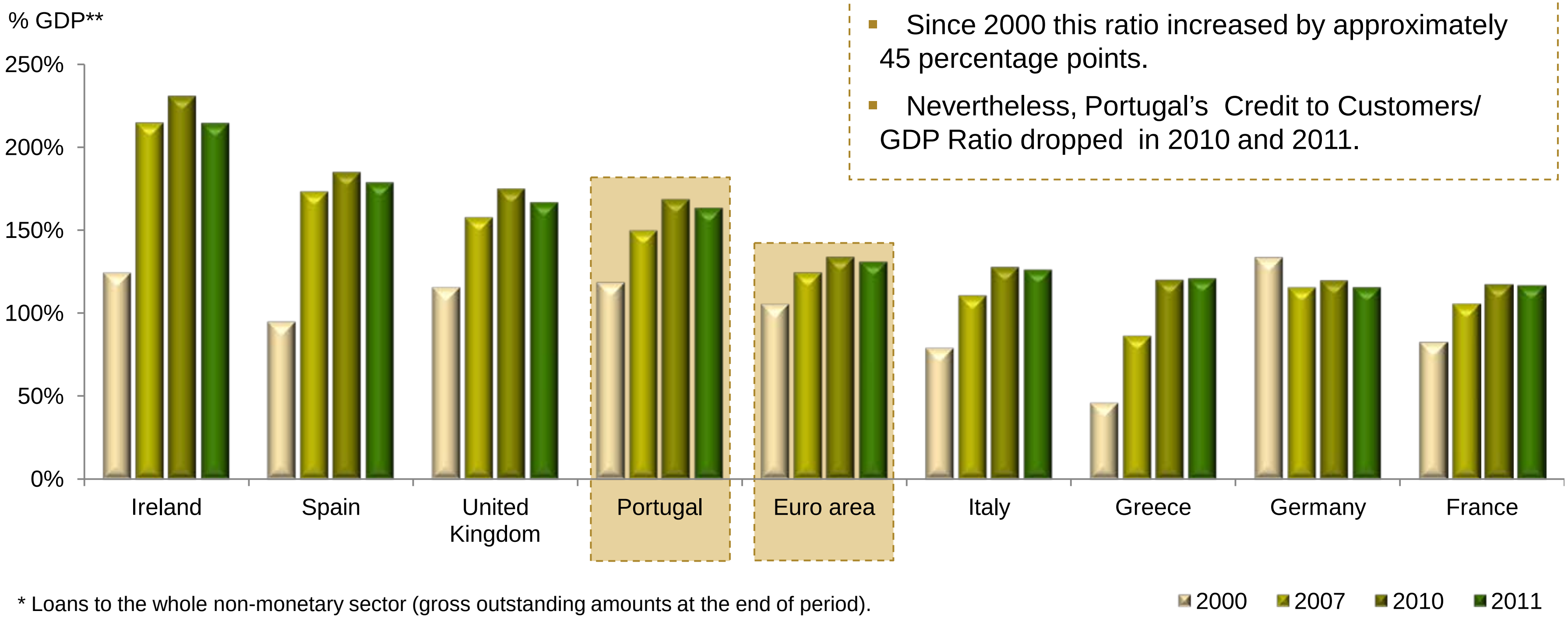


* Loans to the monetary and non-monetary sectors (gross outstanding amounts at the end of period).

Source: ECB

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

Credit to Customers* / GDP Ratio**



- At the end of 2011, credit to customers in Portugal represented around 163% of the nominal GDP.
- Since 2000 this ratio increased by approximately 45 percentage points.
- Nevertheless, Portugal's Credit to Customers/ GDP Ratio dropped in 2010 and 2011.

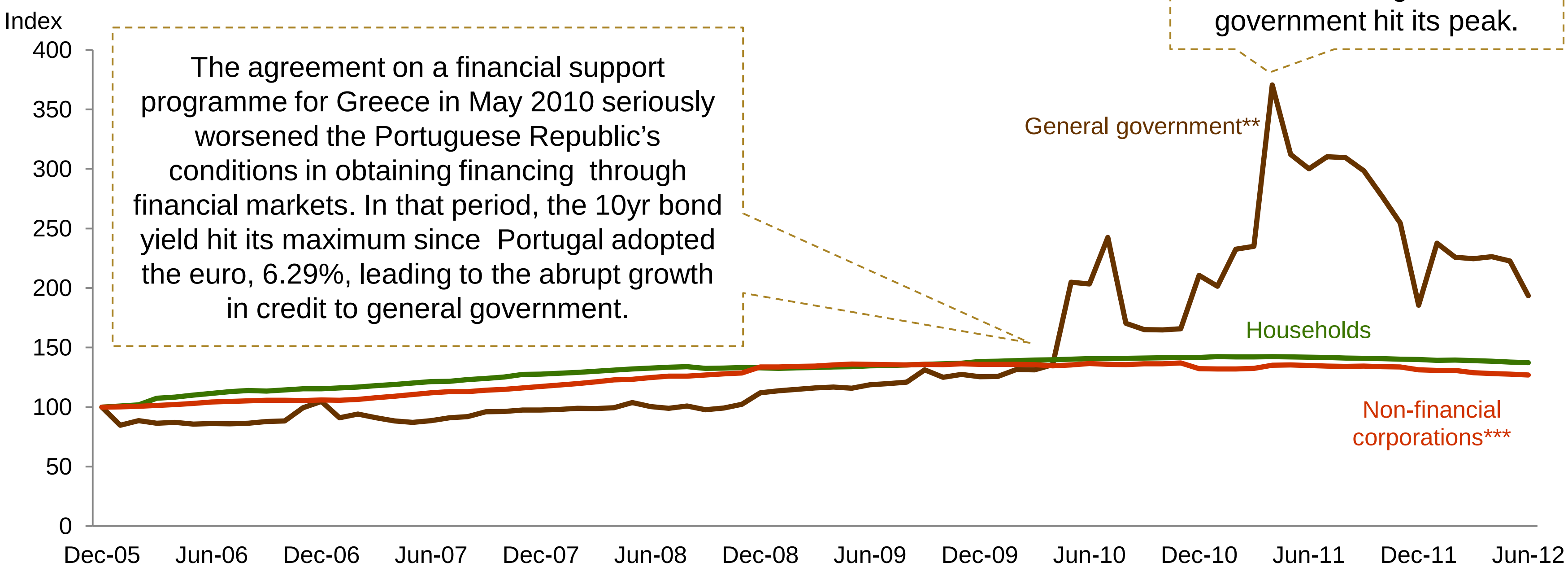
* Loans to the whole non-monetary sector (gross outstanding amounts at the end of period).
** Nominal Gross Domestic Product.

Source: ECB, Eurostat

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

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

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

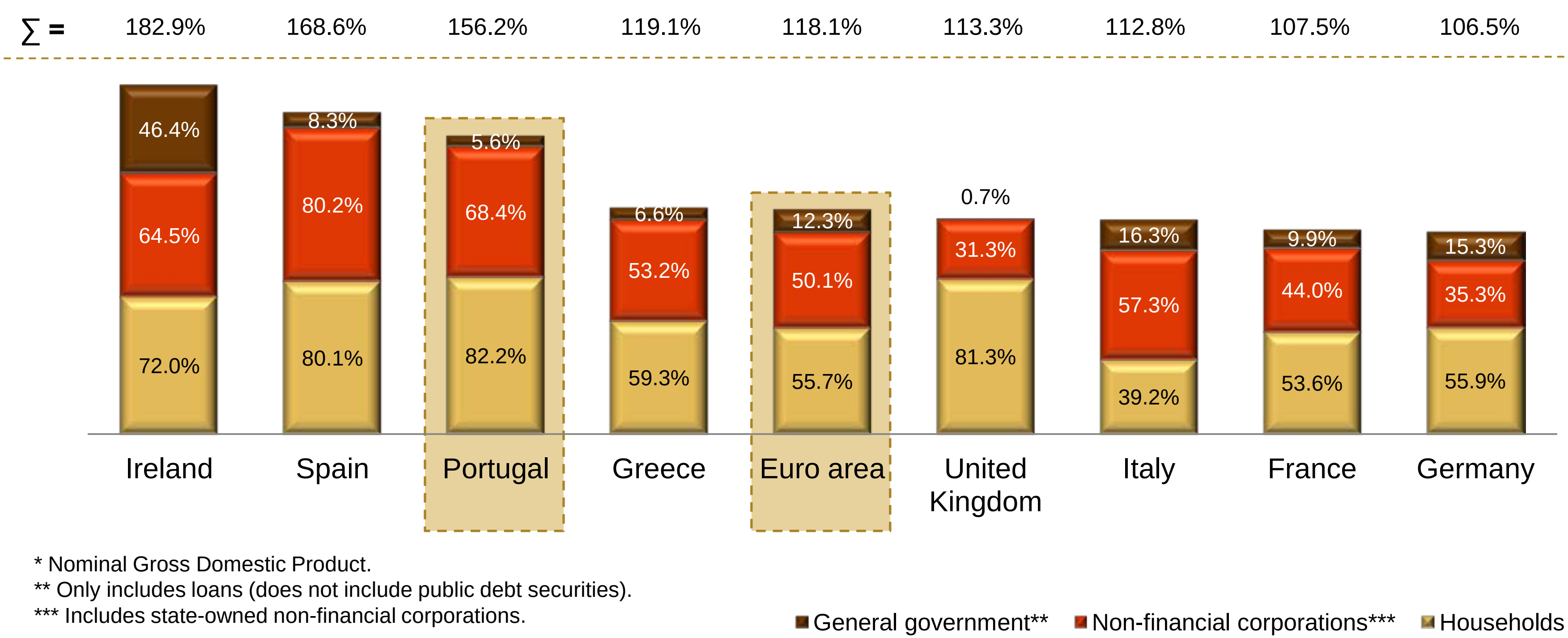


* Gross outstanding amounts at the end of period.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

Source: Banco de Portugal

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

Weight of credit to households, non-financial corporations and general government in GDP*, in Portugal vs. selected European Union countries (Dec. 2011)

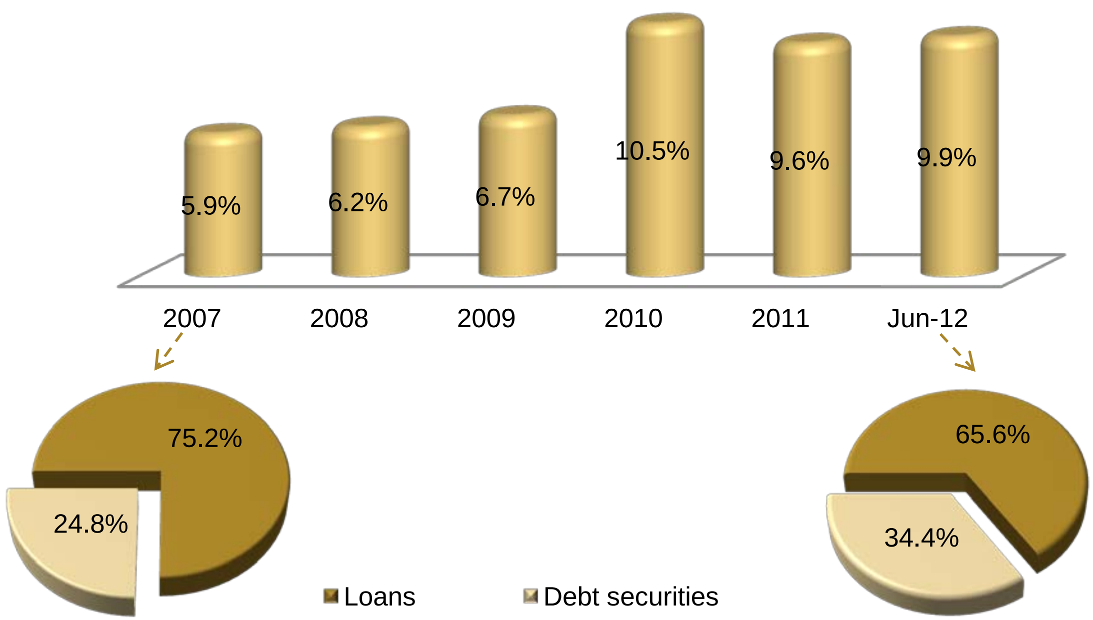


* Nominal Gross Domestic Product.
** Only includes loans (does not include public debt securities).
*** Includes state-owned non-financial corporations.

Source: Ameco, ECB

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

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



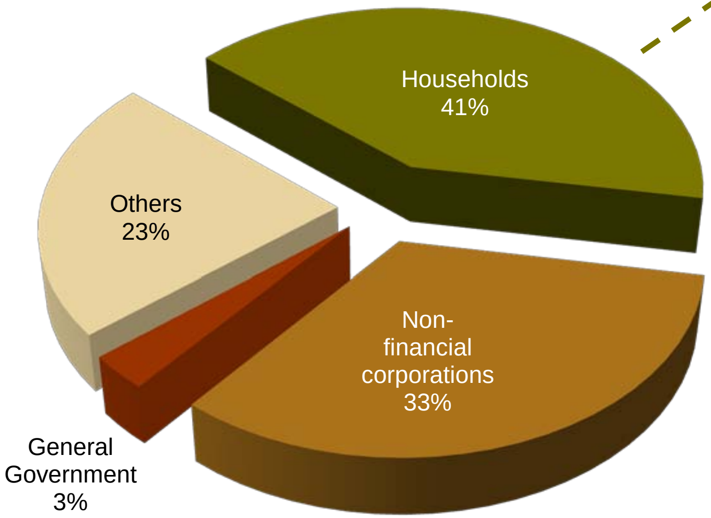
In Portugal, credit to the State-Owned Enterprise Sector absorbs an important share of the total outstanding amount of credit to non-financial corporations. Moreover, it increased substantially from 2009 onwards.

* As a percentage of the total amount of loans outstanding and debt securities owed by non-financial corporations to the resident financial sector. The concept of resident financial sector includes not only banks but also other financial institutions.

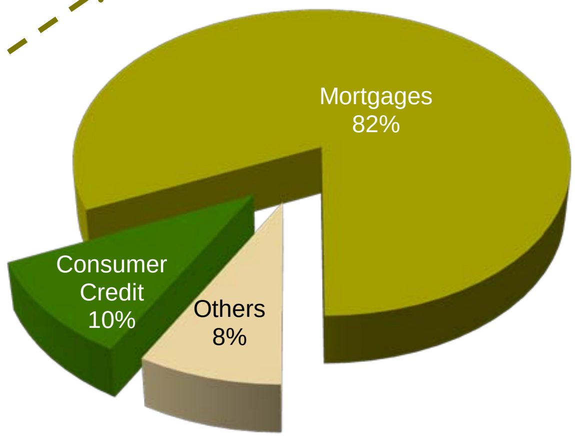
Source: Banco de Portugal

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

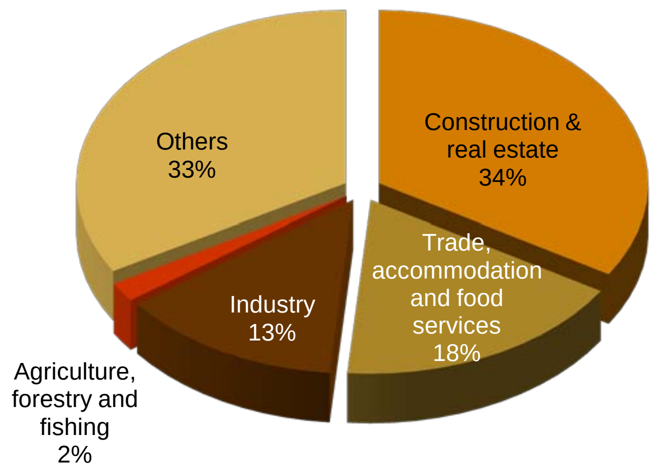
Total credit* (June 2012)



Credit to households



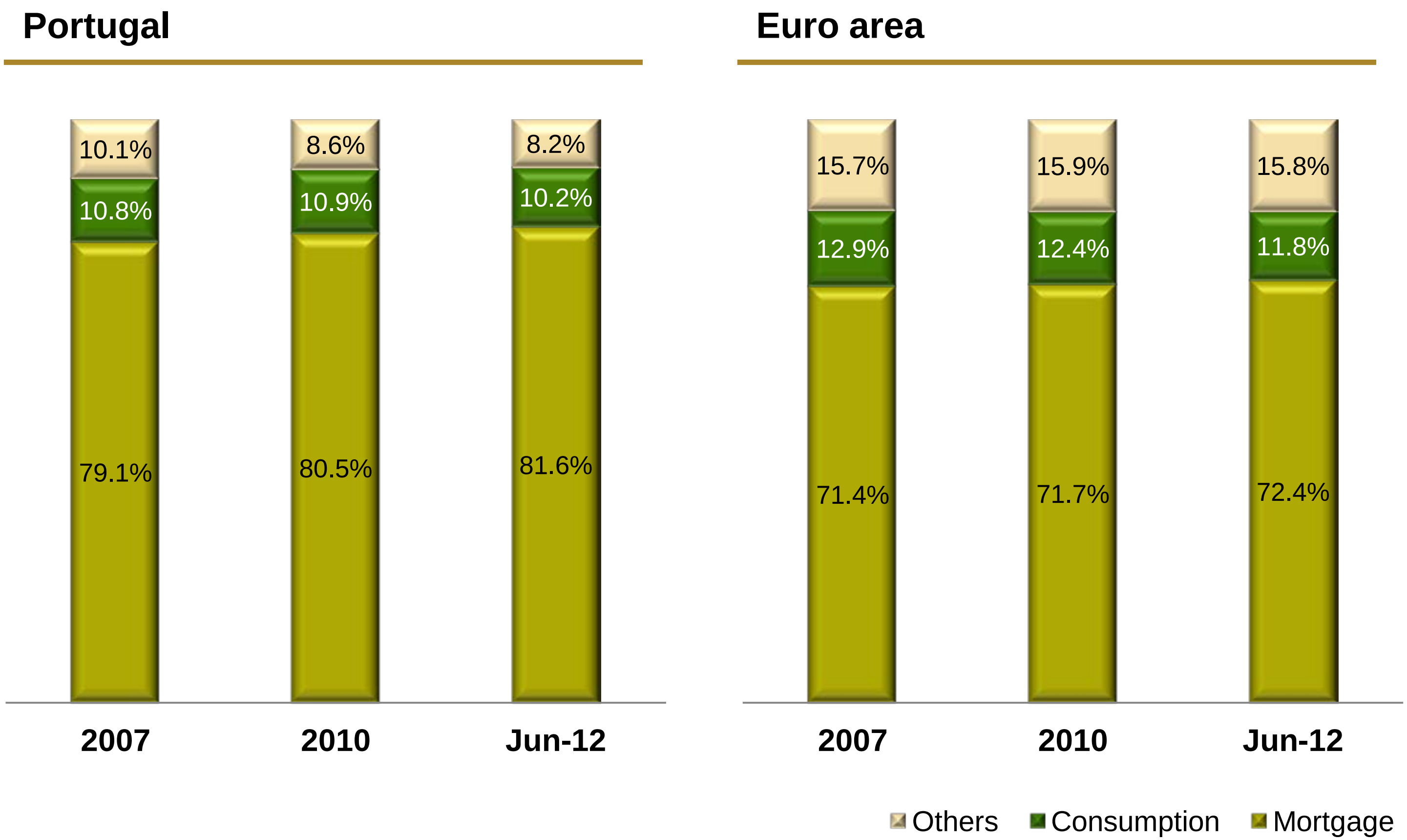
Credit to non-financial corporations



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

Source: Banco de Portugal

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

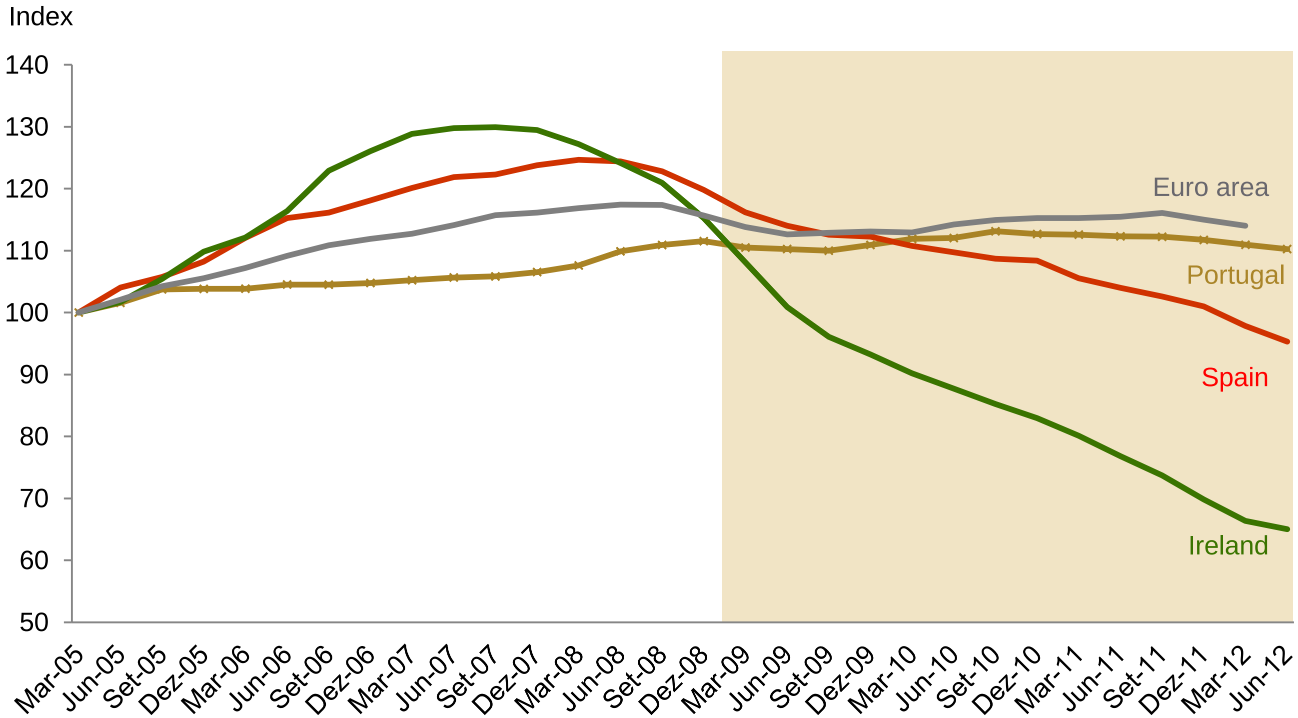


The weight of consumer credit on the stock of loans to households has decreased both in Portugal and in the Euro area. Nevertheless, this type if credit is still less relevant in Portugal than in the Euro area.

Source: ECB

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

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



When the sub-prime crisis erupted, residential property prices in Portugal remained relatively constant. The real estate sector had not been influenced by a speculative boom, as happened in Spain or in Ireland.

Source: ECB

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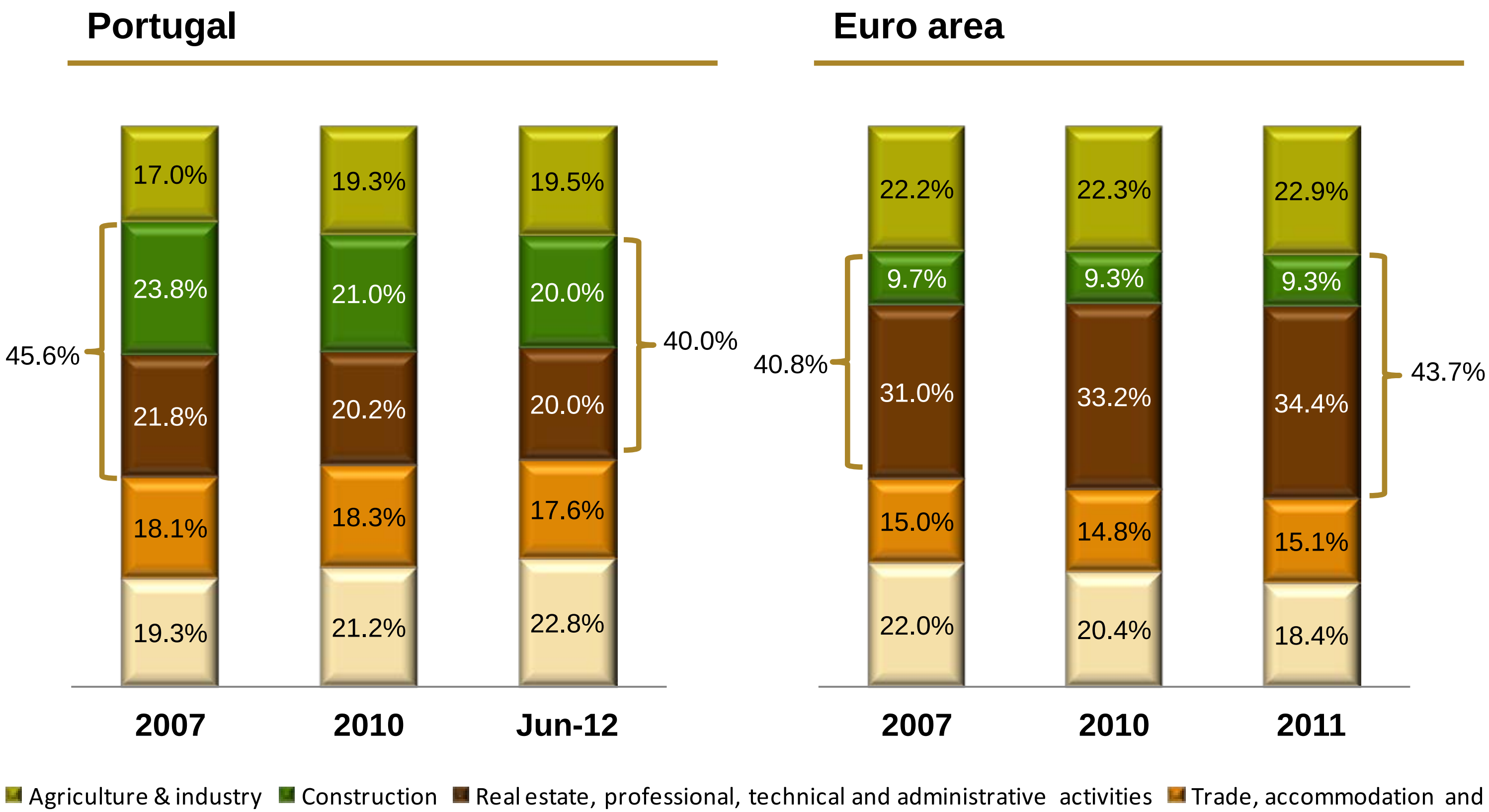
Within the Euro area, the real estate sector absorbs the largest portion of the outstanding amount of loans to non-financial corporations.

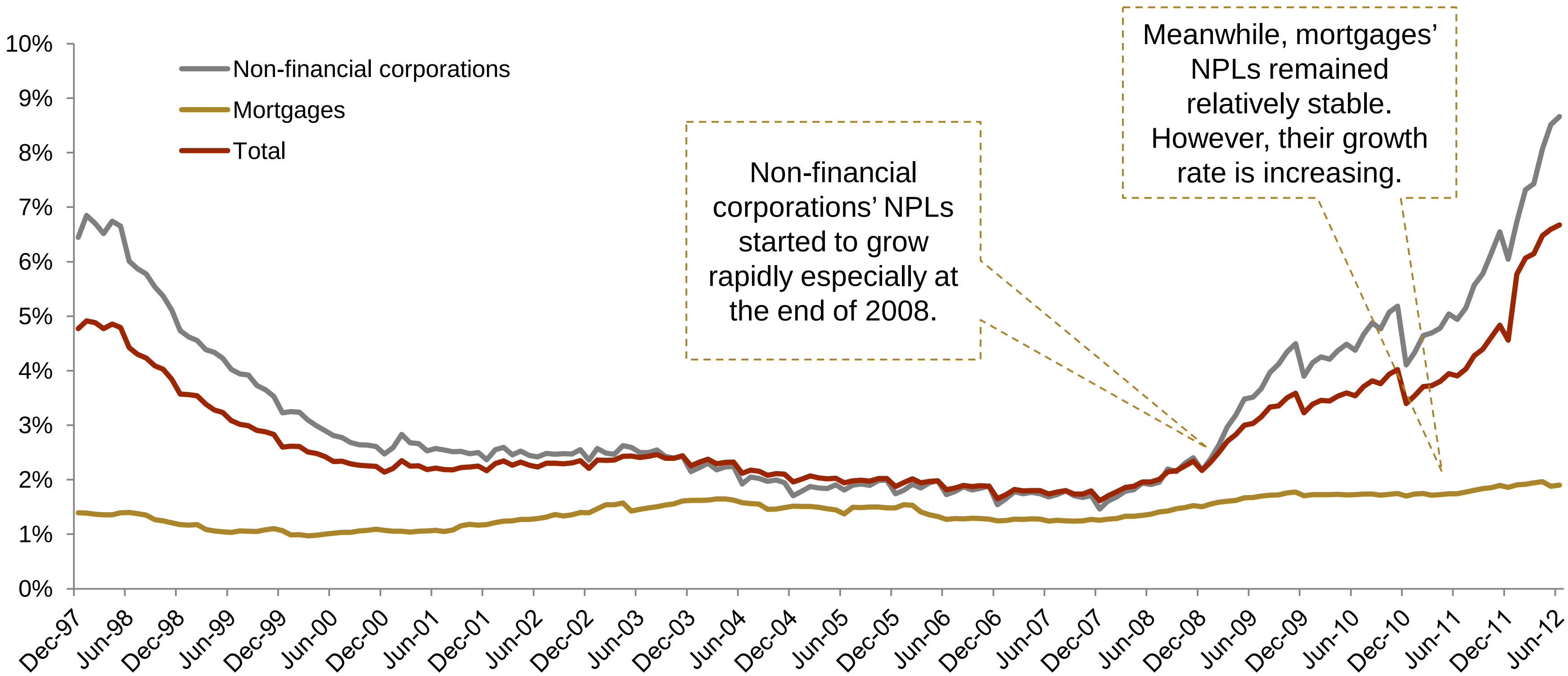


In Portugal, the proportion of the construction and real estate sectors, in aggregated terms, has been decreasing since 2007. Contrarily, the weight of these sectors of activity on the total credit to non-financial corporations of the Euro area, increased because of the real estate sector.

Source: Banco de Portugal, ECB

NPLs grew since 2008 mainly in the corporate segment.

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



* Overdue installments and other future installments of doubtful collection.

Source: Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

III. Funding

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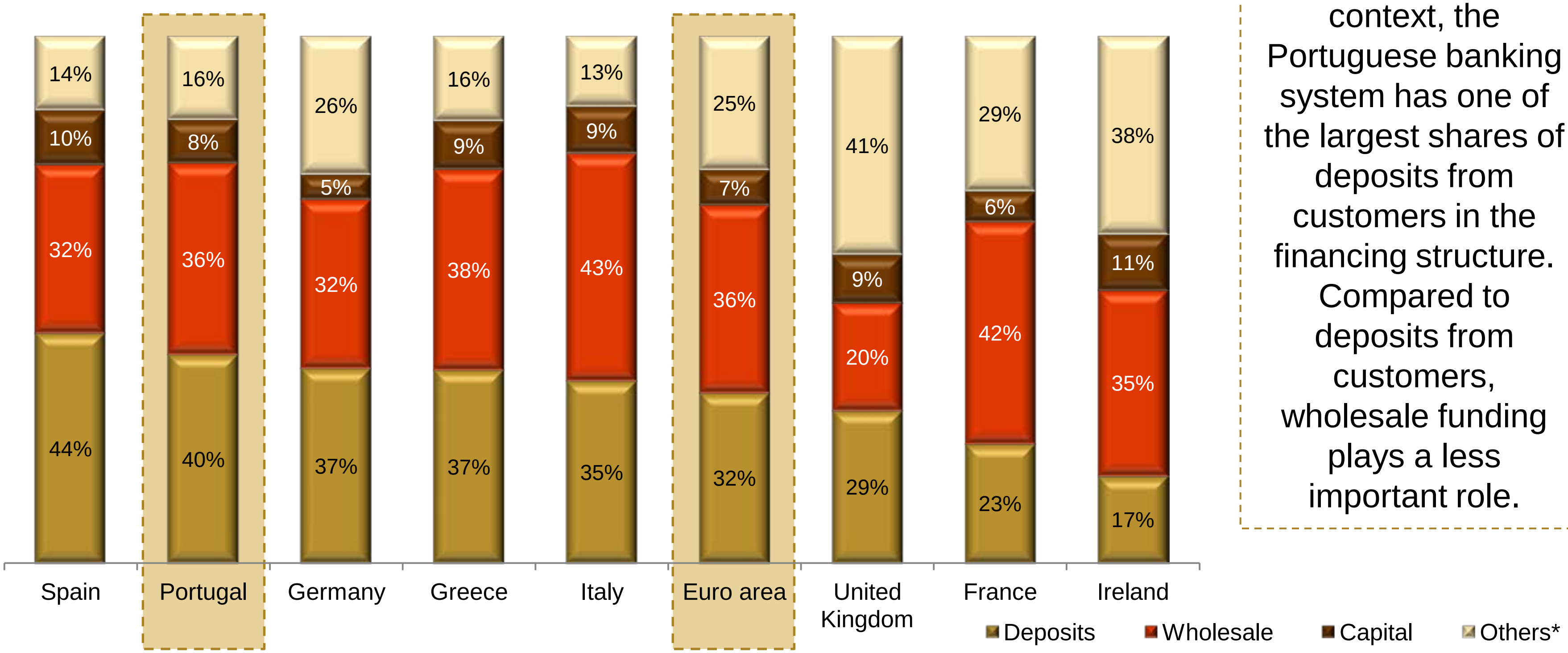
Deposits from customers constitute the most important part of the financing structure of Portuguese banks.

Financing structure of Portuguese and other European Union countries' banks (June 2012)



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

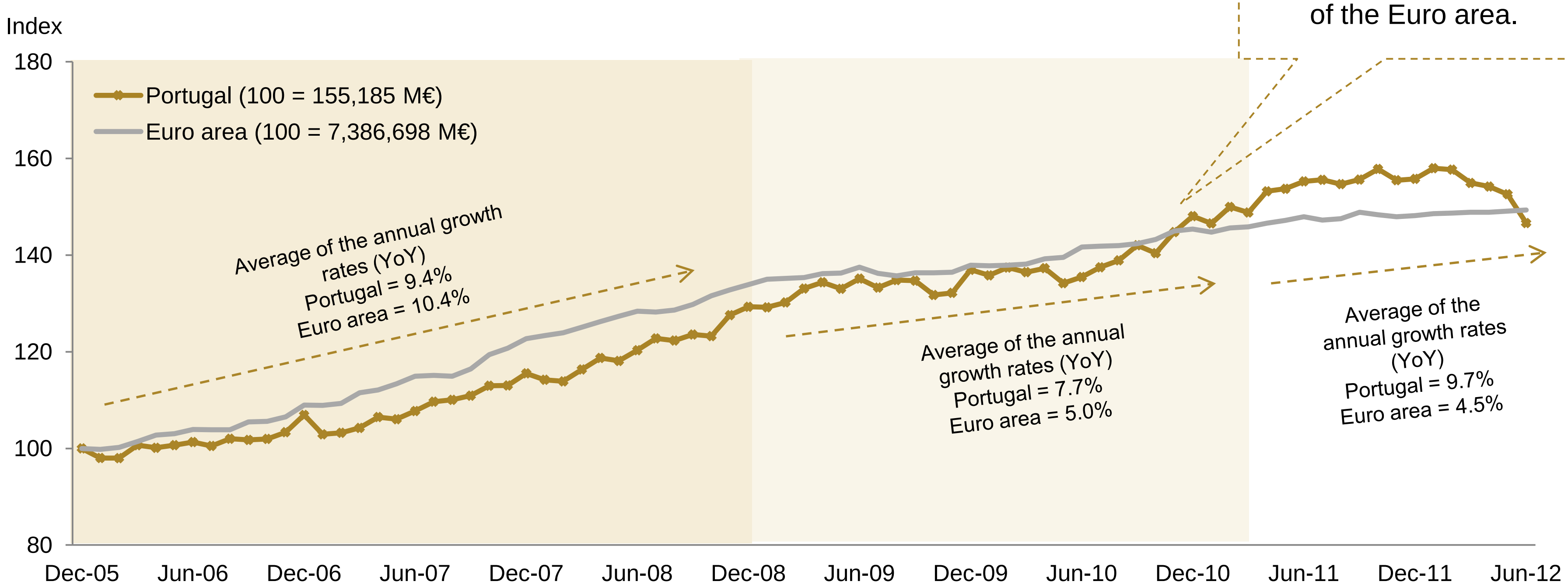
* Includes external liabilities, i.e., liabilities issued by non-residents in the Euro area, except in the UK where it refers to liabilities issued by non-residents in the country.

Source: ECB

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

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

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



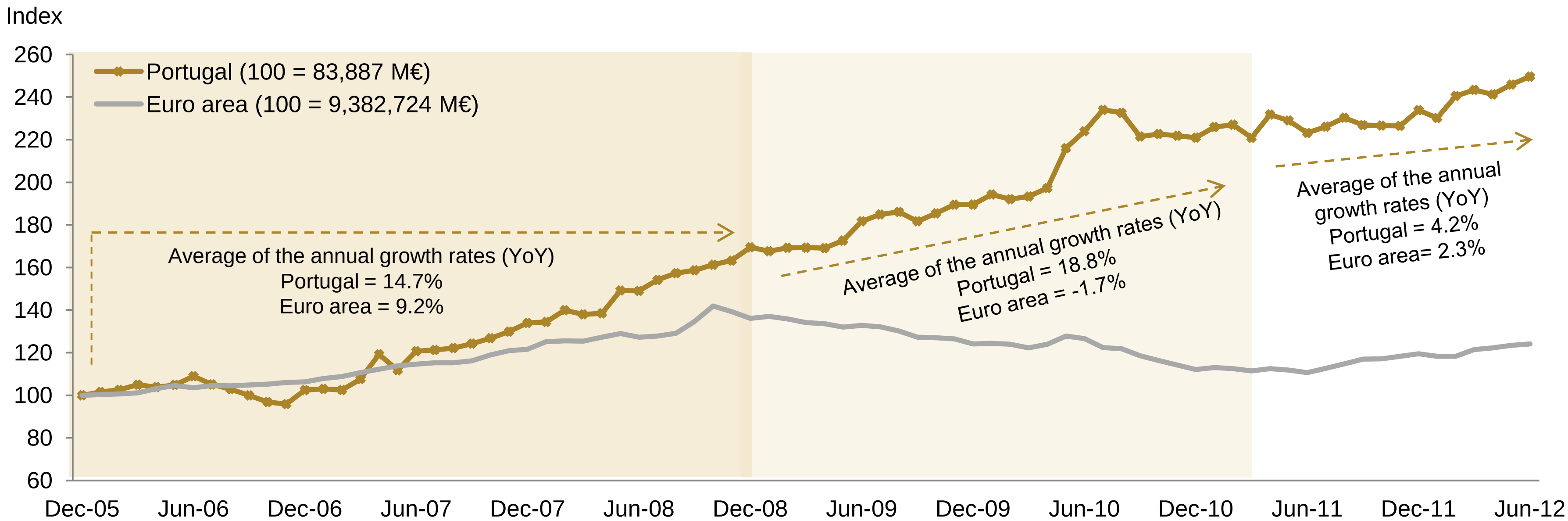
* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: ECB

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

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

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

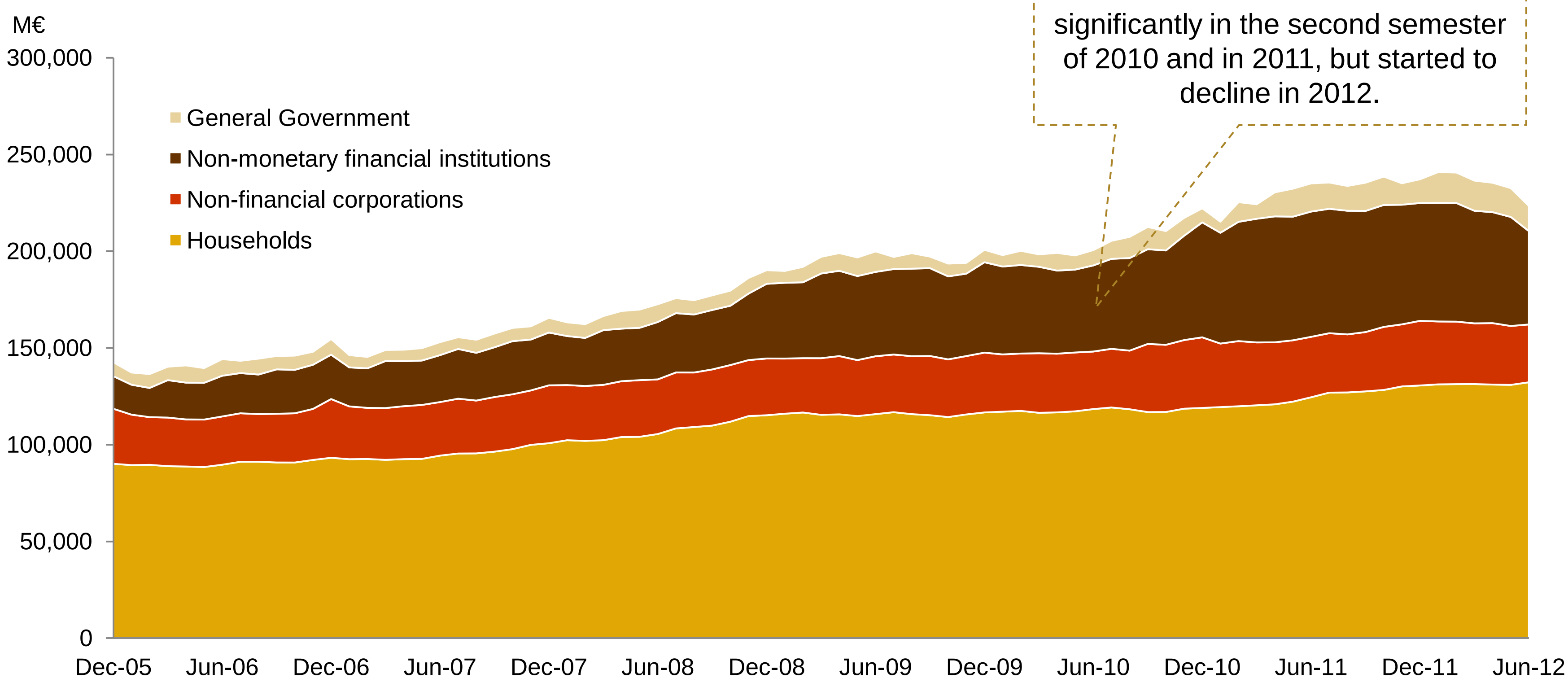


* Wholesale includes deposits from the monetary sector, debt securities issued and money market funds (outstanding amounts at the end of period).

Source: ECB

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

Evolution of deposits* in Portugal, by institutional sector



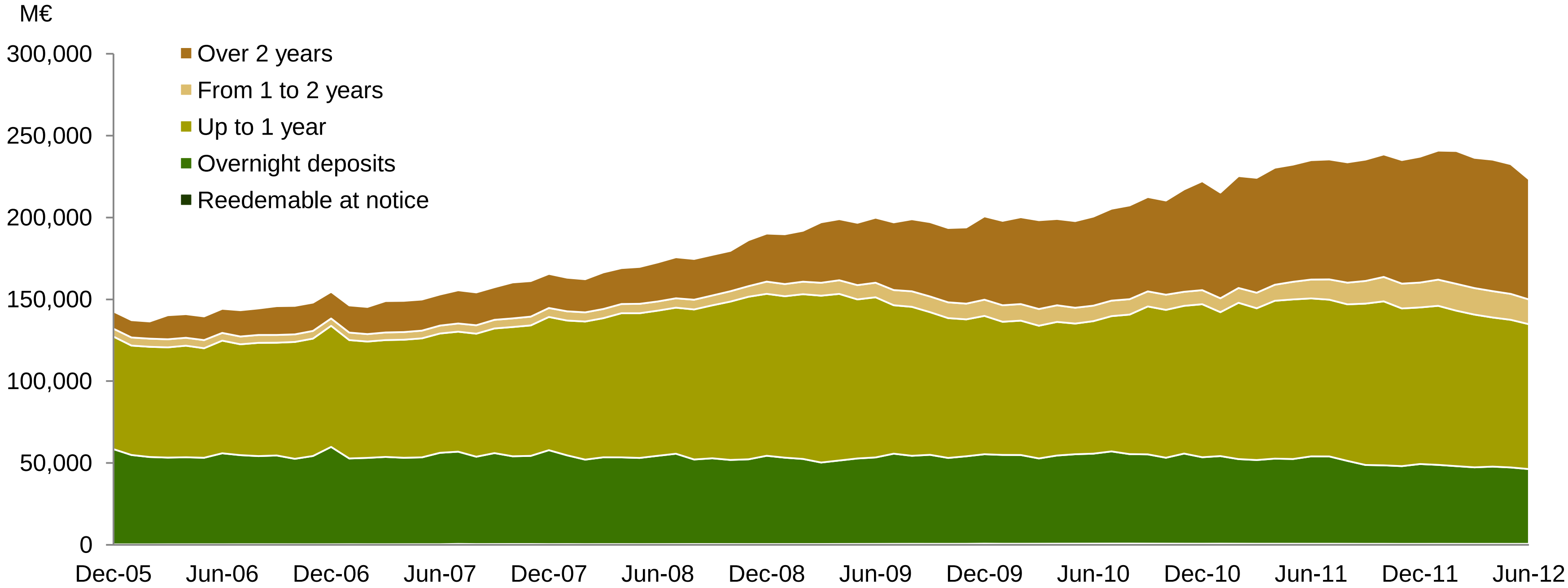
The share of the non-monetary financial institutions increased significantly in the second semester of 2010 and in 2011, but started to decline in 2012.

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

Source: Banco de Portugal

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

Evolution of deposits* in Portugal, by maturity

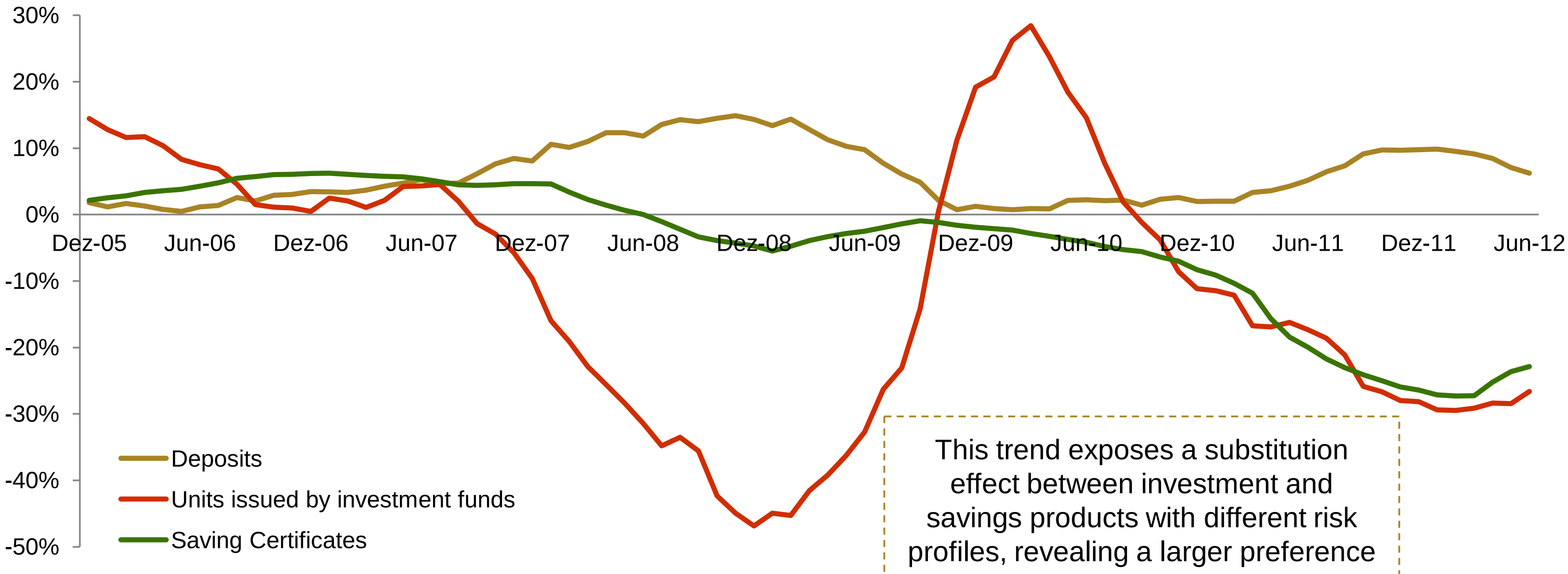


* Deposits from the non-monetary sector (outstanding amounts at the end of period).

Source: Banco de Portugal

The growth in deposits from households coincides with the decrease of their ownership of units issued by investment funds.

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

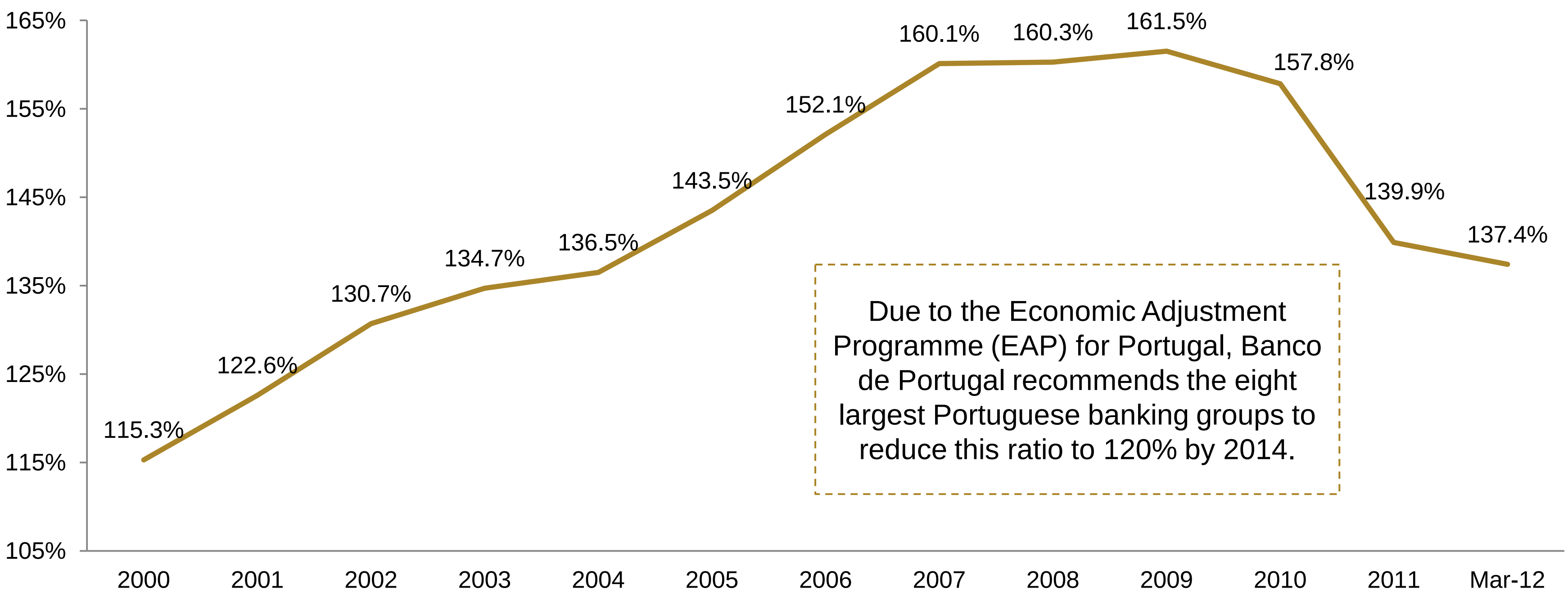


This trend exposes a substitution effect between investment and savings products with different risk profiles, revealing a larger preference for less risky assets.

Source: Banco de Portugal

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

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

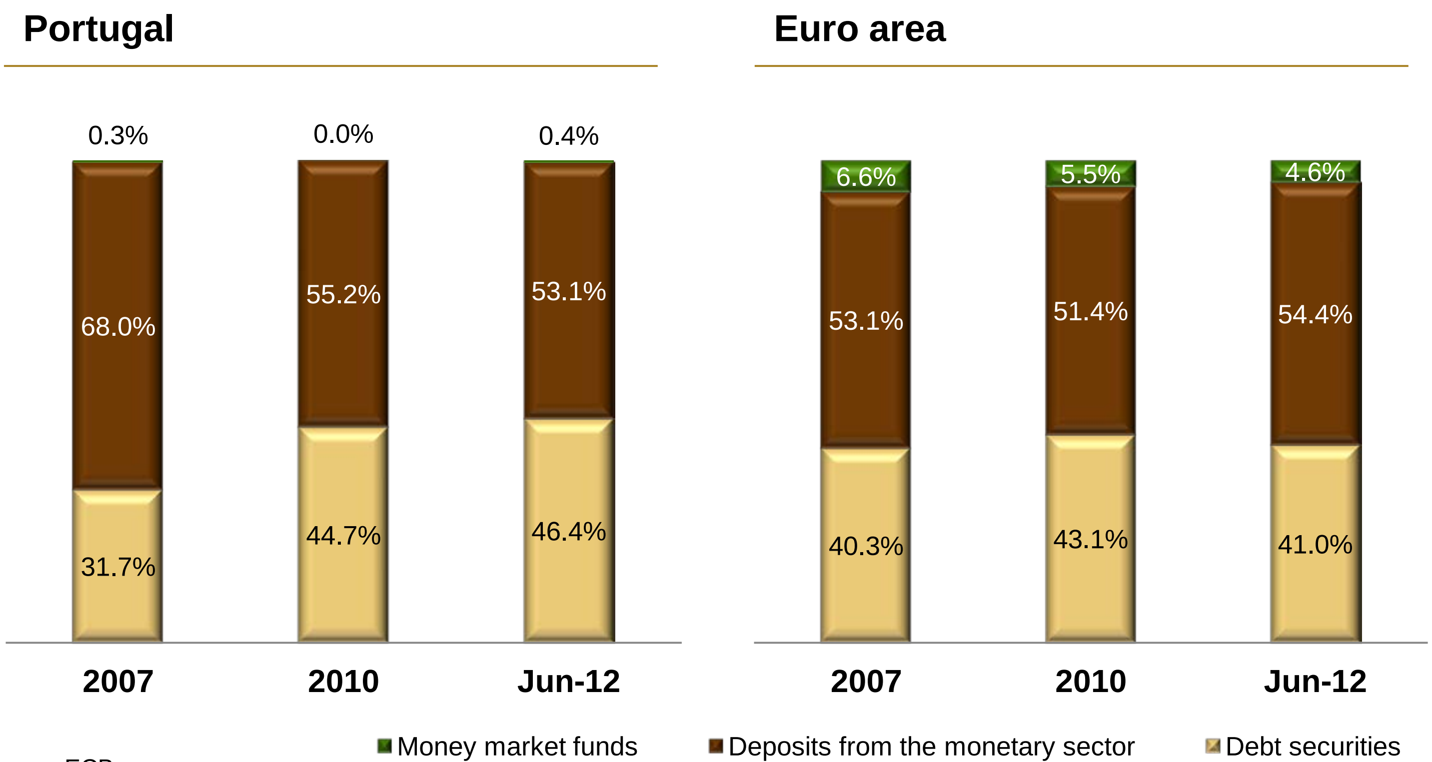


* Credit volumes net of impairments (includes securitized non derecognized credit). Outstanding amounts at the end of period.

Source: Banco de Portugal

In Portugal as well as in the Euro area, deposits from the monetary sector are the main component of wholesale funding.

Structure of wholesale funding, by type of instrument



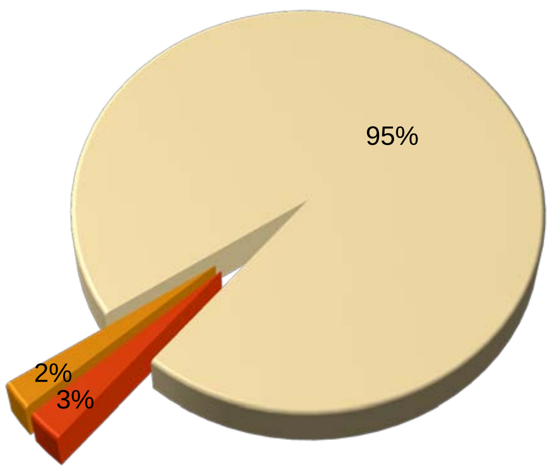
However, in Portugal, the importance of the market for debt securities increased compared to 2007. This source of funding is currently more important for Portuguese banks than for the Euro area.

Source: ECB

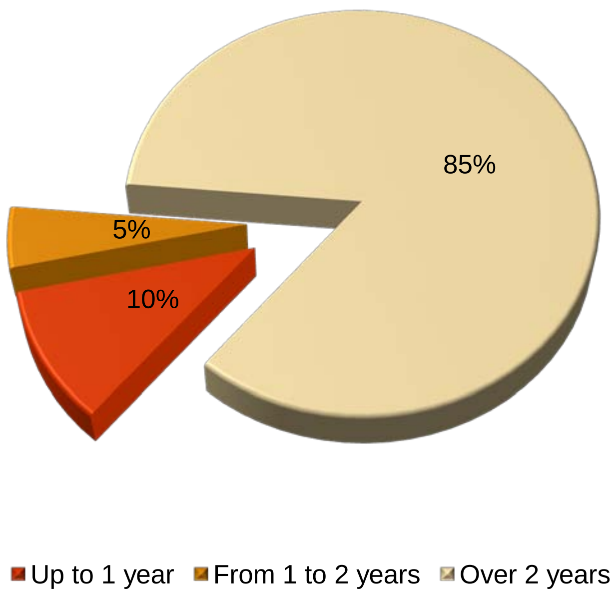
In Portugal as well as in the Euro area, debt securities issued by banks are mainly long-term.

Structure of debt securities, by maturity at issue date (June 2012)

Portugal



Euro area

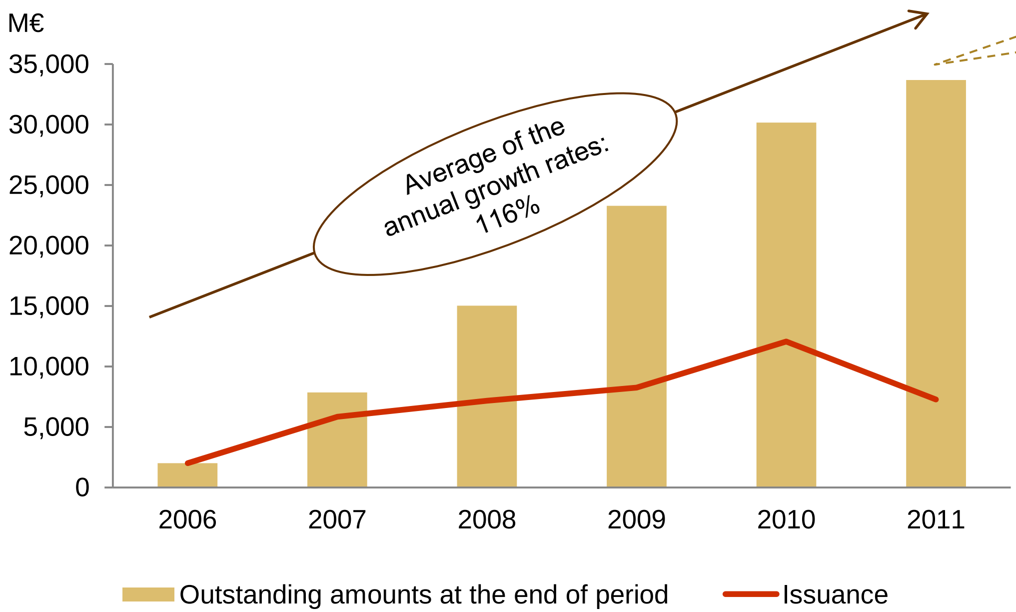


Still, the issuance of short-term debt securities plays a more important role within the Euro area banking sector than in Portugal.

Source: ECB

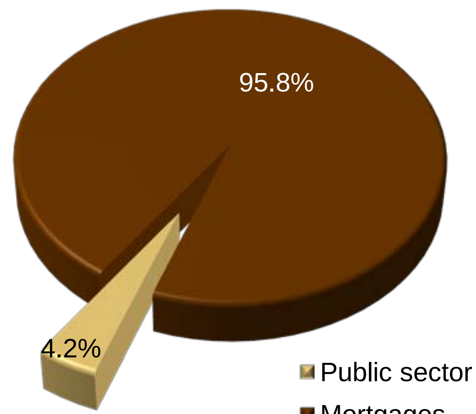
Over the past few years, covered bonds became an increasingly important funding source for Portuguese banks.

Issuance and outstanding amounts of covered bonds in Portugal



At the end of 2011, the outstanding amount of covered bonds represented approximately 5.9% of Portuguese banks' funding.

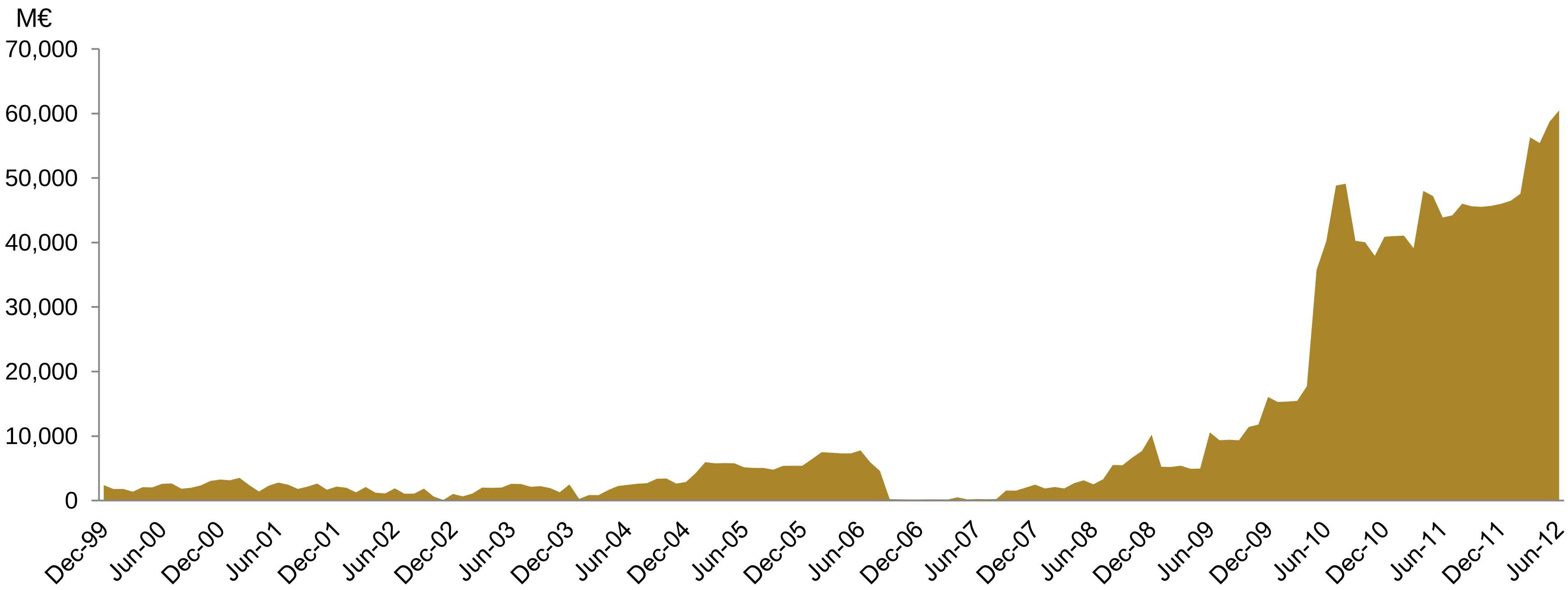
Covered bonds by type of underlying asset (2011)



Source: European Covered Bond Council, Factbook, 2011

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

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

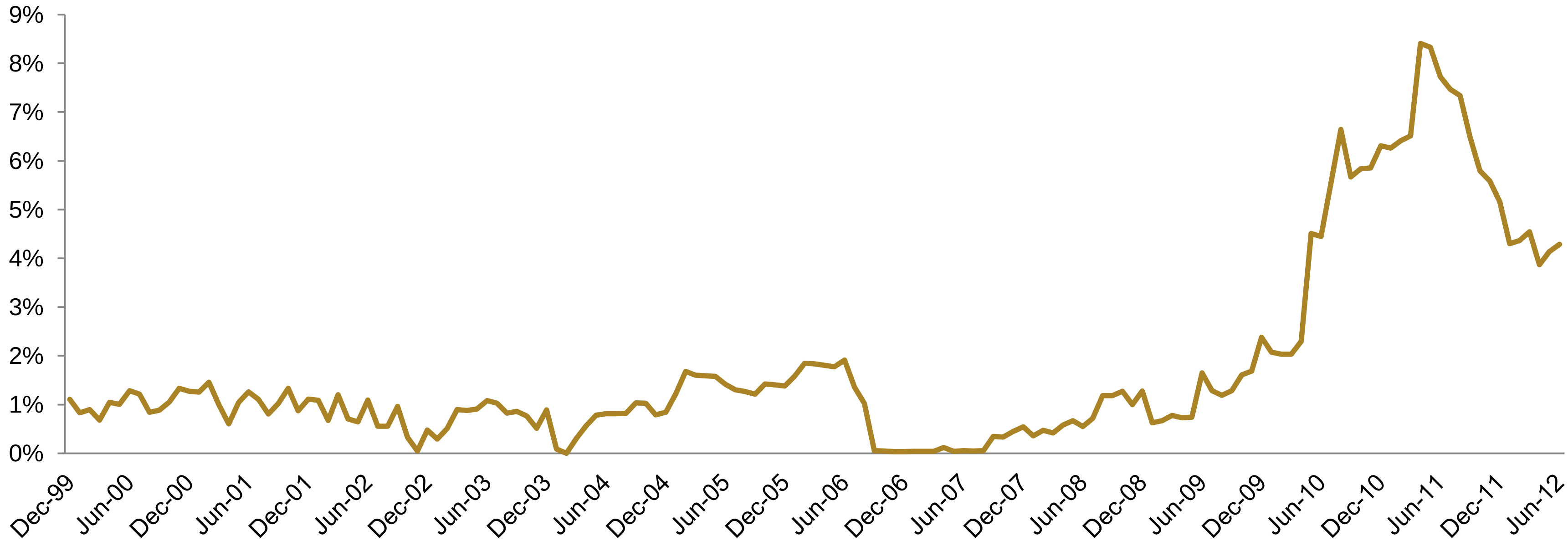


* Outstanding amounts at the end of period.

Source: Banco de Portugal

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

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



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

Source: Banco de Portugal

PORTUGUESE BANKING SECTOR OVERVIEW

IV. Solvency

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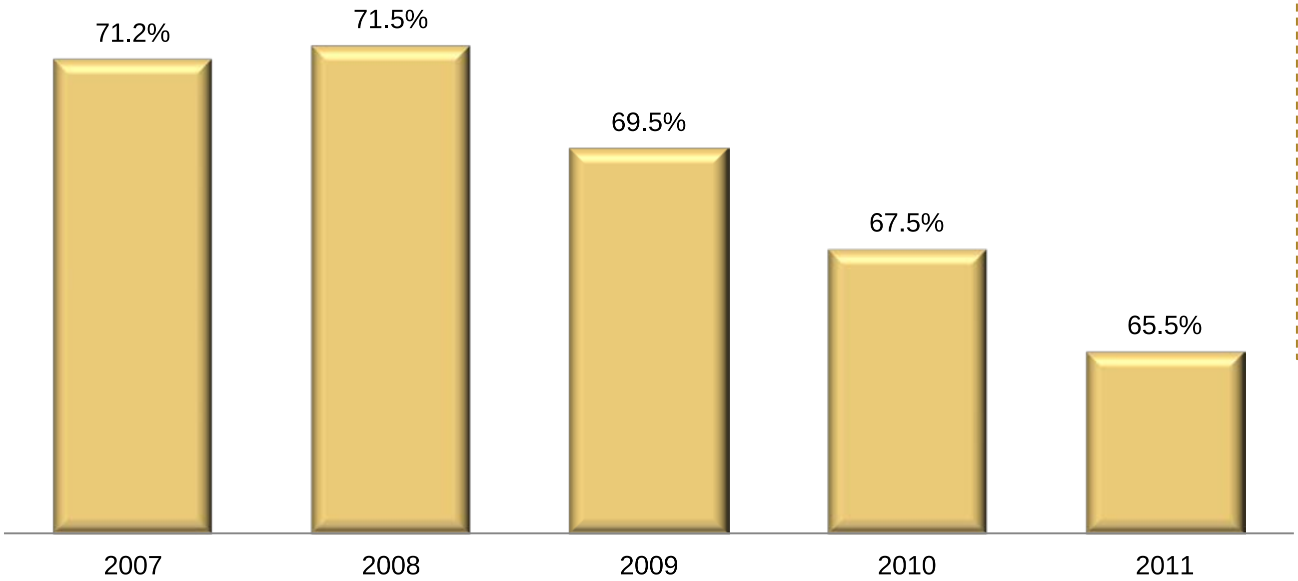
Portuguese banks’ asset risk level has been decreasing over the past few years.

Risk weighted assets as a percentage of total assets*



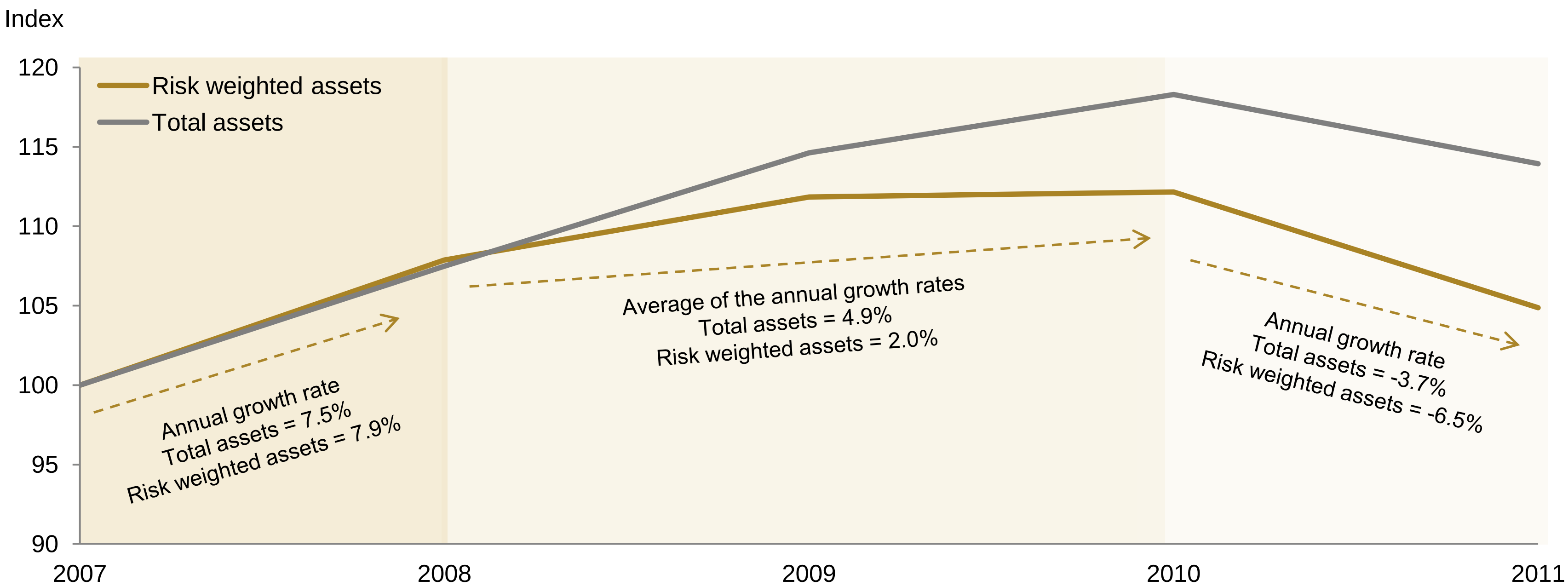
The Risk Weighted Assets / Total Assets Ratio for Portuguese banks suffered a considerable decrease over the past years. This trend reflects a decline of the average risk level of the assets that constitute Portuguese banks’ balance sheet.

* Risk weighted assets include off-balance sheet items.
Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB

Total assets have been showing higher growth rates compared to risk weighted assets.

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

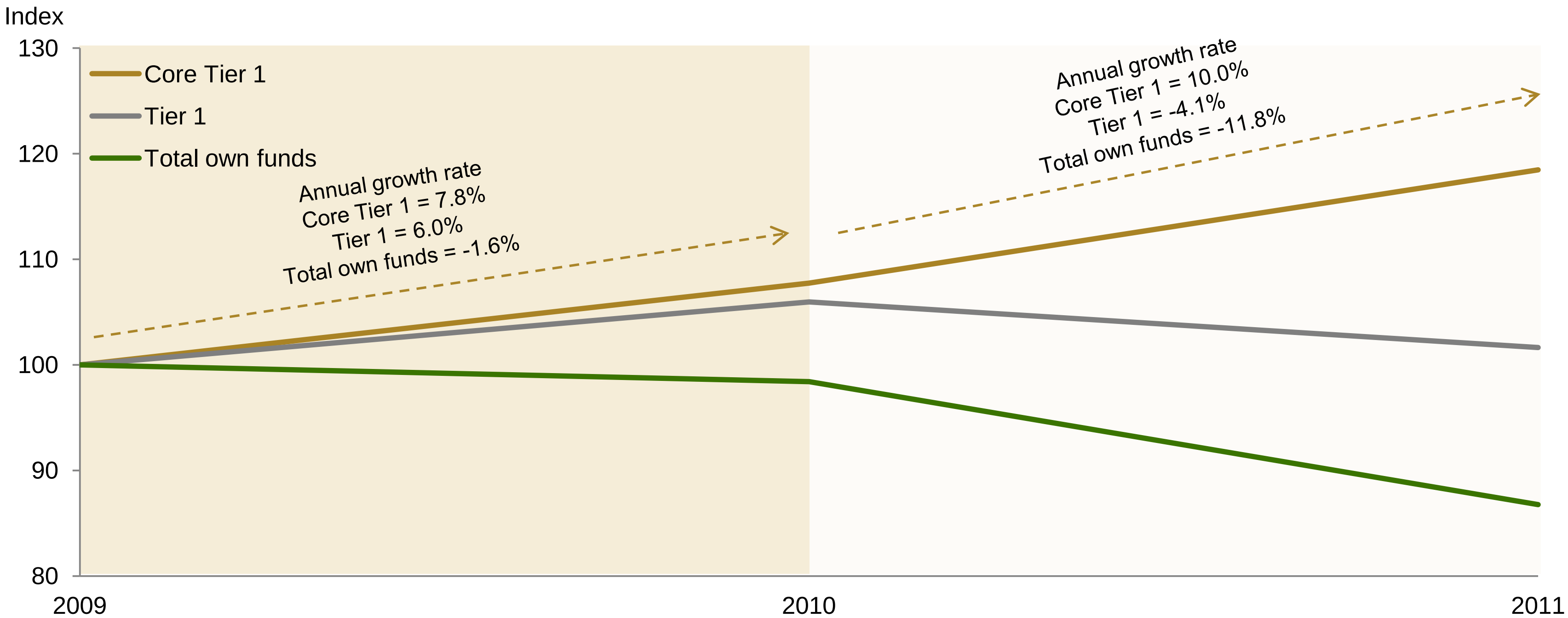


* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB

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

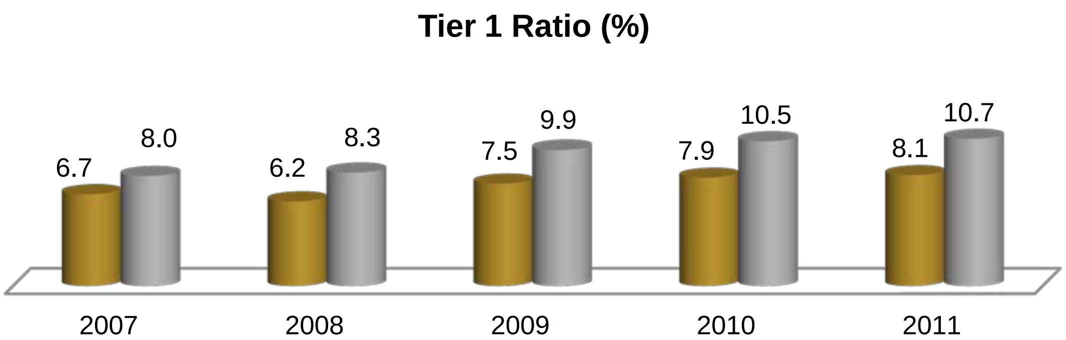
Trend in Portuguese banks' own funds* (Dec. 2009=100)



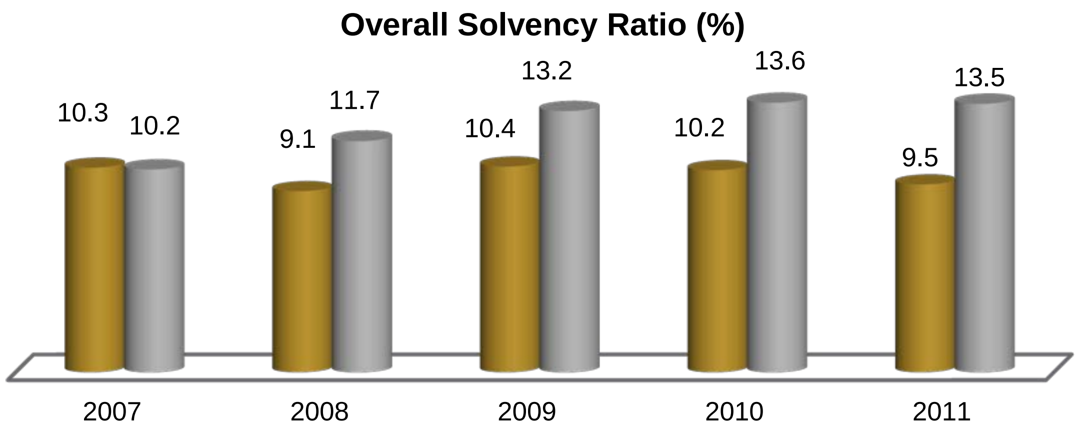
* Data on a consolidated basis.

Source: Banco de Portugal

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



The Basel II Agreement requires financial institutions to maintain a Tier 1 Ratio equal or above 4% and an Overall Solvency Ratio not below 8%.



Portugal
EU 27

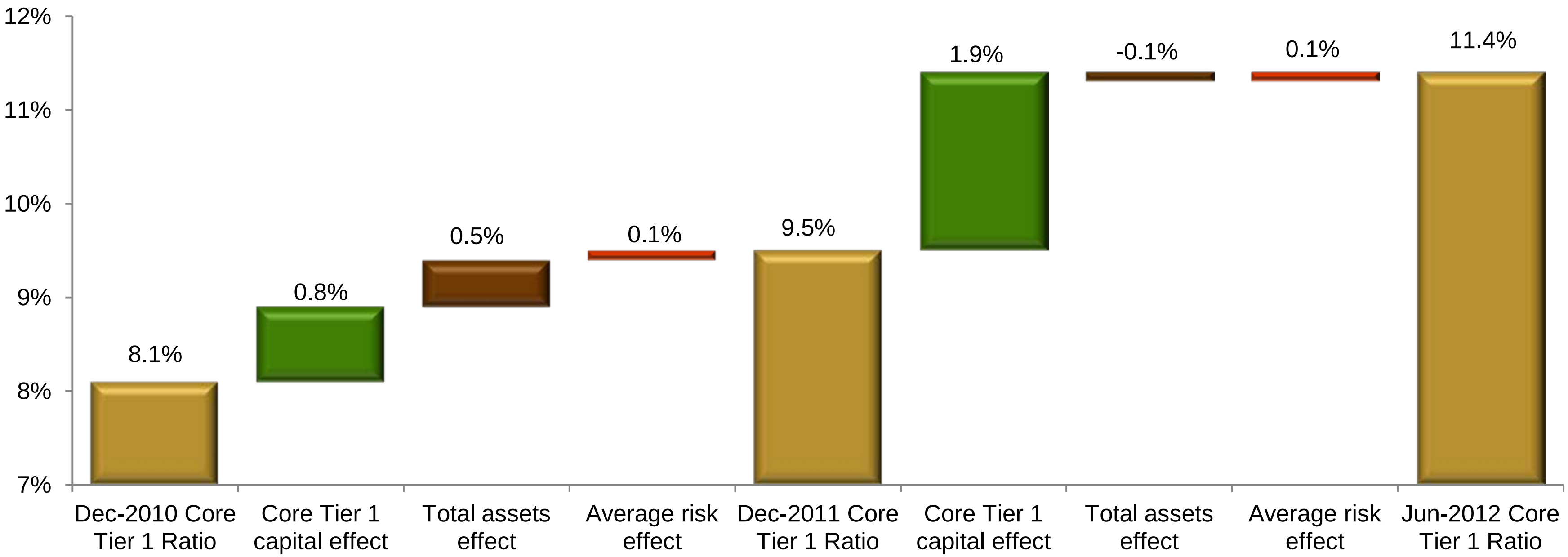
* Data for domestic banking groups and stand-alone banks, on a consolidated basis which excludes insurance companies.

Source: ECB

Portuguese banks' core Tier 1 Ratio has increased mainly through higher common equity Tier 1 capital.

However, decreasing assets and a downward effect on their average risk level have helped to further increase this ratio.

Evolution of core Tier 1 Ratio for the APB's Members*

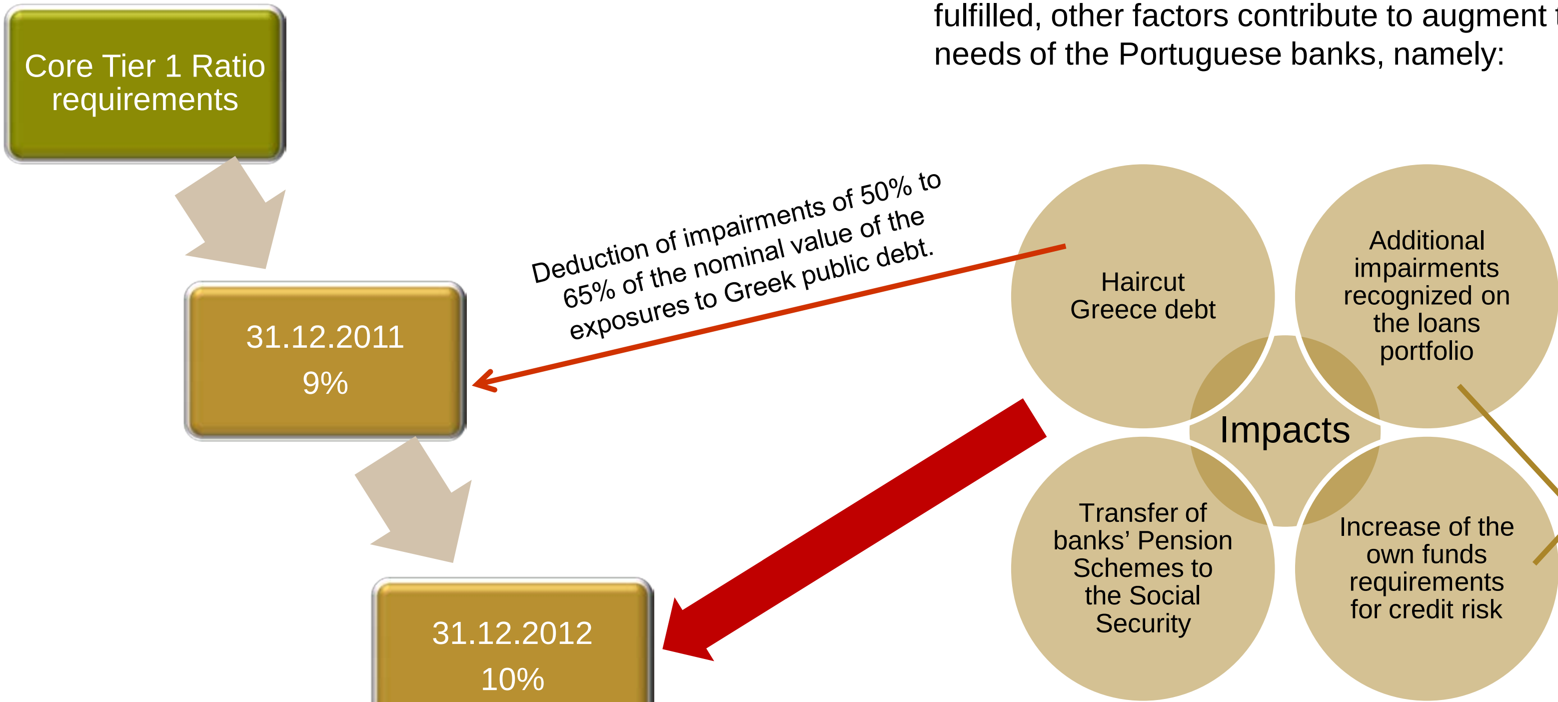


* Data refers to financial statements subject to prudential requirements.

Source: APB

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

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

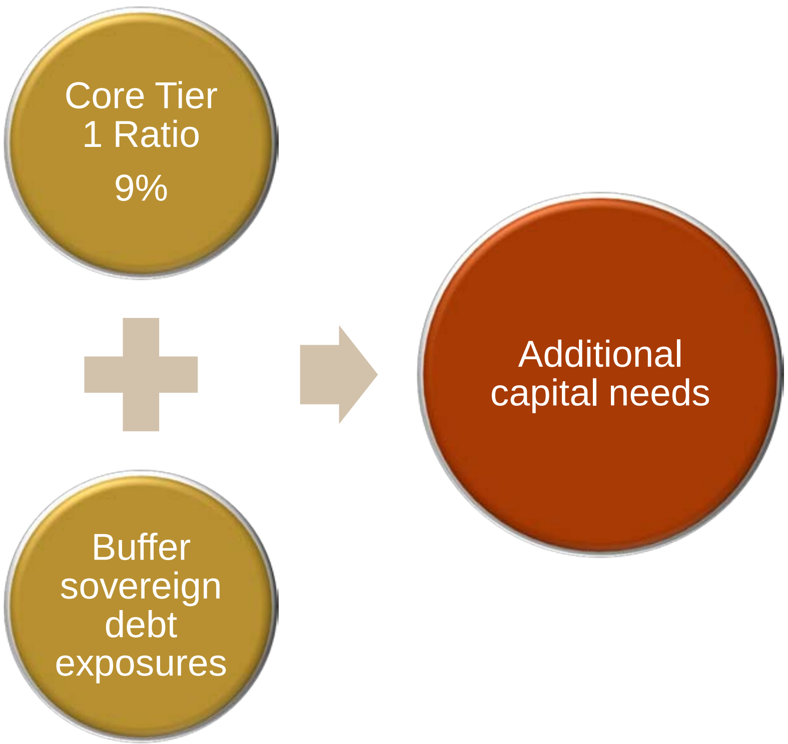


Results of the Special Inspections Programme carried out in the 8 largest banking groups, in 2011. This assessment aimed to validate the data that supports the calculation of the solvency position of the institutions.

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

Source: APB, Banco de Portugal

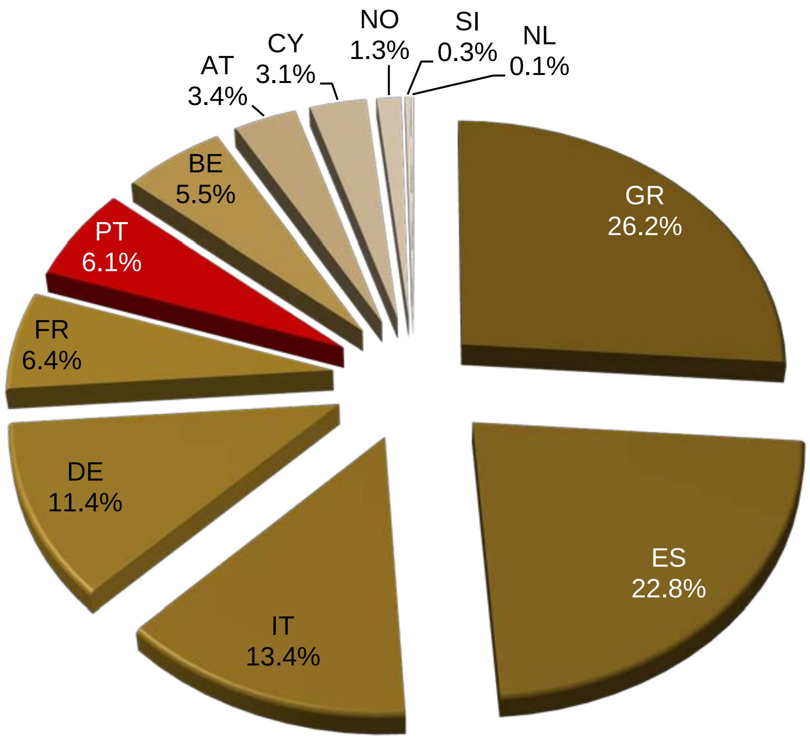
Simultaneously, the EBA also imposed higher capital requirements for European banks to be fulfilled since June 2012.



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

Source: EBA

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



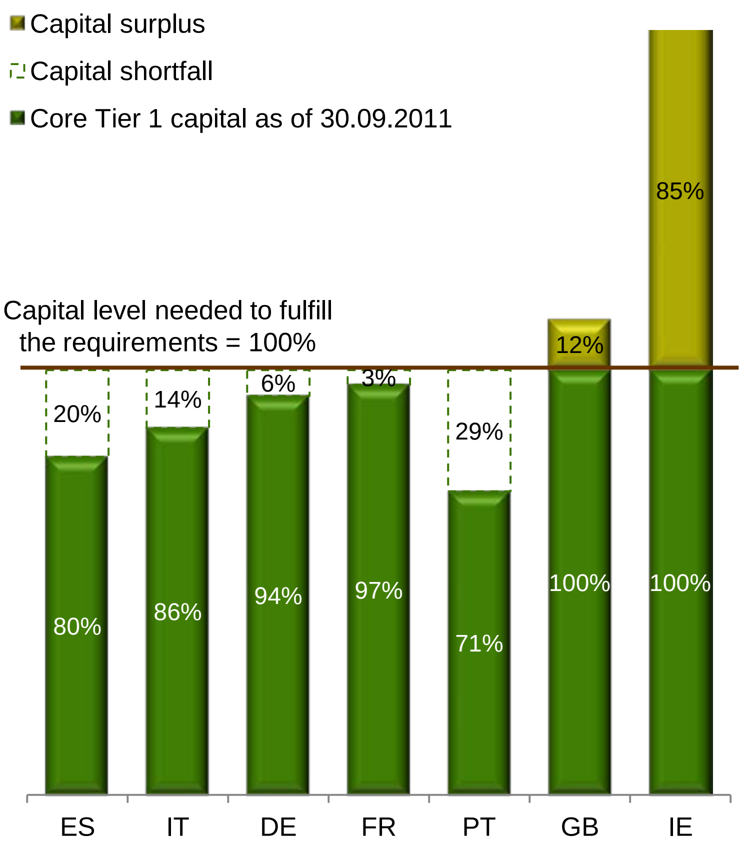
∑ = 114.685 Million EUR

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

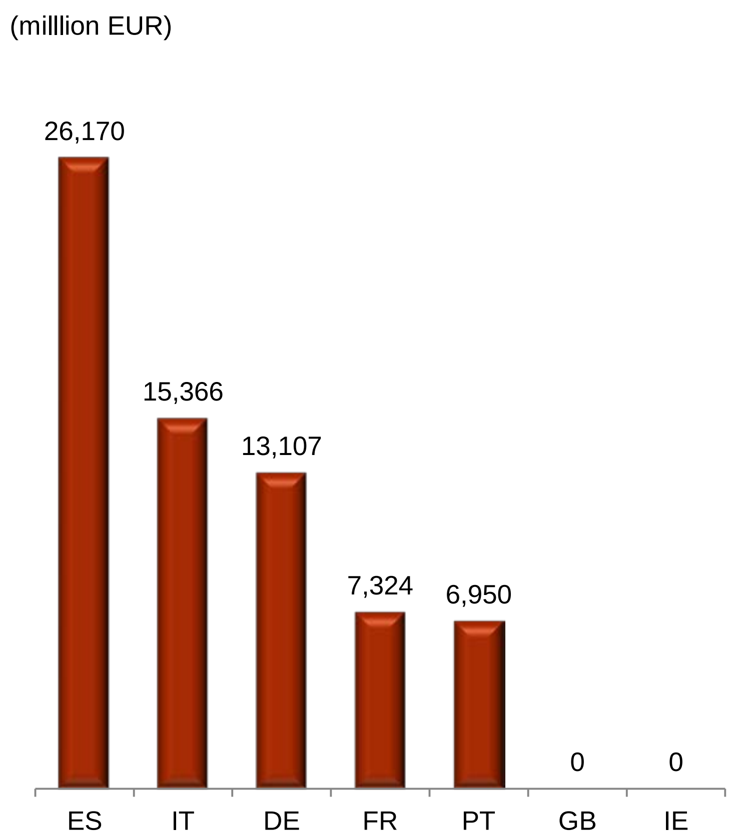
Source: APB, EBA

Results of the EU Capital Exercise - I

Core Tier 1 capital



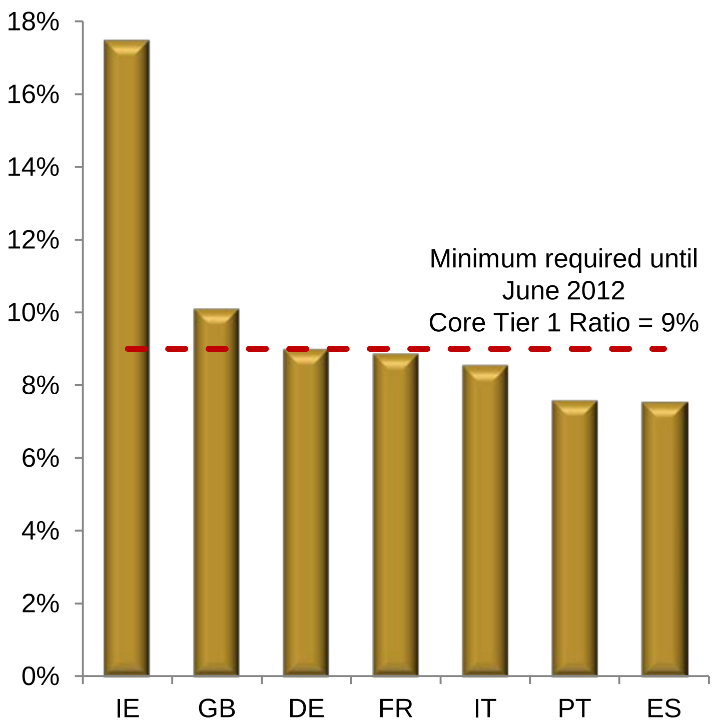
Capital shortfall



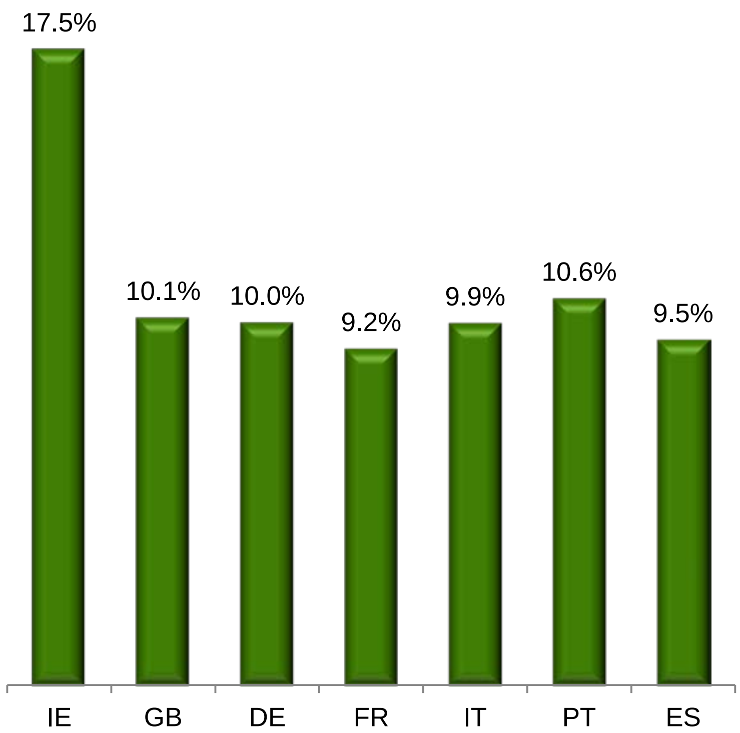
Source: APB, EBA

Results of the EU Capital Exercise - II

Core Tier 1 Ratio as of 30.09.2011



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

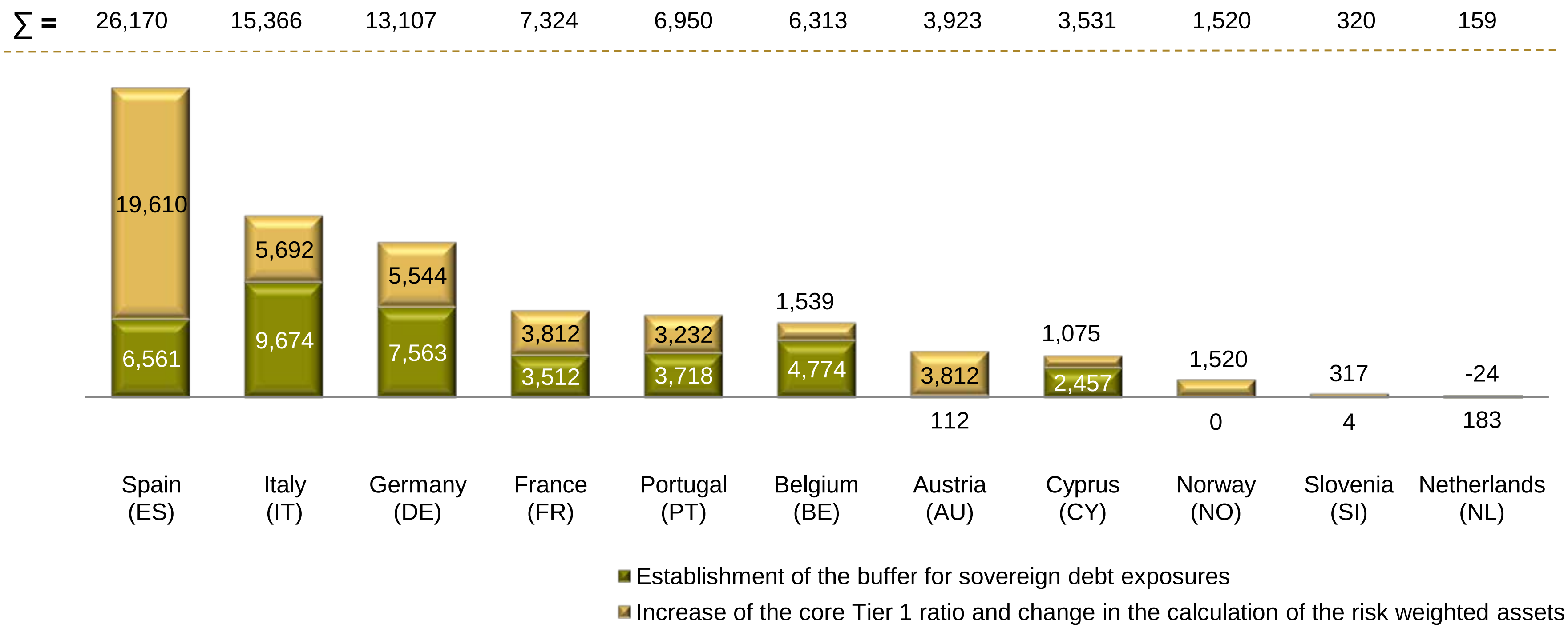


* Estimates.

Source: APB, EBA

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

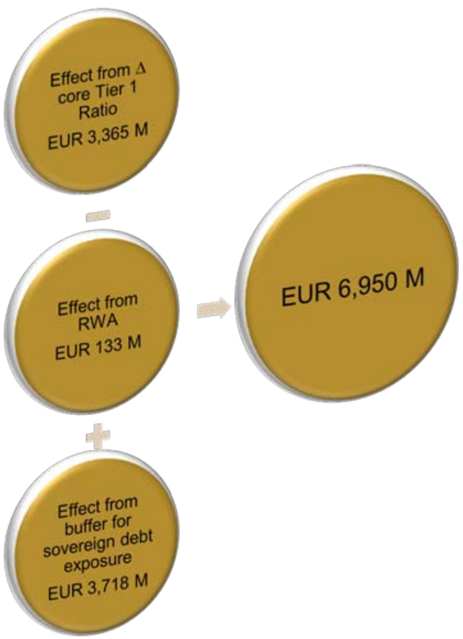
Drivers of the capital needs, by country



Source: APB, EBA

The European-wide requirements come to exacerbate the capital needs meanwhile imposed by the national authorities.

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

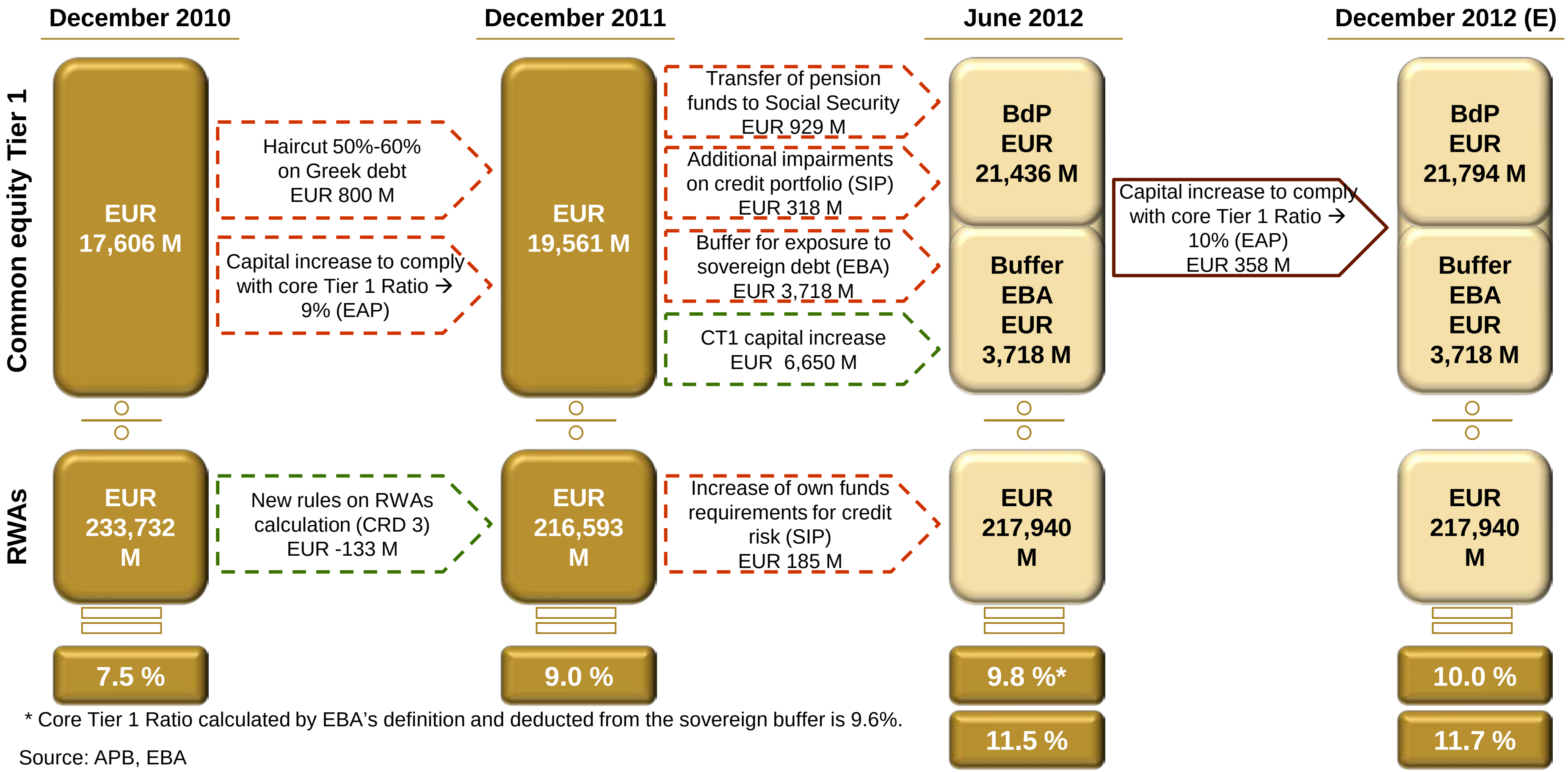


- The European Banking Authority estimates do not include the impacts on core Tier 1 capital resulting from the events that occurred in 2011 and will only be reflected on capital levels for prudential purposes in 2012, namely, the additional impairments on the loans portfolio, the change of the own funds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

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

Source: APB, EBA

Recent events and regulatory changes have severely affected the capital levels of the 4 largest Portuguese banking groups.

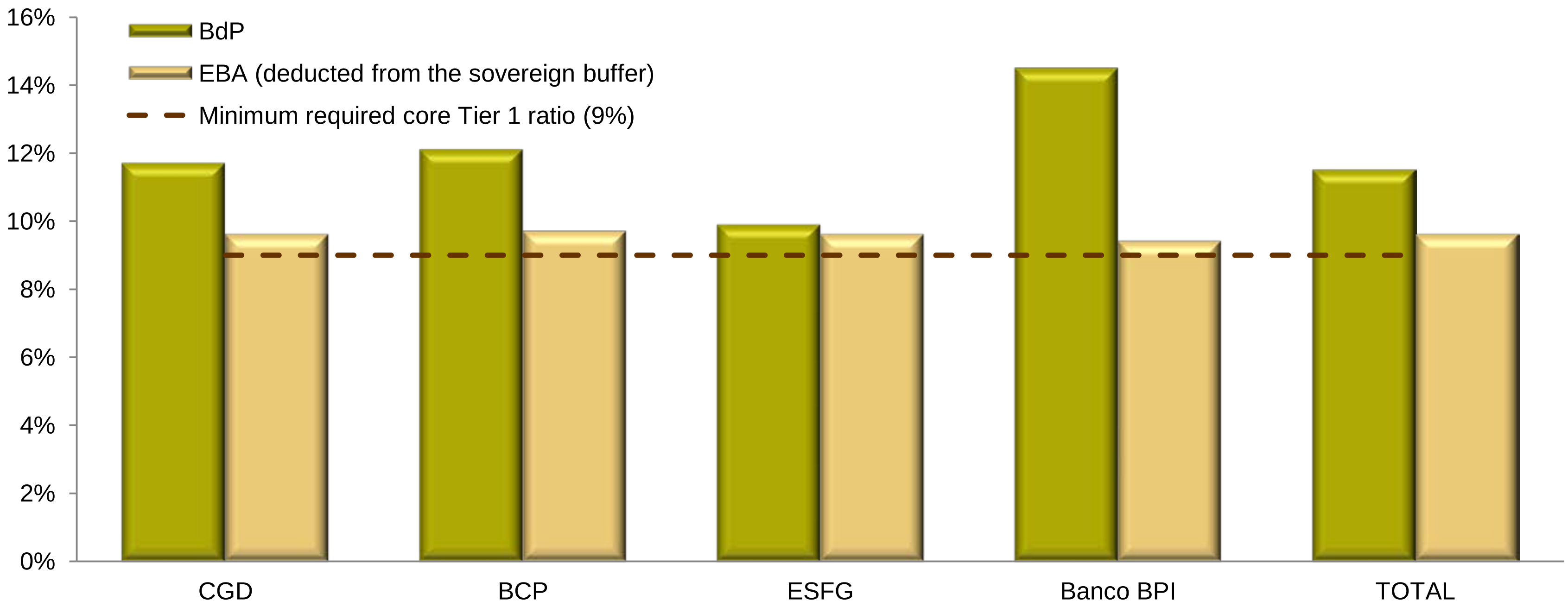


* Core Tier 1 Ratio calculated by EBA's definition and deducted from the sovereign buffer is 9.6%.

Source: APB, EBA

Portuguese banks were able to fulfill all the capital requirements imposed and therefore strengthen their solvency positions.

Portuguese banking groups core Tier 1 Ratio (as of 30.06.2012)



Source: APB, EBA

PORTUGUESE BANKING SECTOR OVERVIEW

V. State Guarantee and Recapitalisation Schemes for Credit Institutions

ASSOCIAÇÃO PORTUGUESA DE BANCOS

OCTOBER 2012

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

	October 2008	May 2009	February 2010	March 2010	July 2010	January 2011	June 2011 (Economic Adjustment Programme)
Guarantee Scheme	• Scheme approved till Dec 2009 • EUR 20 B	• Budget changed • EUR 16 B	• Extension till Jun 2010 • Budget changed • EUR 9.15 B		• Extension till Dec 2010	• Extension till Jun 2011	• Extension 31 Dec 2011 • Budget changed • EUR 35 B
Recapitalisation Scheme		• Scheme approved till Nov 2009 • EUR 4 B		• Extension till Jun 2010 • Budget changed • EUR 3 B*	• Extension till Dec 2010	•Extension till Jun 2011	• Extension 31 Dec 2011 • Budget changed • EUR 12 B
	Law nº 60-A/2008	Law nº 63-A/2008	Law nº 3-B/2010				Law nº 48/2011 Law nº 4/2012

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

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

State Support Scheme used until end of June 2011

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

By the end of June 2011:

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

* Not used by privately owned banks. In December 2010, CGD increased its capital by EUR 550 M, from which EUR 56 M were from the scheme budget.

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

State Support Scheme used since July 2011

Recapitalisation (Equity) | EUR 12 billion → **Σ= EUR 4.3 B** → 2 operations

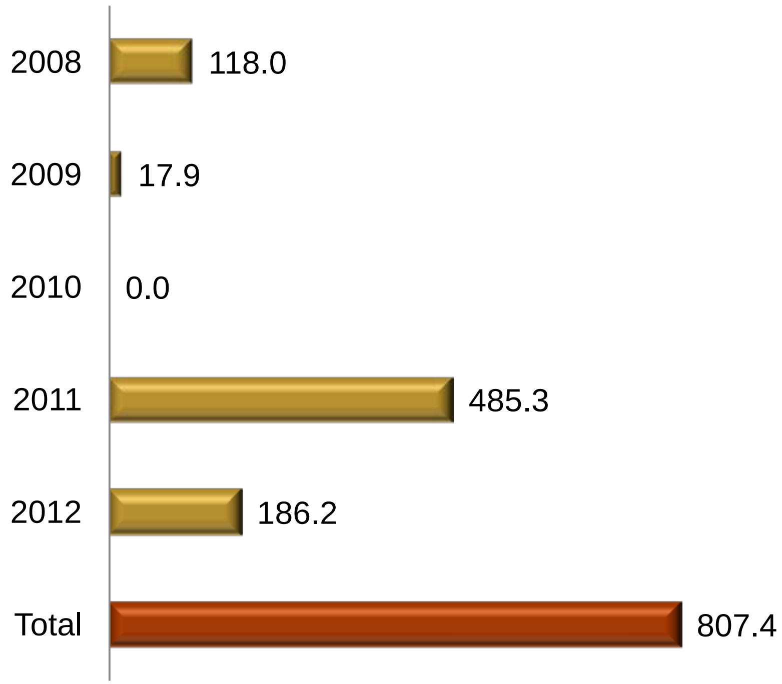
Guarantees | EUR 35 billion → **Σ= EUR 16.5 B** →

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

- Since July 2011:
  - 6 banks used the State guarantee scheme for new operations;
  - New operations amounted to EUR 16,525 M, which corresponds to 47.2% of the budget.
- In June 2012, the guarantees in effect (accumulated from previous years) total up to EUR 16,525 M.

Cost with commissions upon access of the State guarantee scheme

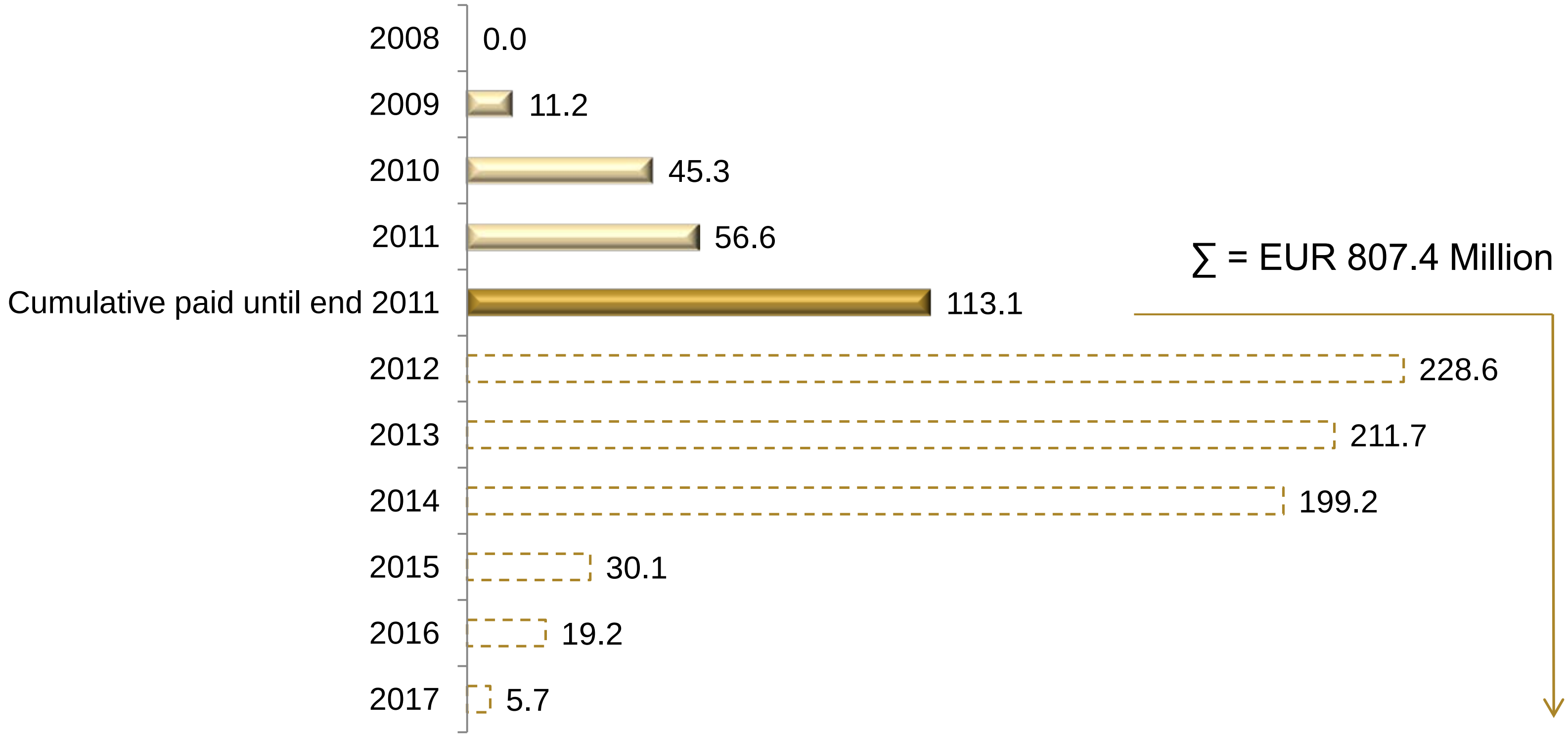
Total cost of the guarantees issued in each year (EUR Million)



- The increase in commission costs results not only from the increment in the amount of guarantees issued in 2011 but also from a price effect since the commission fee has increased, on average, 39 basis points on the new operations.

Commissions paid and due upon access of the State guarantee scheme

Annual commissions paid and due* (EUR Million)



* Estimates.

PORTUGUESE BANKING SECTOR OVERVIEW

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