Banco de Portugal

EUROSISTEMA

Press Release

European Capital Enhancement Exercise

1. The European Banking Authority (EBA) issued today a recommendation to the banking groups subject to the EBA's stress test exercise which requires the strengthening of their capital positions in order to reach a Core Tier 1 capital ratio of 9%[1] by 30 June 2012 following a prudent assessment of their sovereign debt exposures at market prices as at 30 September 2011. This decision aims to build up a temporary capital buffer and consequently to strengthen the soundness of institutions amid the current uncertainty associated with the sovereign debt crisis.

2. For participating Portuguese banks, the exercise points out to the need to raise the Core Tier 1 capital by €3.718 billion resulting from the assessment of their sovereign debt exposures at market prices. This amount is increased with capital needs of €3.232 billion to reach the target set by EBA of a Core Tier 1 capital ratio of 9%[2]. This corresponds overall to the amount resulting from the recapitalisation measures already foreseen in the 2011-2012 funding and capital plans presented to Banco de Portugal, in accordance with the commitments agreed under the Financial Assistance Programme.

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[1] The Core Tier 1 definition adopted by EBA implies additional deductions to Core capital, in particular those related with investments in financial institutions.

[2] The different impacts compared to those announced on 26 October are due to the preliminary nature of the information previously reported and to its update regarding 30 September 2011.

3. Institutions should submit to Banco de Portugal, by 20 January 2012, a plan setting out the proposed mix of actions to meet the required capital targets by end of June 2012. These plans will be discussed with Banco de Portugal, EBA and the relevant competent authorities in the colleges of supervisors.

4. The capital needs arising from the assessment of their sovereign debt exposures at market prices are fixed using the values as of 30 September 2011, and therefore will not vary due to changes in the bond portfolio held by institutions. These capital needs might be met through eligible Core Tier 1 capital and/or by the issuance of instruments which the contractual conditions must reflect the EBA's common European term sheet.

5. It is important to note that the largest Portuguese banking groups are committed to gradual and ordered deleveraging processes which have been agreed under the Financial Assistance Program and are subjected to quarterly monitoring by Banco de Portugal. These deleveraging processes will reduce the necessity to increase capital in order to achieve the target set by the EBA of a Core Tier 1 ratio of 9%, by the amounts that these processes are executed in the end of June 2012.

6. The Financial Assistance Programme to Portugal includes a bank solvency support facility which amounts to €12 billion. This means that there is sufficient public provision of equity available to recapitalise banks in the event that marked-based solutions do not materialise as would be desirable.