

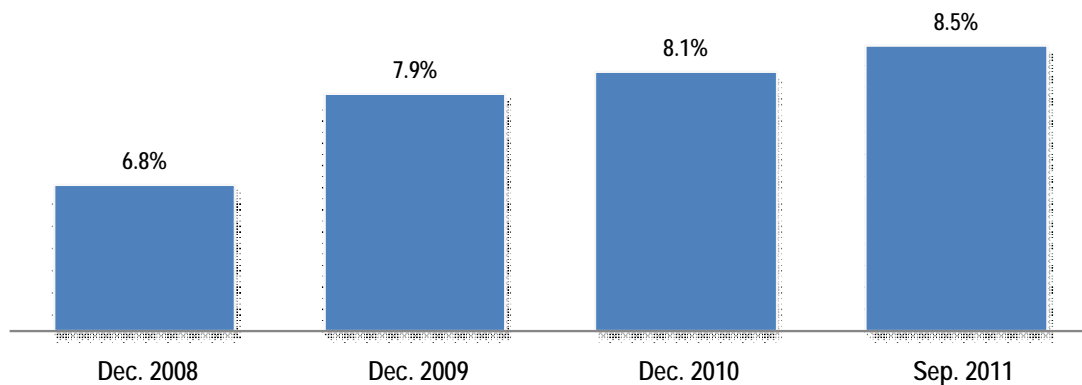


DEVELOPMENTS IN BANKING SYSTEM SOLVENCY

The banking system is now more robust and resilient

Since late 2008 (when the financial crisis intensified following the bankruptcy of Lehman Brothers), the Portuguese banking system has proved to be remarkably resilient. Solvency ratios, measured using the Core Tier 1 ratio, the higher quality capital component and widely used by markets as an indicator of a bank's financial soundness, have shown a clearly positive trend since then.

The banking system's Core Tier 1 ratio by quarter (excluding State-supported banks)



As of September 2011, the Portuguese banking system, excluding BPN and BPP, had a Core Tier 1 ratio of 8.5%, which compares with 6.8% at the end of 2008 (according to the available preliminary data, the Core Tier 1 ratio at the end of 2011 should be comfortably above 9%). Over this period, which was strongly disrupted by a financial crisis stemming from the US financial sector followed by a European sovereign debt crisis in 2010, the Portuguese banking system has continued to strengthen its financial soundness indicators.

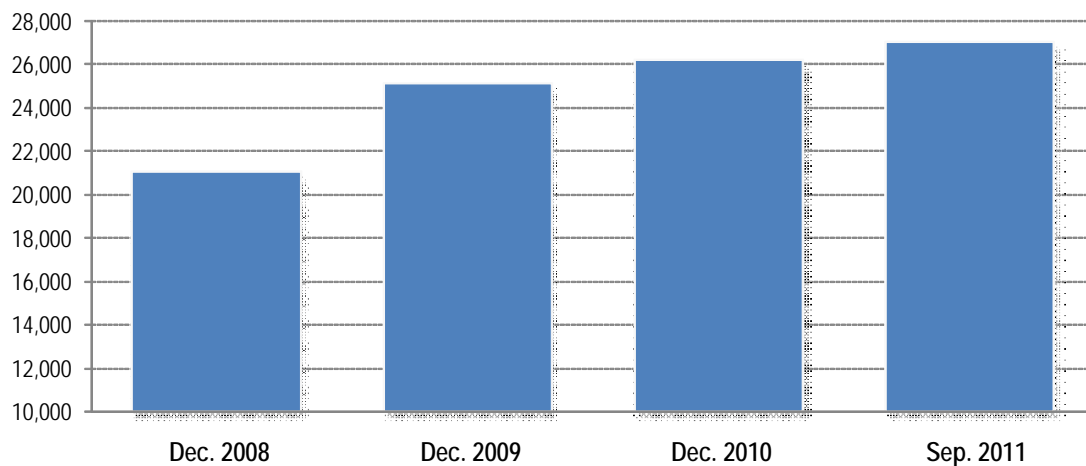
The gradual increase in solvency required by the regulators (Banco de Portugal and other international authorities, such as the Basel Committee on Banking Supervision) reflected changes in the previous capital paradigm, bolstering the need to hold more and better capital. It should be noted that, at the end of 2008, Banco de Portugal increased the minimum Tier 1 ratio requirement for banks (to 8%), and in 2011 it introduced more demanding capital ratio requirements, still at a minimum of 8% (Core Tier 1 ratio instead of Tier 1 ratio).



The Economic and Financial Assistance Programme, which was agreed in the second quarter of 2011 with the IMF, the ECB and the European Commission, envisages stronger solvency (and liquidity) requirements for Portuguese banks, against a background of very tight access to financing in international markets and a widespread deterioration in the macroeconomic environment. Accordingly, Banco de Portugal has set a minimum Core Tier 1 ratio requirement of 9% by the end of 2011 and 10% by the end of 2012.

It is noteworthy that the increase in capital requirements was agreed at a time when international financial markets were closed to Portuguese banks. Given that the Core Tier 1 ratio corresponds to the Core Tier 1 capital divided by total risk-weighted assets (RWAs), it is important to analyse how the regulatory capital ratio was strengthened.

Quarterly developments in Core Tier 1 capital in the banking system (excluding State-supported banks) (EUR million)



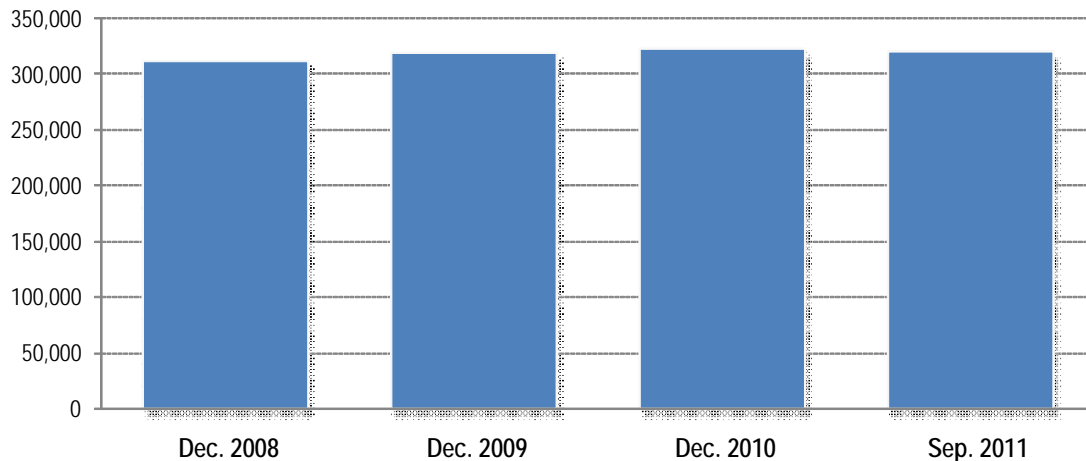
In fact, since the end of 2008, Core Tier 1 capital (the highest-quality capital) in the banking system has shown a clearly positive trend, growing 28.6% from the end of 2008 to September 2011. This cumulative growth reflects an average quarterly growth of 2.3%.

At the same time, RWAs posted positive cumulative growth of 2.8% between the end of 2008 and September 2011 (average quarterly growth of 0.3%).



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Quarterly developments in RWAs in the banking system (excluding State-supported banks) (EUR million)



Given that the Core Tier 1 capital ratio's stricter requirements could be achieved by sharply reducing the banking institutions' balance sheet assets, customer credit in particular (around 70% of total assets), the banks' responsible commitment to the Portuguese economy's financing is revealed by the Core Tier 1 capital ratio's sustained rise through core capital growth.

In fact, the goals set for the system's solvency have been achieved through capital increases (until the international financial markets closed), by converting debt securities into ordinary shares, and by repurchasing debt traded on the market (with capital gains), while, of course, retaining the proceeds earned over the period.

The main Portuguese banking groups are expected to present negative aggregate net income for 2011. This situation is largely due to the effect of one-off events that caused the Portuguese banks losses, among them increased impairment in the credit portfolio following the Special Inspection Programme (SIP), losses from the partial transfer of pension liabilities to Social Security under Decree-Law No 127/2011 of 31 December 2011 and impairment arising from the exposure to Greek sovereign debt.

As agreed under the second review of the Economic and Financial Assistance Programme, Banco de Portugal issued Notice No 1/2012, which temporarily (until 30 June 2012) neutralises the effects of the SIP and the partial transfer of the post-employment defined benefits plans to Social Security on the own funds and minimum capital requirements calculation.