Portugal in Recovery

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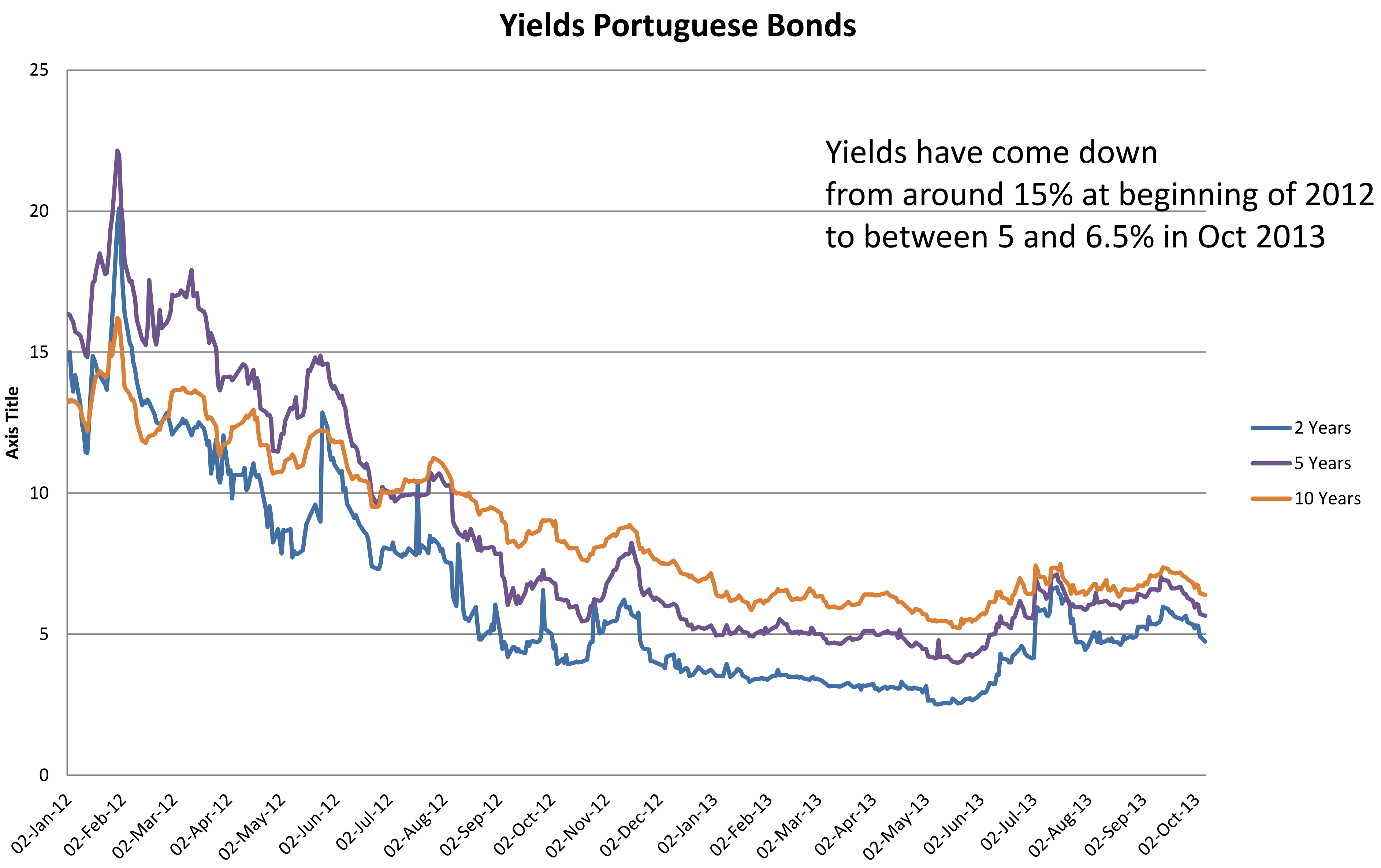
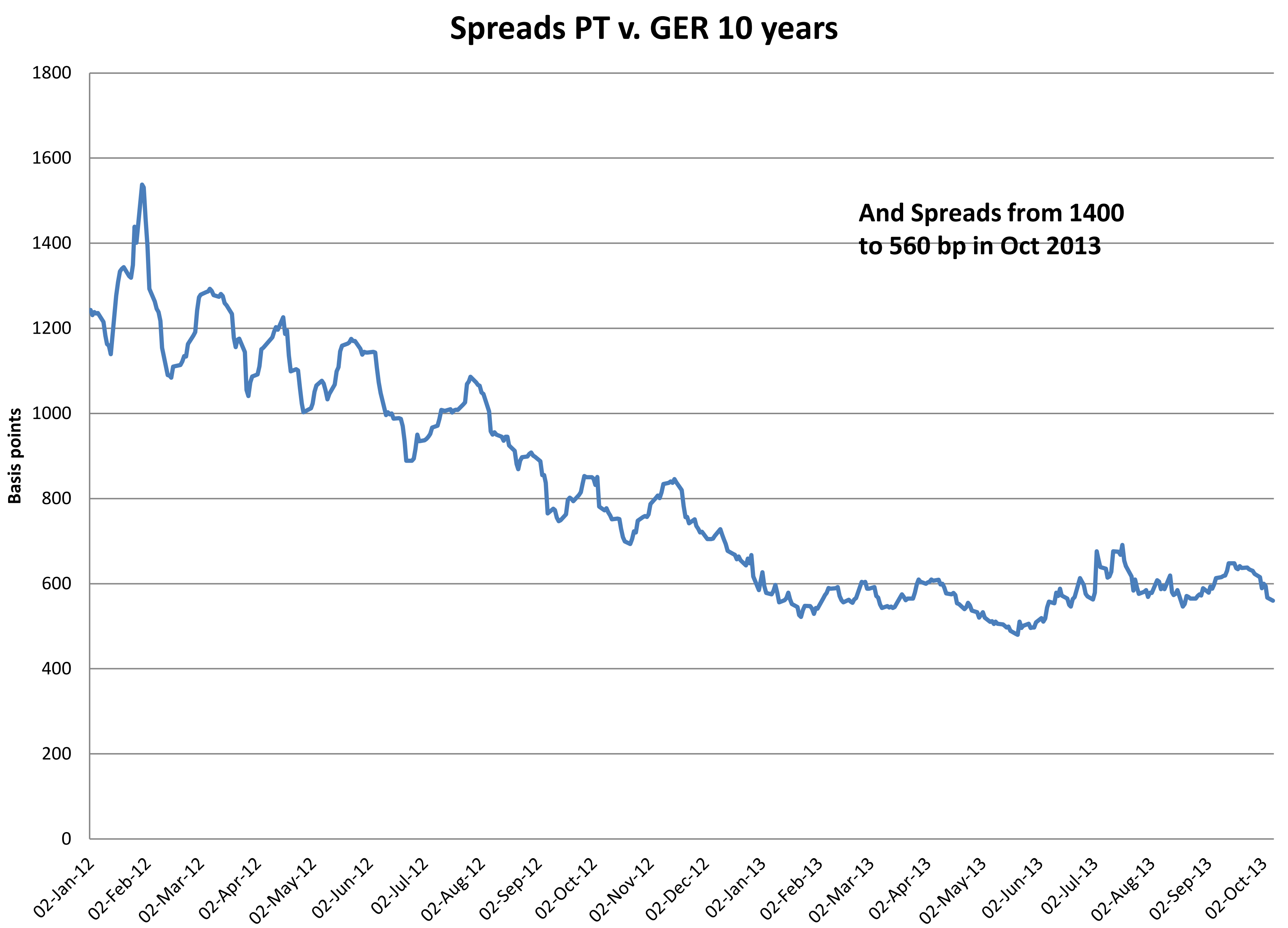
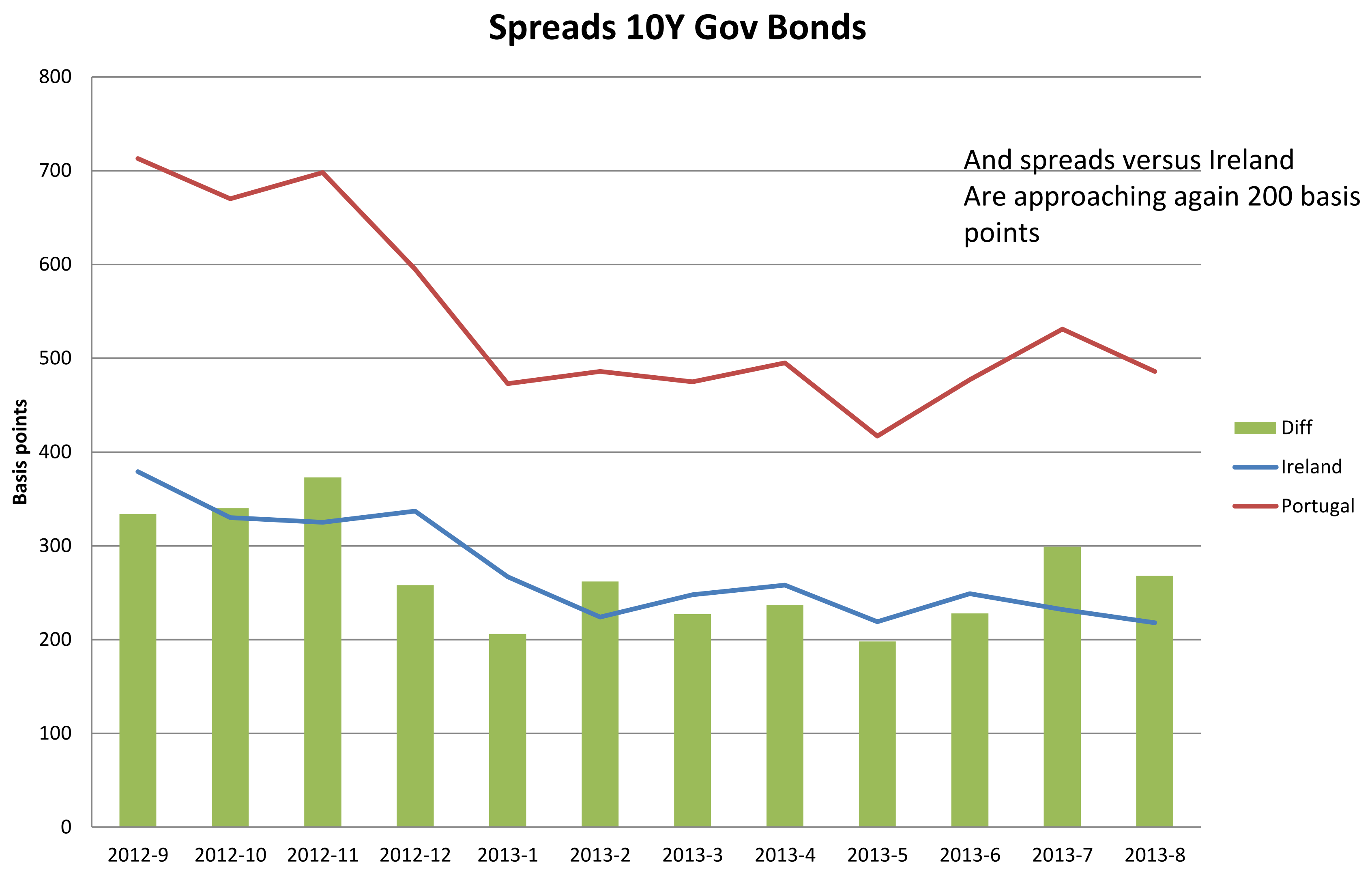
I. Substantial progress in accessing the bond markets

- Yields on government bonds have come down by more than 60% in the last two years
- Portugal was the highest performing sovereign in the EU (and emerging markets)
- Spreads are now less than 500 bp to Germany and between 190-270 to Spain, Italy and Ireland
- Ceteris paribus, markets have focused on growth recovery



Yields Portuguese Bonds
Yields have come down
from around 15% at beginning of 2012
to between 5 and 6.5% in Oct 2013
Axis Title
25
20
15
10
5
0
02-Jan-12
02-Feb-12
02-Mar-12
02-Apr-12
02-May-12
02-Jun-12
02-Jul-12
02-Aug-12
02-Sep-12
02-Oct-12
02-Nov-12
02-Dec-12
02-Jan-13
02-Feb-13
02-Mar-13
02-Apr-13
02-May-13
02-Jun-13
02-Jul-13
02-Aug-13
02-Sep-13
02-Oct-13
2 Years
5 Years
10 Years

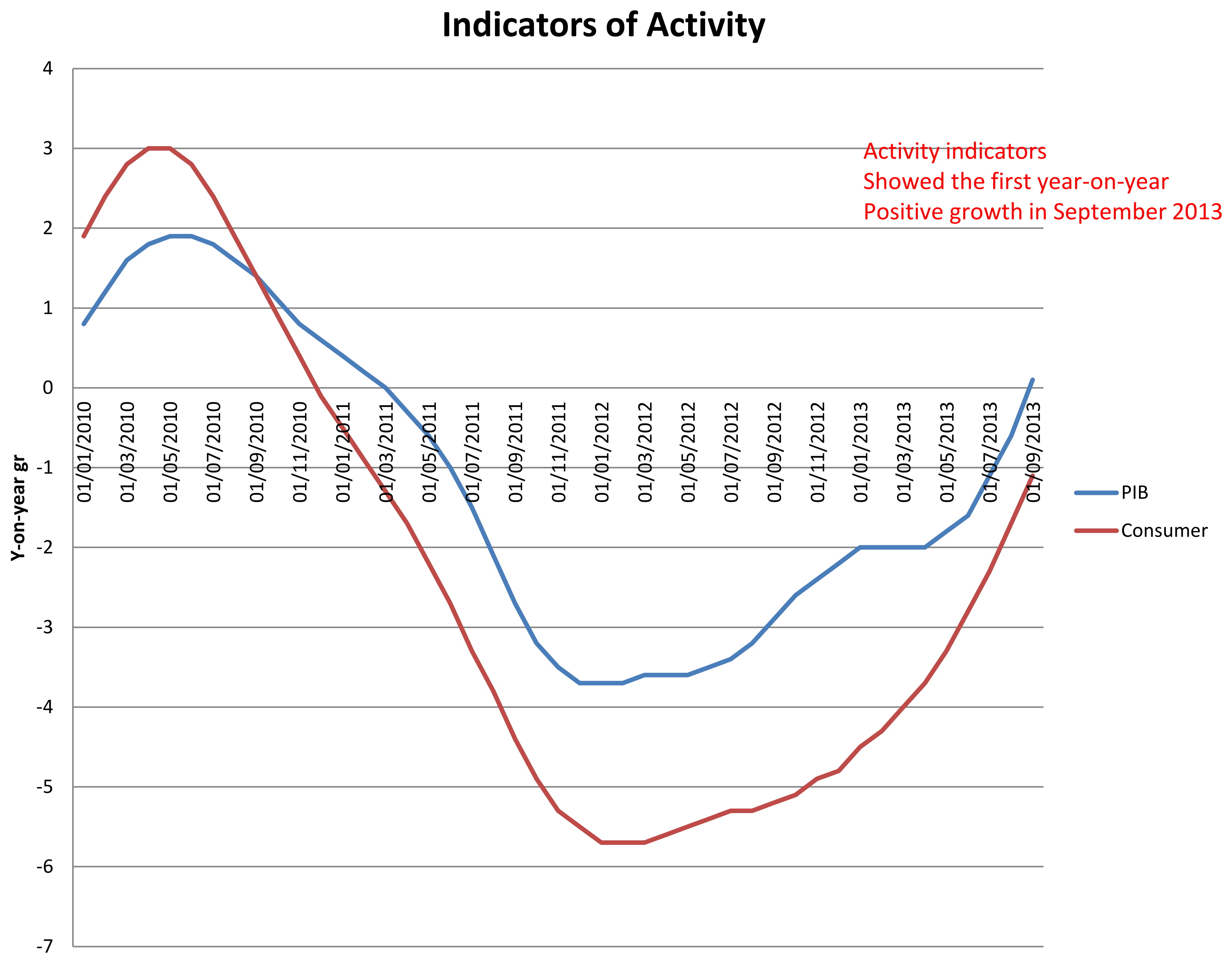

Spreads PT v. GER 10 years
And Spreads from 1400
to 560 bp in Oct 2013
Basis points
1800
1600
1400
1200
1000
800
600
400
200
0
02-Jan-12
02-Feb-12
02-Mar-12
02-Apr-12
02-May-12
02-Jun-12
02-Jul-12
02-Aug-12
02-Sep-12
02-Oct-12
02-Nov-12
02-Dec-12
02-Jan-13
02-Feb-13
02-Mar-13
02-Apr-13
02-May-13
02-Jun-13
02-Jul-13
02-Aug-13
02-Sep-13
02-Oct-13

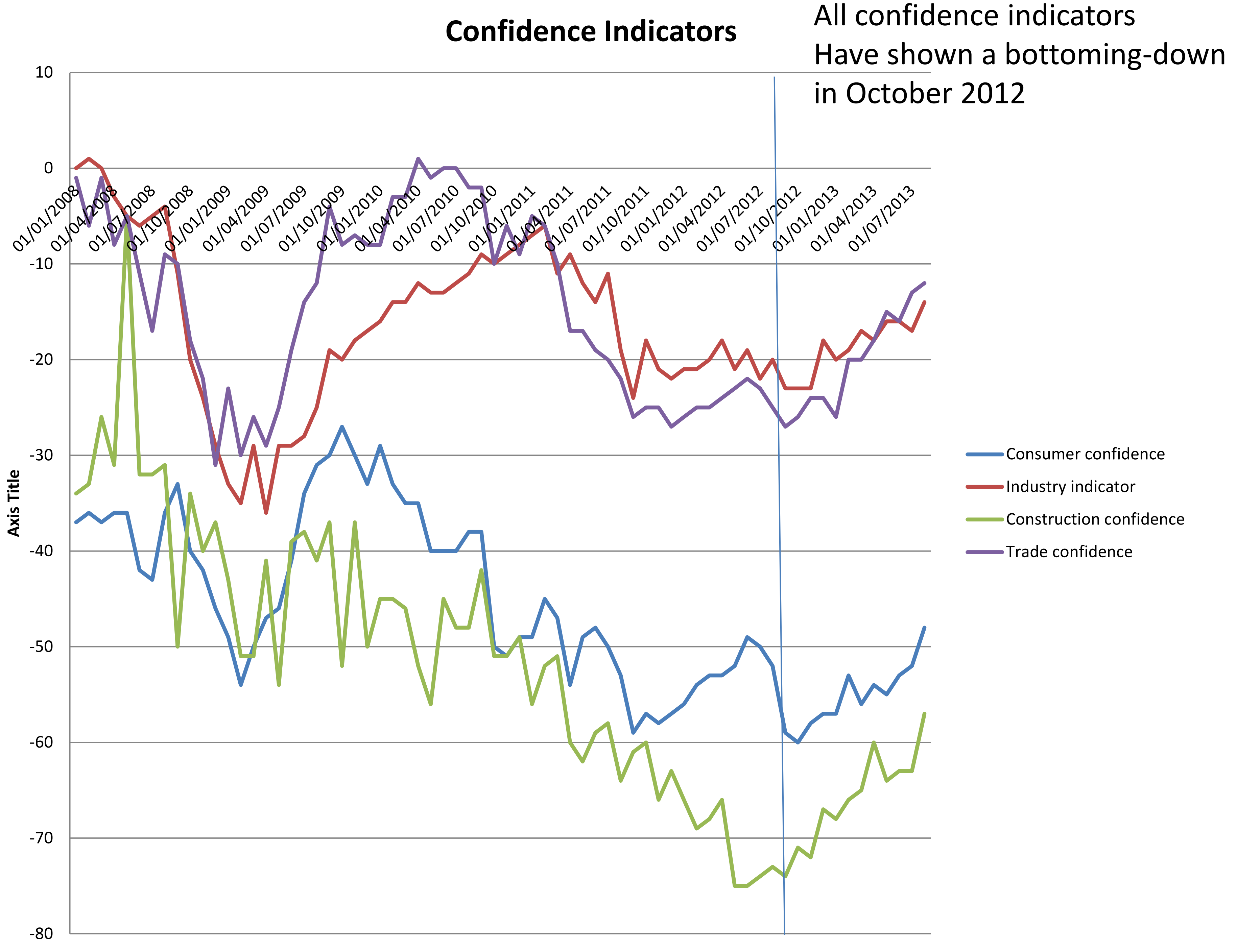


Spreads 10Y Gov Bonds
800
700
600
500
400
300
200
100
0
Basis points
And spreads versus Ireland
Are approaching again 200 basis
points
Diff
Ireland
Portugal
2012-9
2012-10
2012-11
2012-12
2013-1
2013-2
2013-3
2013-4
2013-5
2013-6
2013-7
2013-8

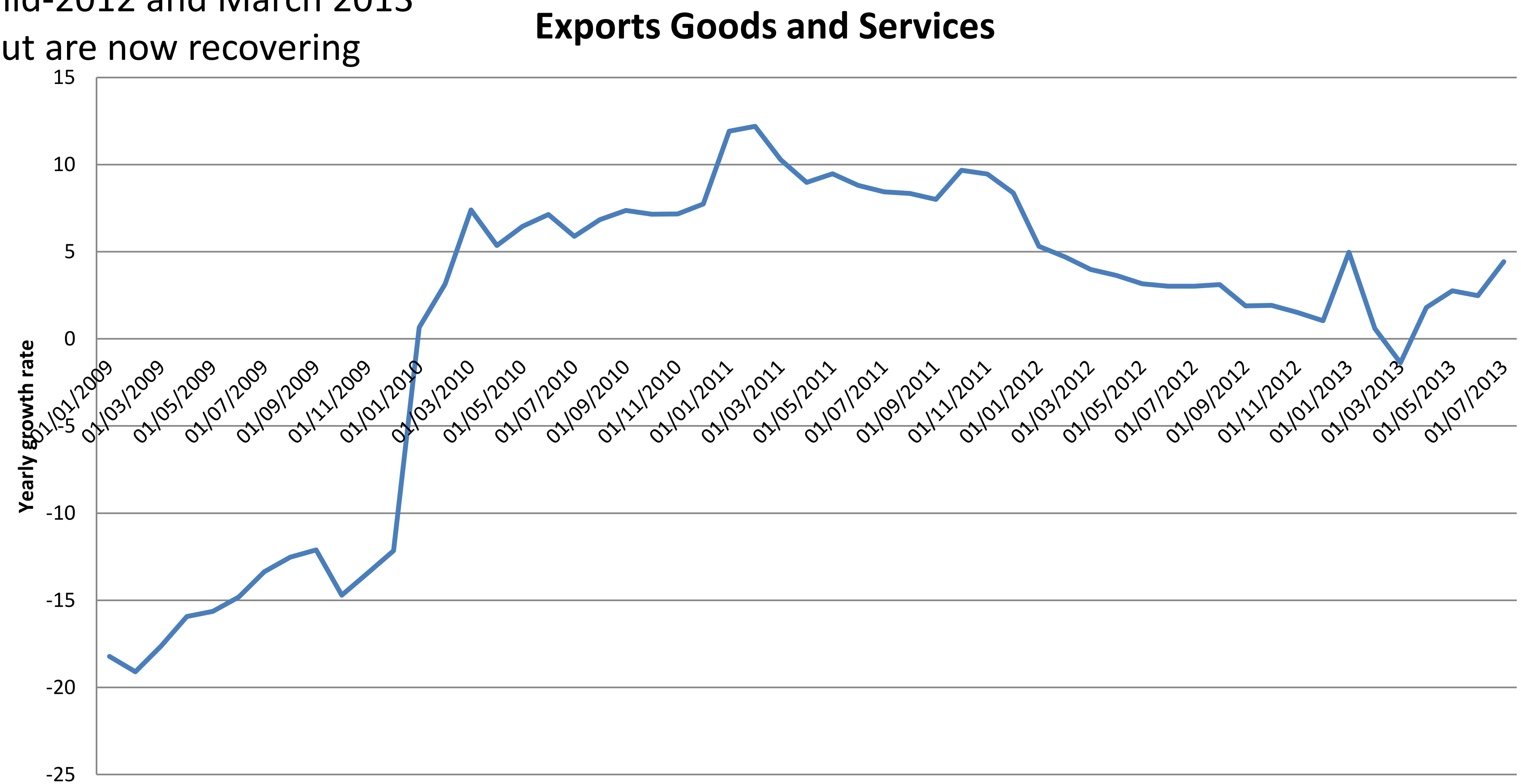
II. Growth is recovering in Portugal

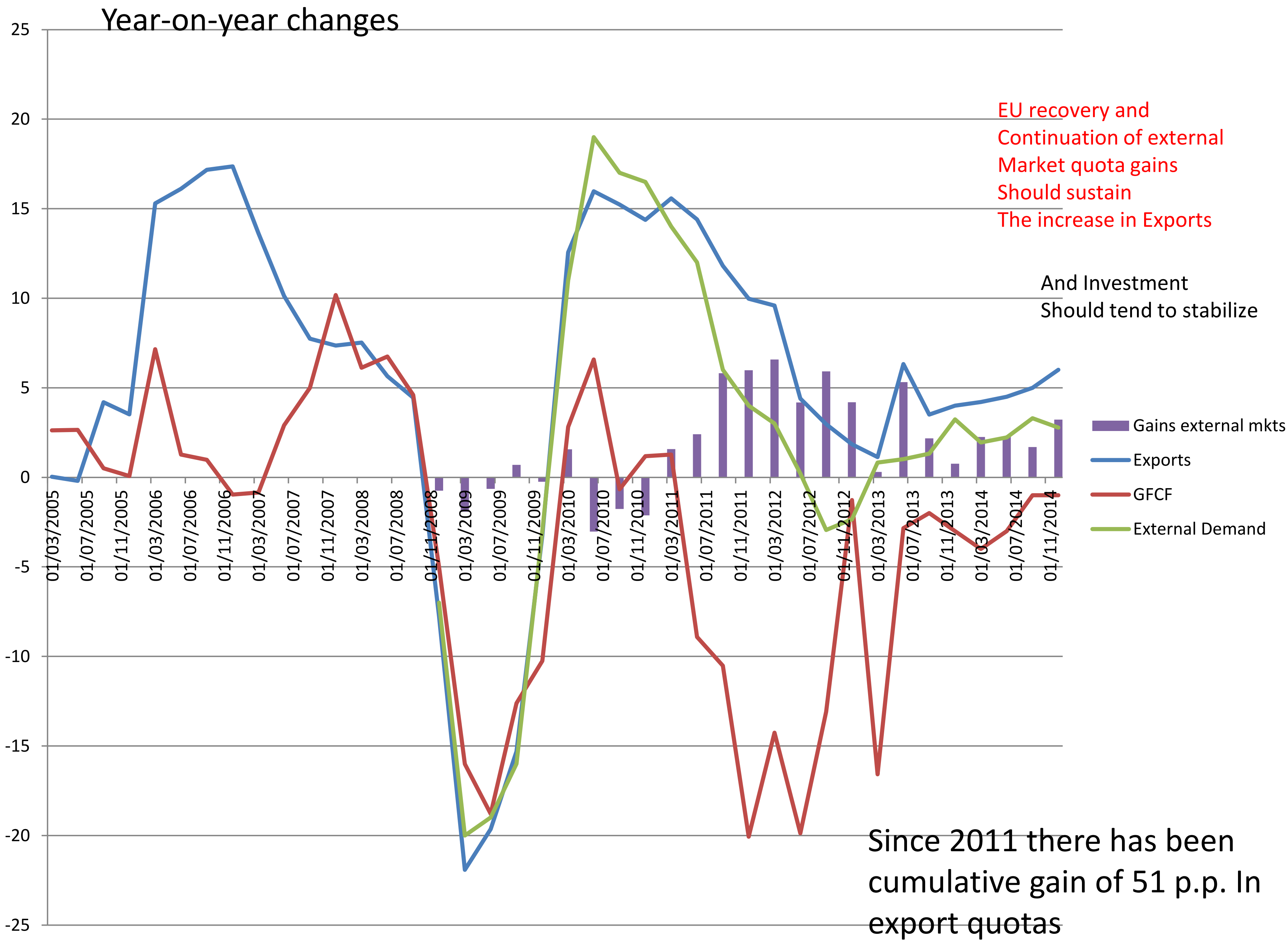
- There was an inflection point in Sept-Oct 2012 with ECB announcement, but also
- All expectations measures turned up for PT at around that time
- Exports of goods and services that were decelerating up to the IQ2013 are now in full recovery
- With the recovery in the EU markets, external demand will sustain an increase in exports by 5% in 2013 and 2014
- Investment is also showing signs of stabilizing
- Deep recession has been avoided


Indicators of Activity
4
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
Y-on-year gr
01/01/2010
01/03/2010
01/05/2010
01/07/2010
01/09/2010
01/11/2010
01/01/2011
01/03/2011
01/05/2011
01/07/2011
01/09/2011
01/11/2011
01/01/2012
01/03/2012
01/05/2012
01/07/2012
01/09/2012
01/11/2012
01/01/2013
01/03/2013
01/05/2013
01/07/2013
01/09/2013
Activity indicators
Showed the first year-on-year
Positive growth in September 2013
PIB
Consumer

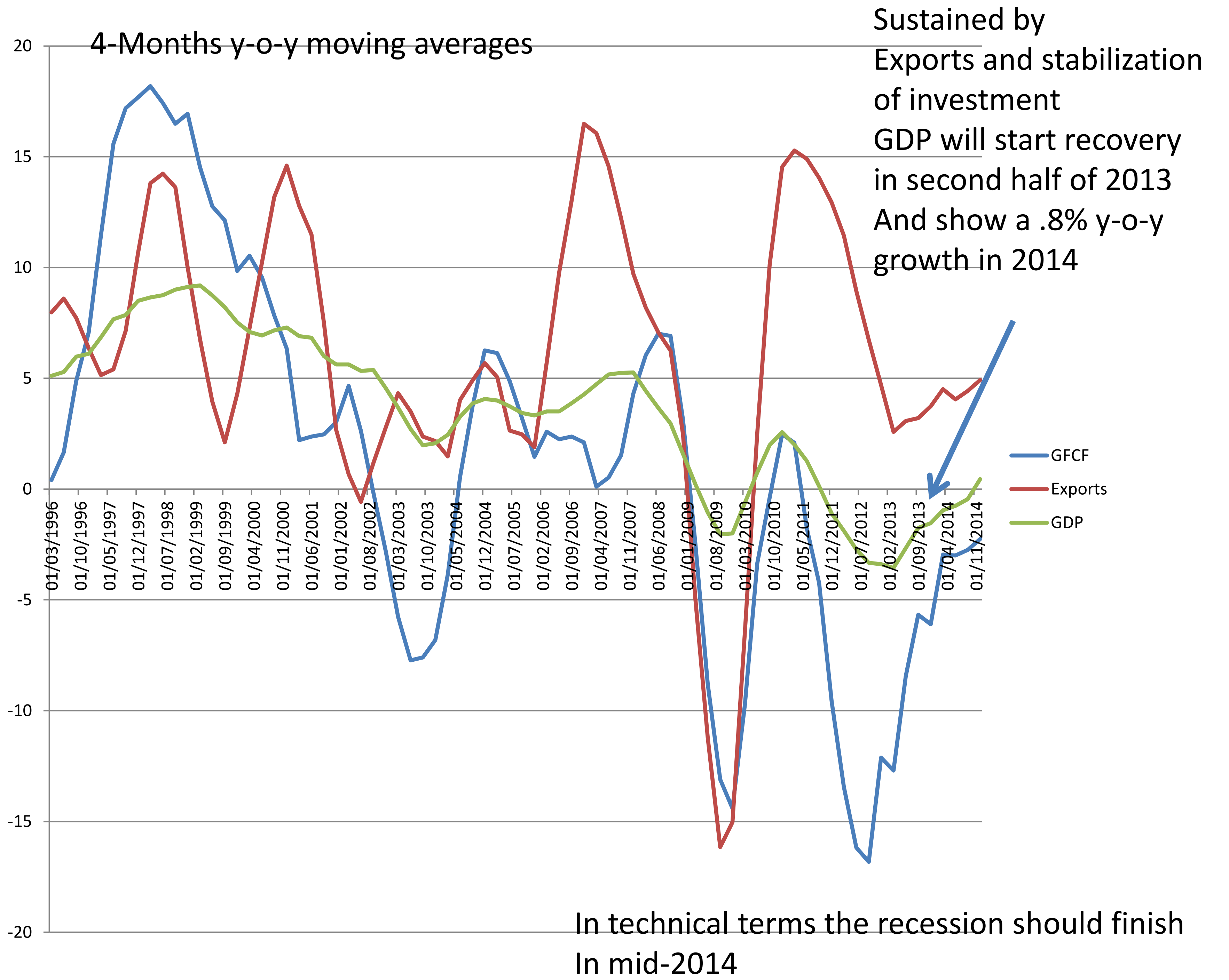

Confidence Indicators
All confidence indicators
Have shown a bottoming-down
in October 2012
Axis Title
10
0
-10
-20
-30
-40
-50
-60
-70
-80
01/01/2008
01/04/2008
01/07/2008
01/10/2008
01/01/2009
01/04/2009
01/07/2009
01/10/2009
01/01/2010
01/04/2010
01/07/2010
01/10/2010
01/01/2011
01/04/2011
01/07/2011
01/10/2011
01/01/2012
01/04/2012
01/07/2012
01/10/2012
01/01/2013
01/04/2013
01/07/2013
Consumer confidence
Industry indicator
Construction confidence
Trade confidence

Exports in volume
have been behaving favourably
since 2010
They showed a deceleration between
mid-2012 and March 2013
but are now recovering





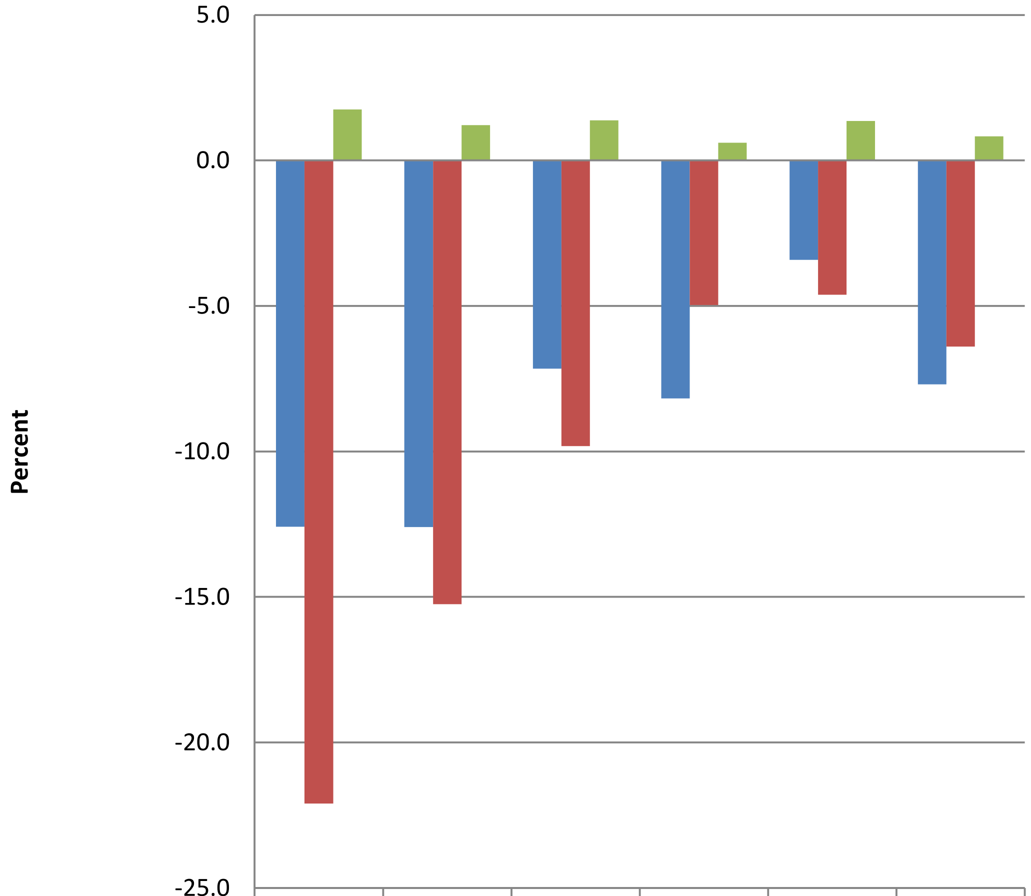
Year-on-year changes
25
20
15
10
5
0
-5
-10
-15
-20
-25
01/03/2005
01/07/2005
01/11/2005
01/03/2006
01/07/2006
01/11/2006
01/03/2007
01/07/2007
01/11/2007
01/03/2008
01/07/2008
01/11/2008
01/03/2009
01/07/2009
01/11/2009
01/03/2010
01/07/2010
01/11/2010
01/03/2011
01/07/2011
01/11/2011
01/03/2012
01/07/2012
01/11/2012
01/03/2013
01/07/2013
01/11/2013
01/03/2014
01/07/2014
01/11/2014
EU recovery and
Continuation of external
Market quota gains
Should sustain
The increase in Exports
And Investment
Should tend to stabilize
Gains external mkts
Exports
GFCF
External Demand
Since 2011 there has been
cumulative gain of 51 p.p. In
export quotas


4-Months y-o-y moving averages
Sustained by
Exports and stabilization
of investment
GDP will start recovery
in second half of 2013
And show a .8% y-o-y
growth in 2014
20
15
10
5
0
-5
-10
-15
-20
01/03/1996
01/10/1996
01/05/1997
01/12/1997
01/07/1998
01/02/1999
01/09/1999
01/04/2000
01/11/2000
01/06/2001
01/01/2002
01/08/2002
01/03/2003
01/10/2003
01/05/2004
01/12/2004
01/07/2005
01/02/2006
01/09/2006
01/04/2007
01/11/2007
01/06/2008
01/01/2009
01/08/2009
01/03/2010
01/10/2010
01/05/2011
01/12/2011
01/07/2012
01/02/2013
01/09/2013
01/04/2014
01/11/2014
GFCF
Exports
GDP
In technical terms the recession should finish
In mid-2014

How much costs to reduce
1 pp of government deficit?

Portugal has an intermediate sacrifice ratio

Sacrifice Ratio 2

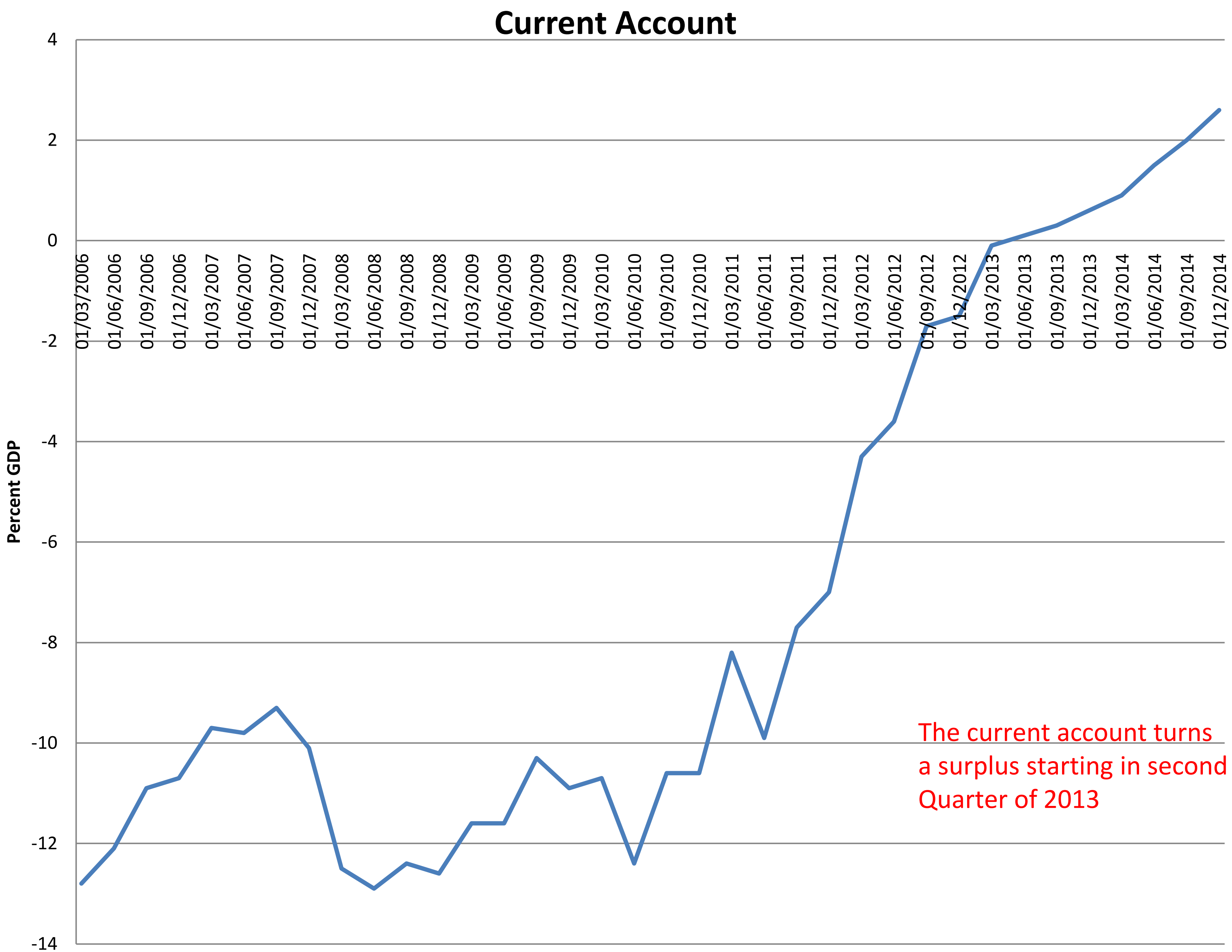


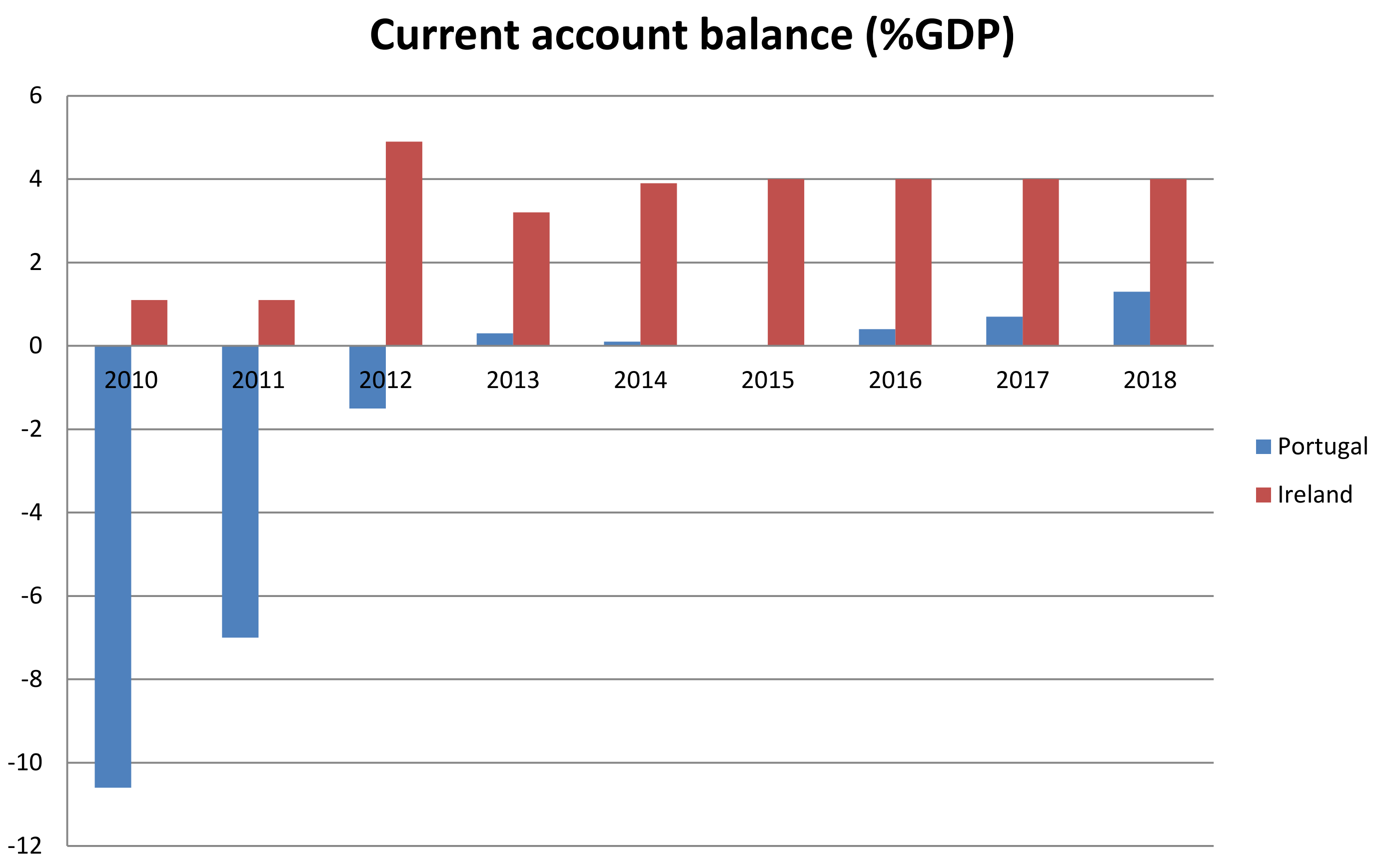
	Greece	Ireland	Portugal	Spain	Italy	Latvia
Reduction Gov Def	-12.6	-12.6	-7.2	-8.2	-3.4	-7.7
Cum Decr GNI	-22.1	-15.3	-9.8	-5.0	-4.6	-6.4
Ratio	1.76	1.21	1.37	0.61	1.35	0.83

In terms of loss in incomes Greece has the worst ratio and Spain the best, so far

III. External imbalance has been fully reversed

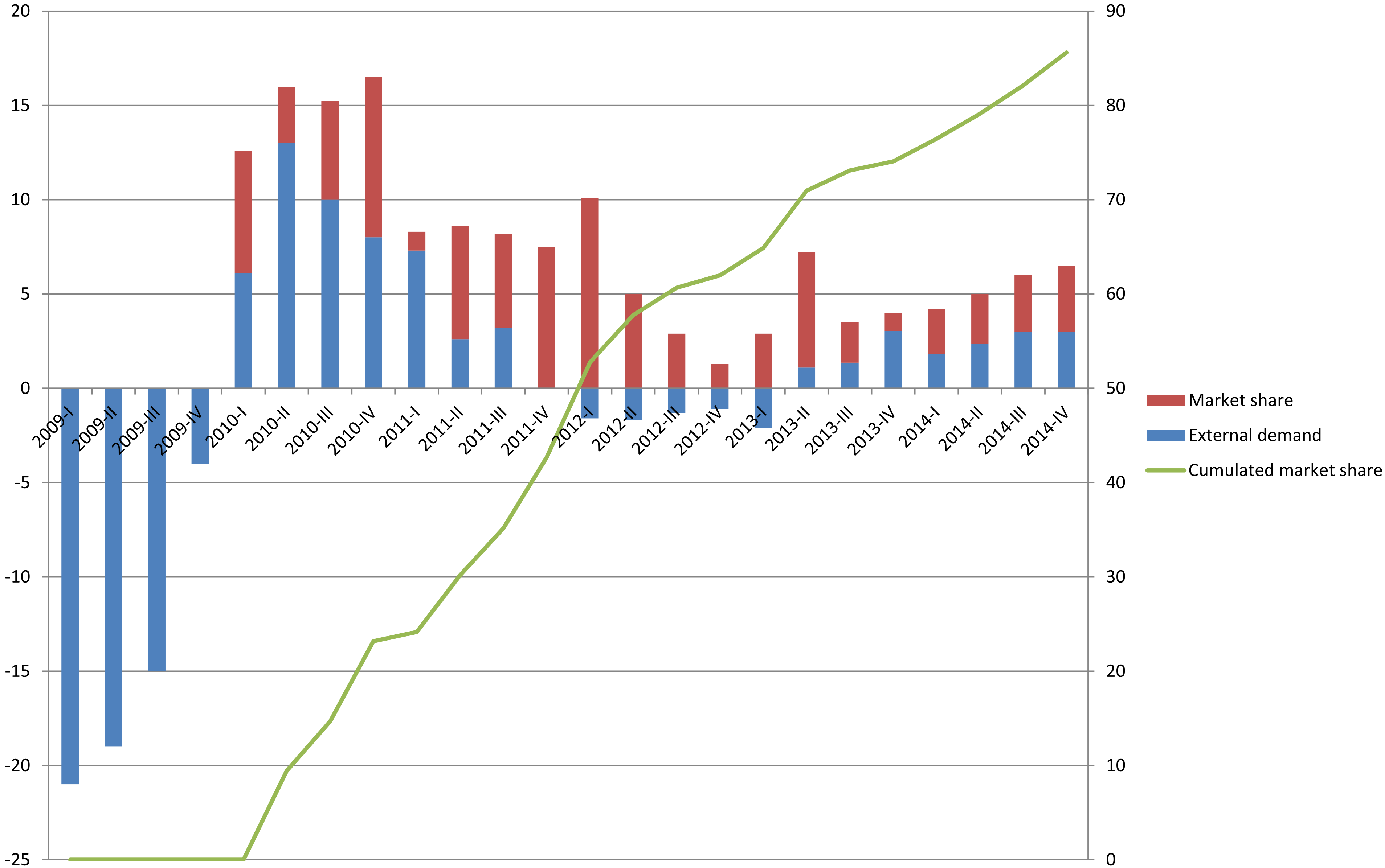
- From a current account deficit of 12% of GDP in 2008, PT registered a balanced account in IQ2013, and the surplus should be more than 2% by the end of 2014
- This was the largest adjustment of any country in the EU with a program (even higher than Ireland)
- Increase in market shares of about 50 pp since 2011, and a broad base increase


Current Account
Percent GDP
4
2
0
-2
-4
-6
-8
-10
-12
-14
01/03/2006
01/06/2006
01/09/2006
01/12/2006
01/03/2007
01/06/2007
01/09/2007
01/12/2007
01/03/2008
01/06/2008
01/09/2008
01/12/2008
01/03/2009
01/06/2009
01/09/2009
01/12/2009
01/03/2010
01/06/2010
01/09/2010
01/12/2010
01/03/2011
01/06/2011
01/09/2011
01/12/2011
01/03/2012
01/06/2012
01/09/2012
01/12/2012
01/03/2013
01/06/2013
01/09/2013
01/12/2013
01/03/2014
01/06/2014
01/09/2014
01/12/2014
The current account turns
a surplus starting in second
Quarter of 2013



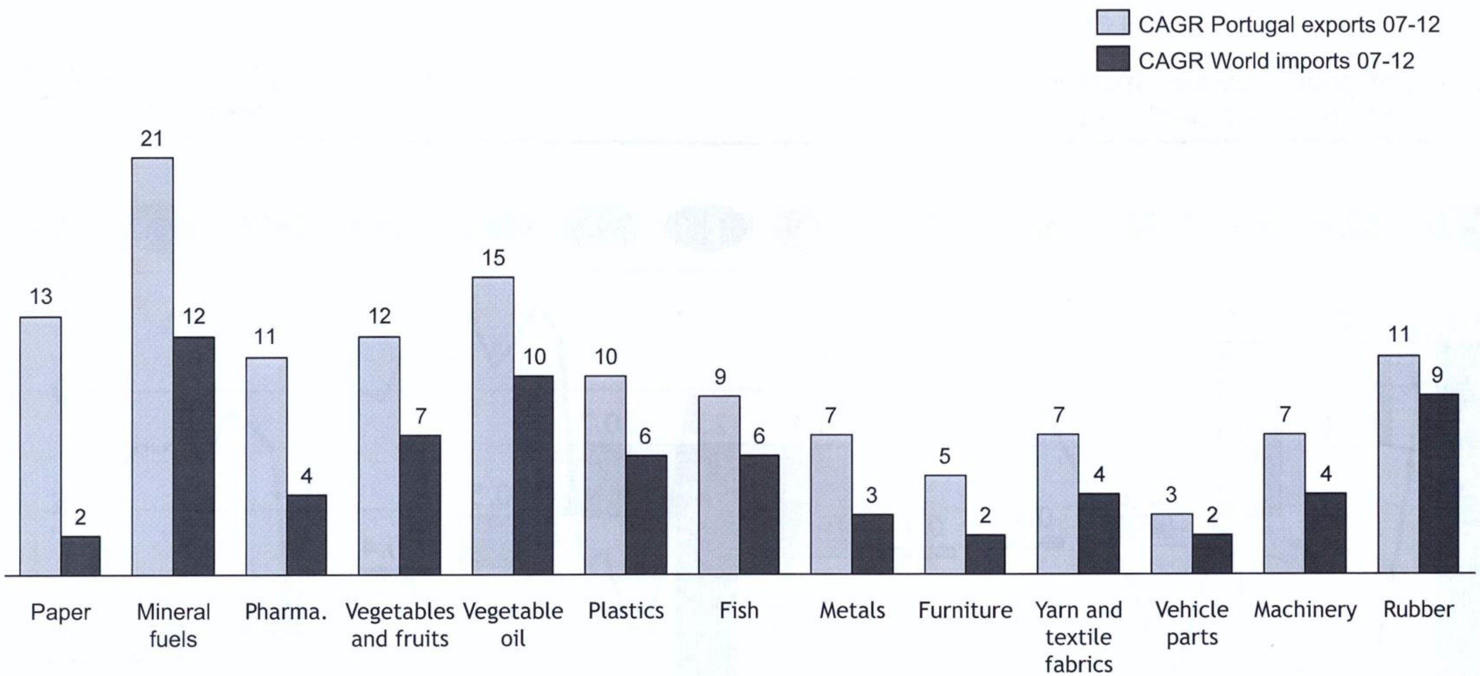
Current account balance (%GDP)
6
4
2
0
-2
-4
-6
-8
-10
-12
2010
2011
2012
2013
2014
2015
2016
2017
2018
Portugal
Ireland

External adjustment with large increase in Portugal world market shares (85 pp to 2014)



Portuguese exports evidenced world market share gains on fast growing industries

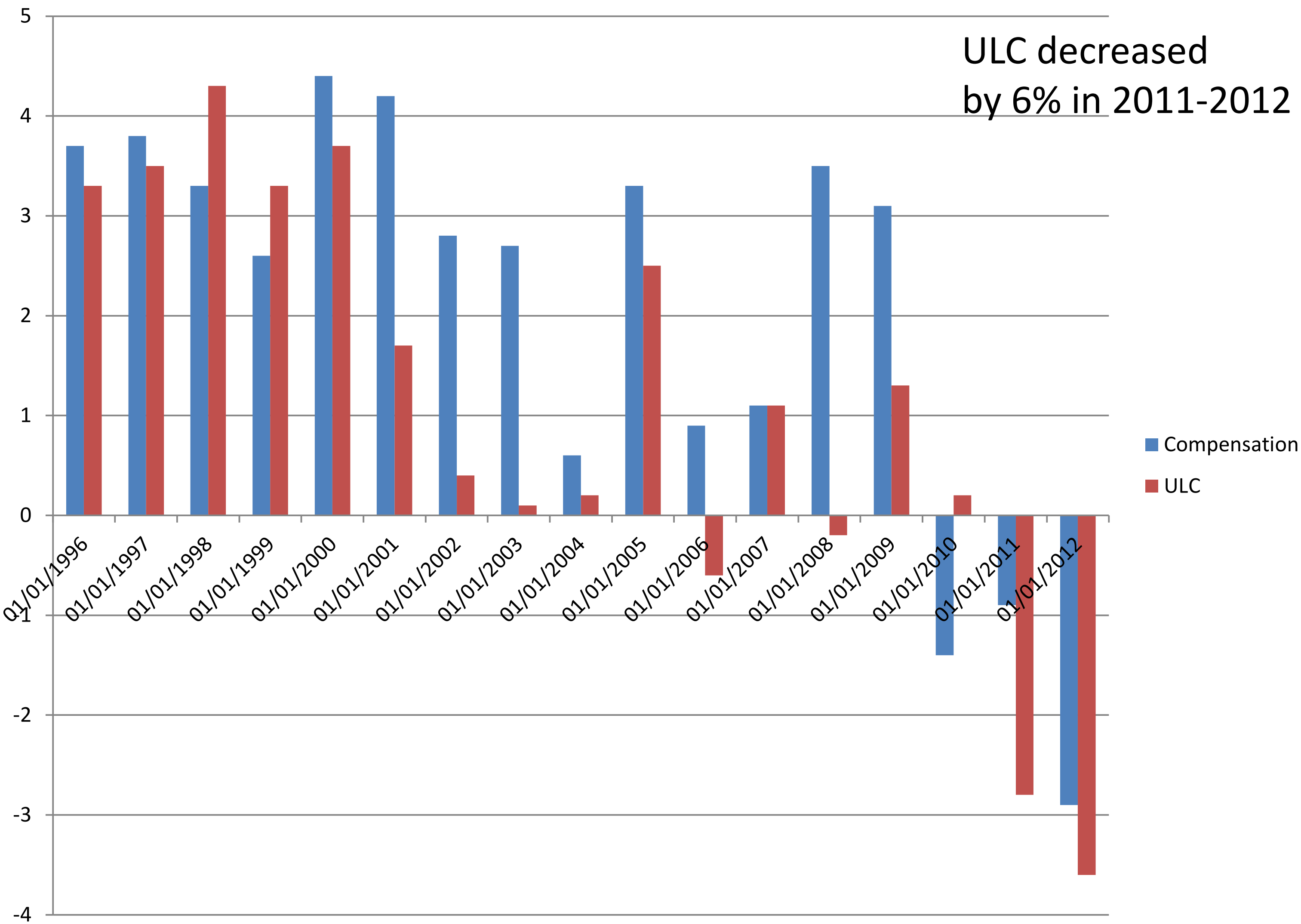
GOVERNO DE PORTUGAL



Following a recent paper of BdP

- A domestic pressure can create incentives to increase exports, as a way to sustain businesses
- This increase tends to prevail in the economy after the recession has passed
- The reasoning is related to the fact that enterprises commit capital and time to develop an external network, that they will continue to use on their business post-crisis

Source: UNCSTAD; IGCP; BdP "Is there a role for domestic demand pressure on export performance?"



But export growth has been mainly
driven by fall in domestic demand

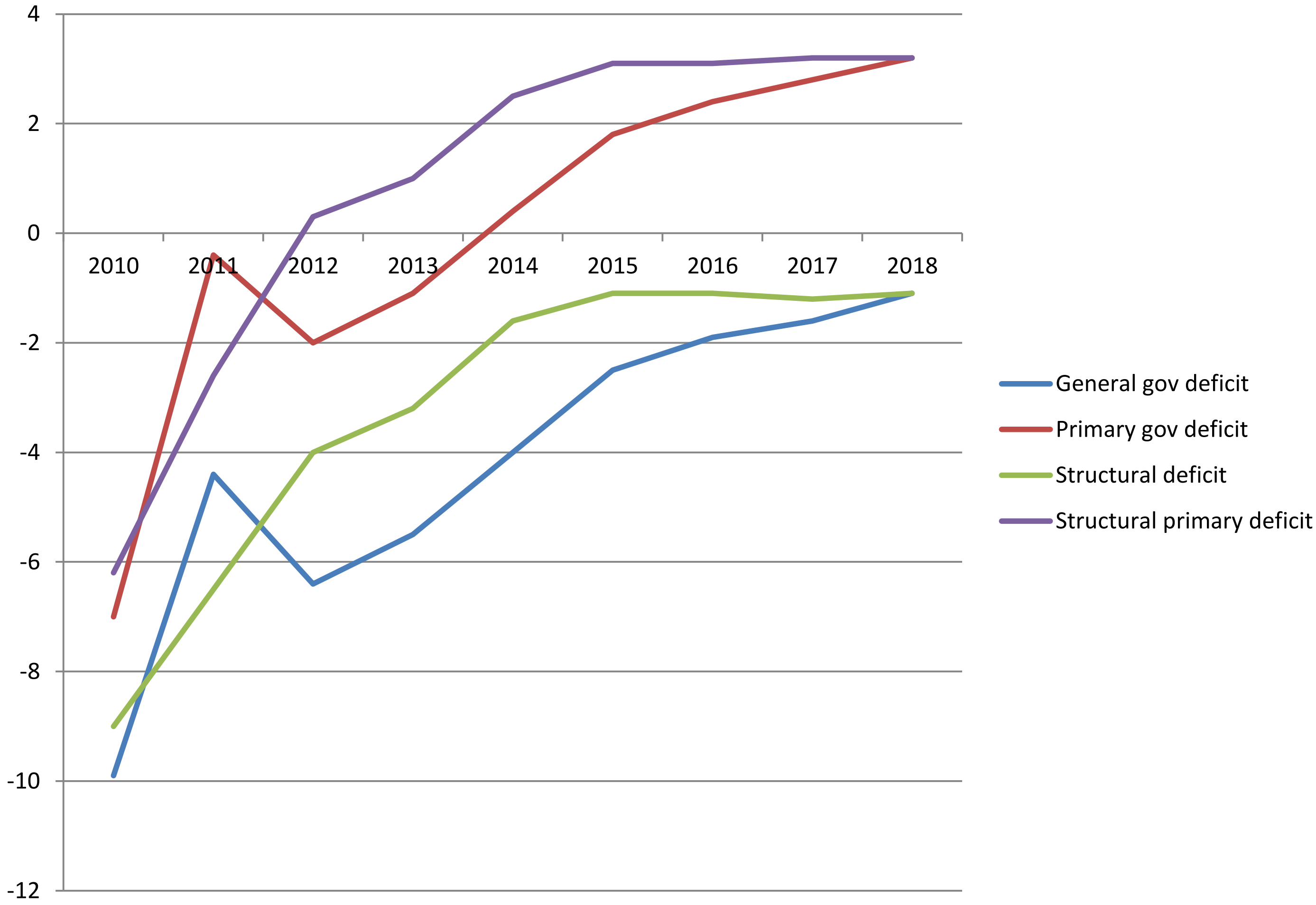
IV. Strong fiscal adjustment and sustainability of Public Debt assured

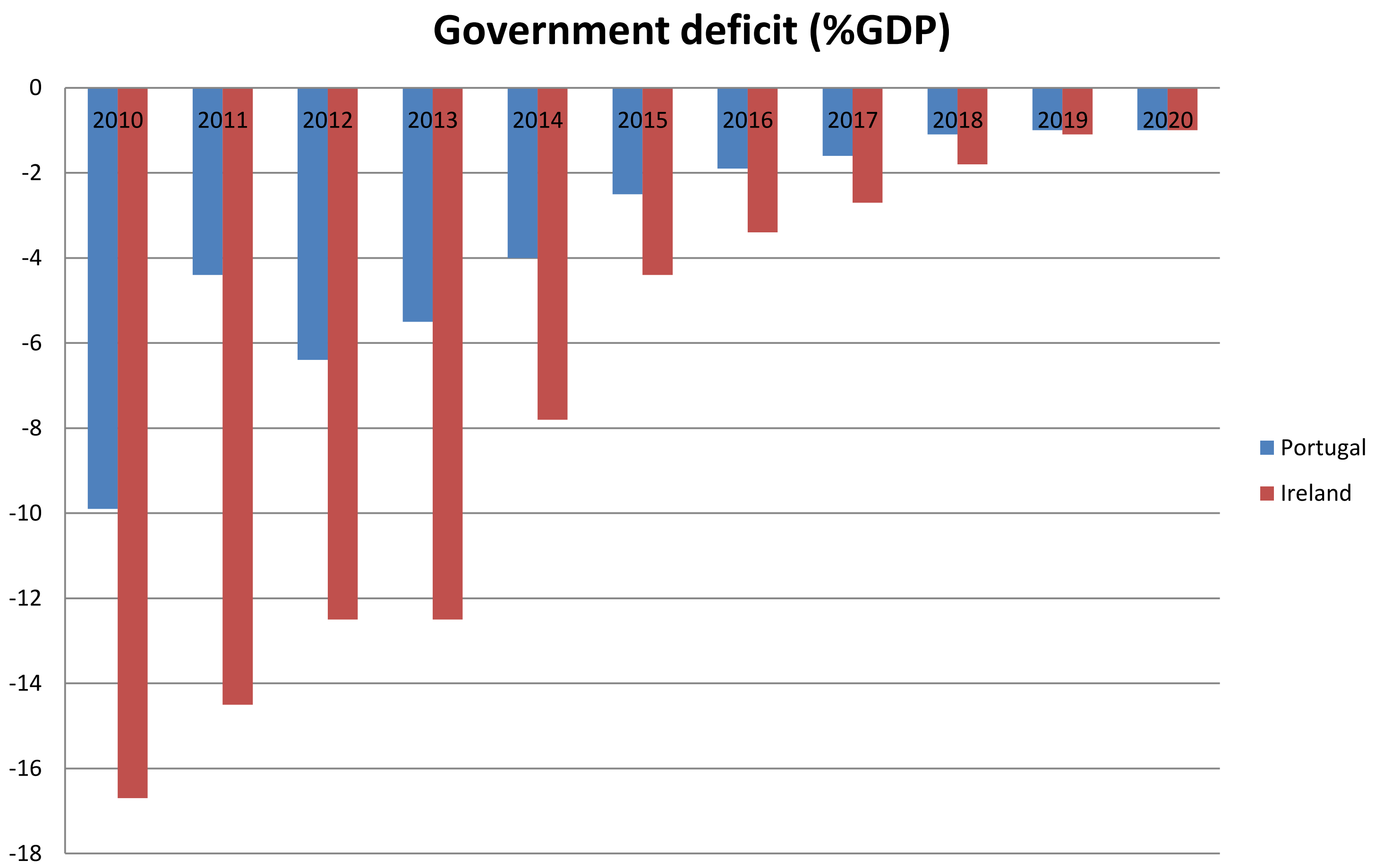
- Primary deficit improved from 7% in 2010 to a surplus of .4% in 2014
- Overall government deficit has been budgeted at 4% of GDP in 2014 and should be below 3% in 2015 – first time below the excess deficit criteria
- PT has now a more reduced deficit than Ireland
- And IMF projections show a sustainable public debt

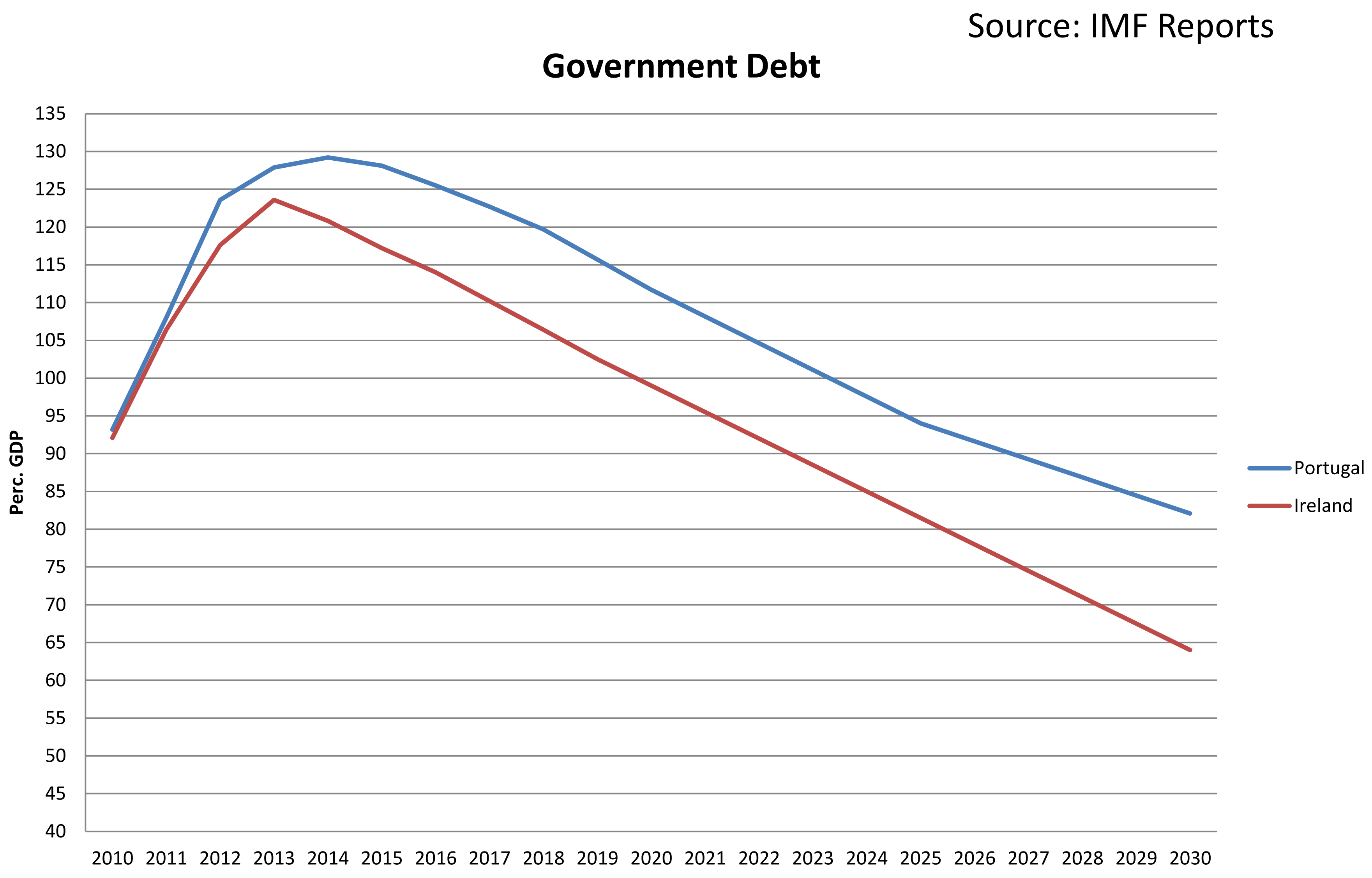
Fiscal adjustment

Primary balance becomes positive in 2014

General gov deficit should fall below 3% of GDP in 2015




Government deficit (%GDP)
0
-2
-4
-6
-8
-10
-12
-14
-16
-18
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Portugal
Ireland

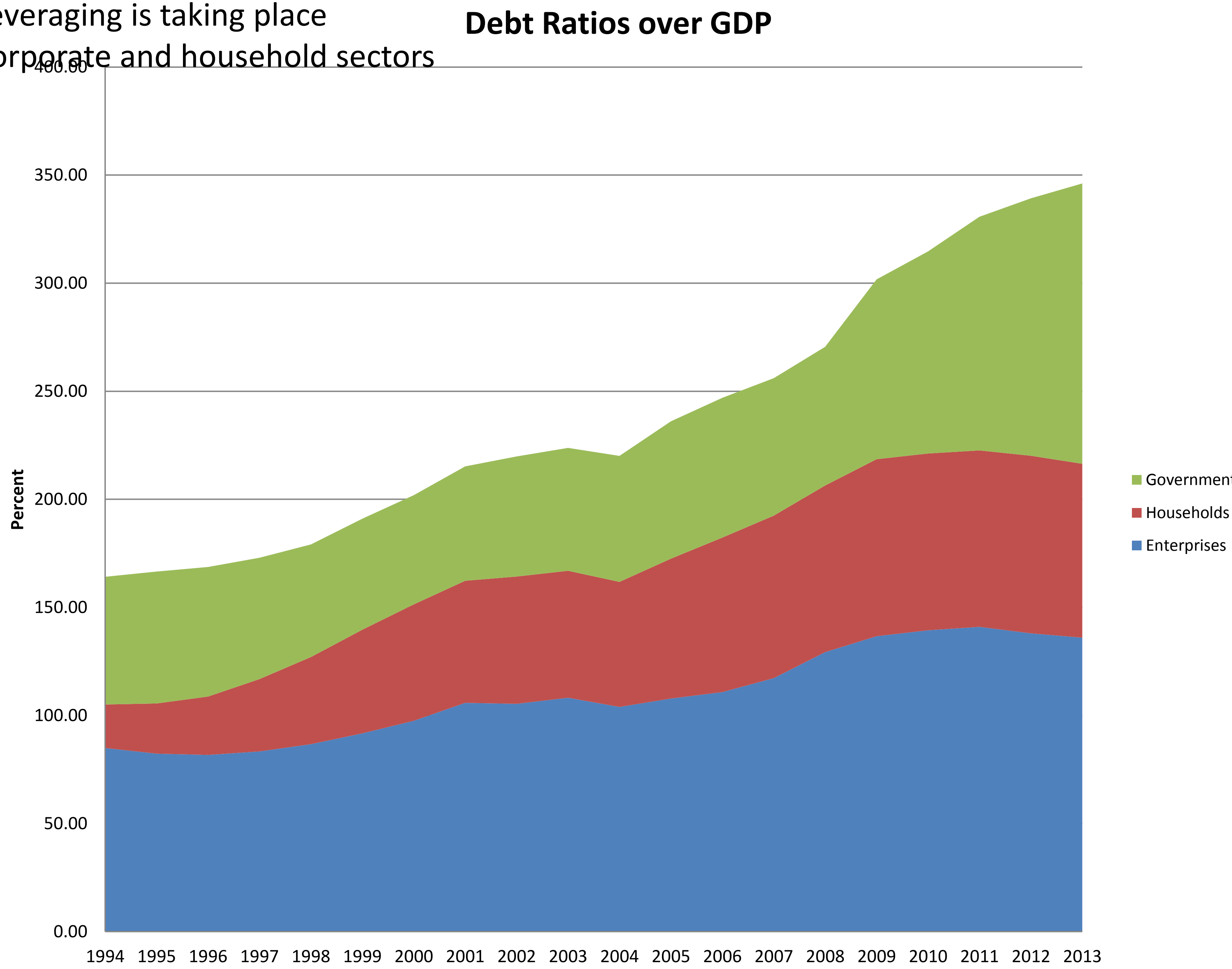

Source: IMF Reports
Government Debt
Perc. GDP
135
130
125
120
115
110
105
100
95
90
85
80
75
70
65
60
55
50
45
40
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
Portugal
Ireland

V. Deleveraging is taking place in household and corporate sectors

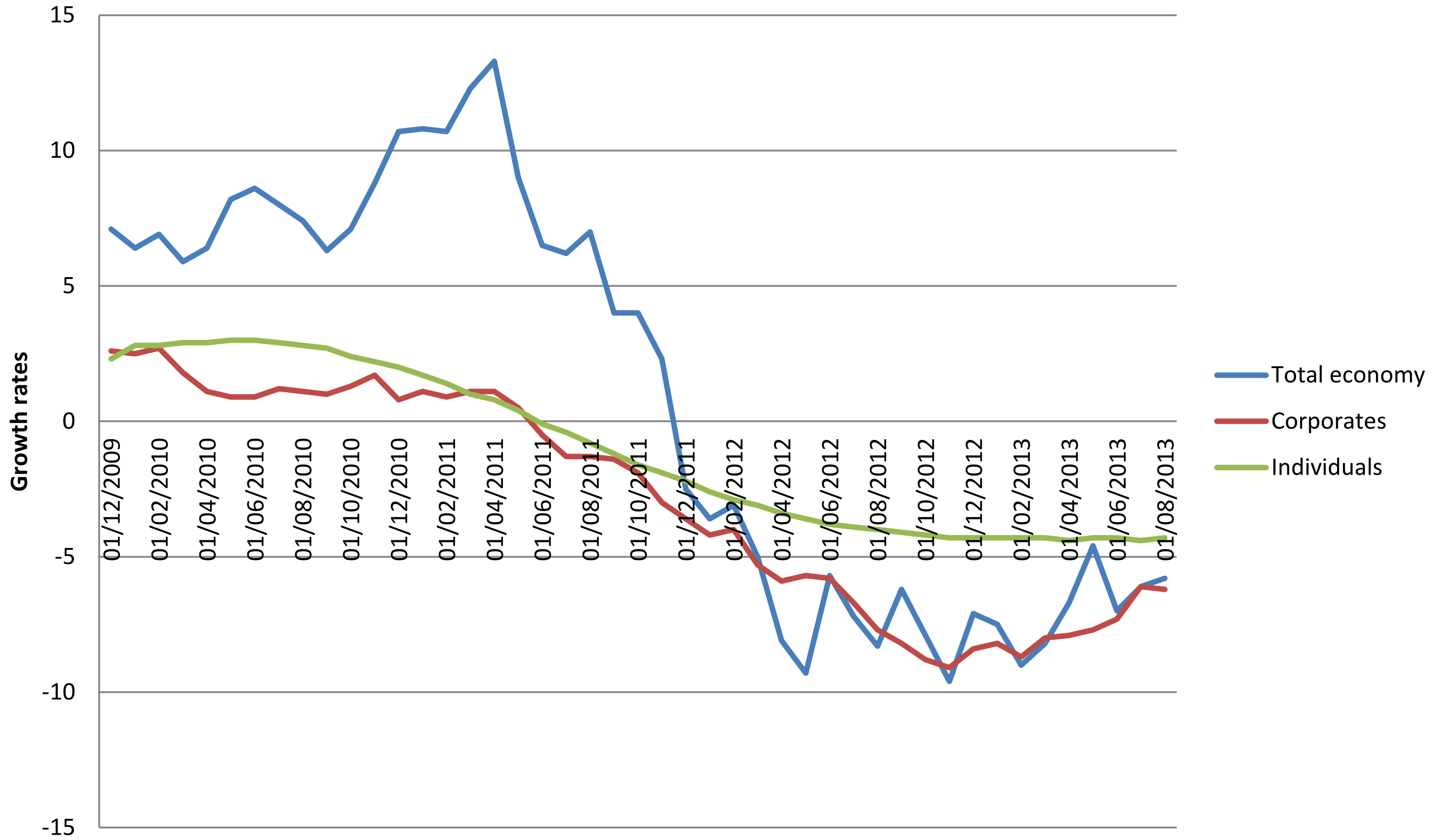
- Levels of indebtedness of household sector are coming down
- Levels of indebtedness of corporate sector have also decreased
- With the reduction in Public Debt after 2014 the overall leverage ratio will start to be reduced in 2014
- Volumes of credit to the corporates and individuals are still decreasing (6%), but at a lower rate since Nov 2012
- A serious problem remains: fragmentation in Euro credit markets
  - EIB and ECB are working on the problem

Total Debt

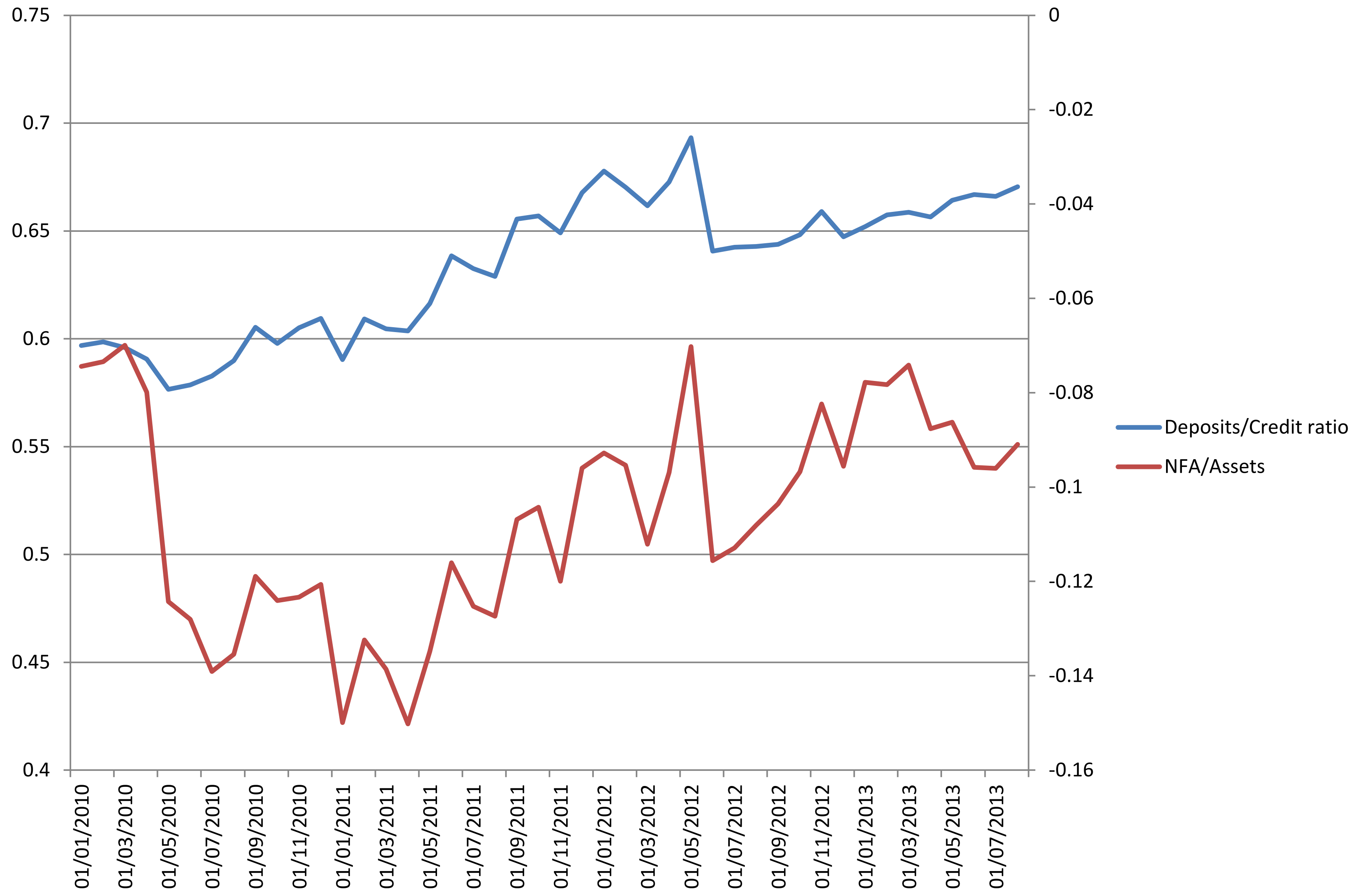
Deleveraging is taking place
In corporate and household sectors

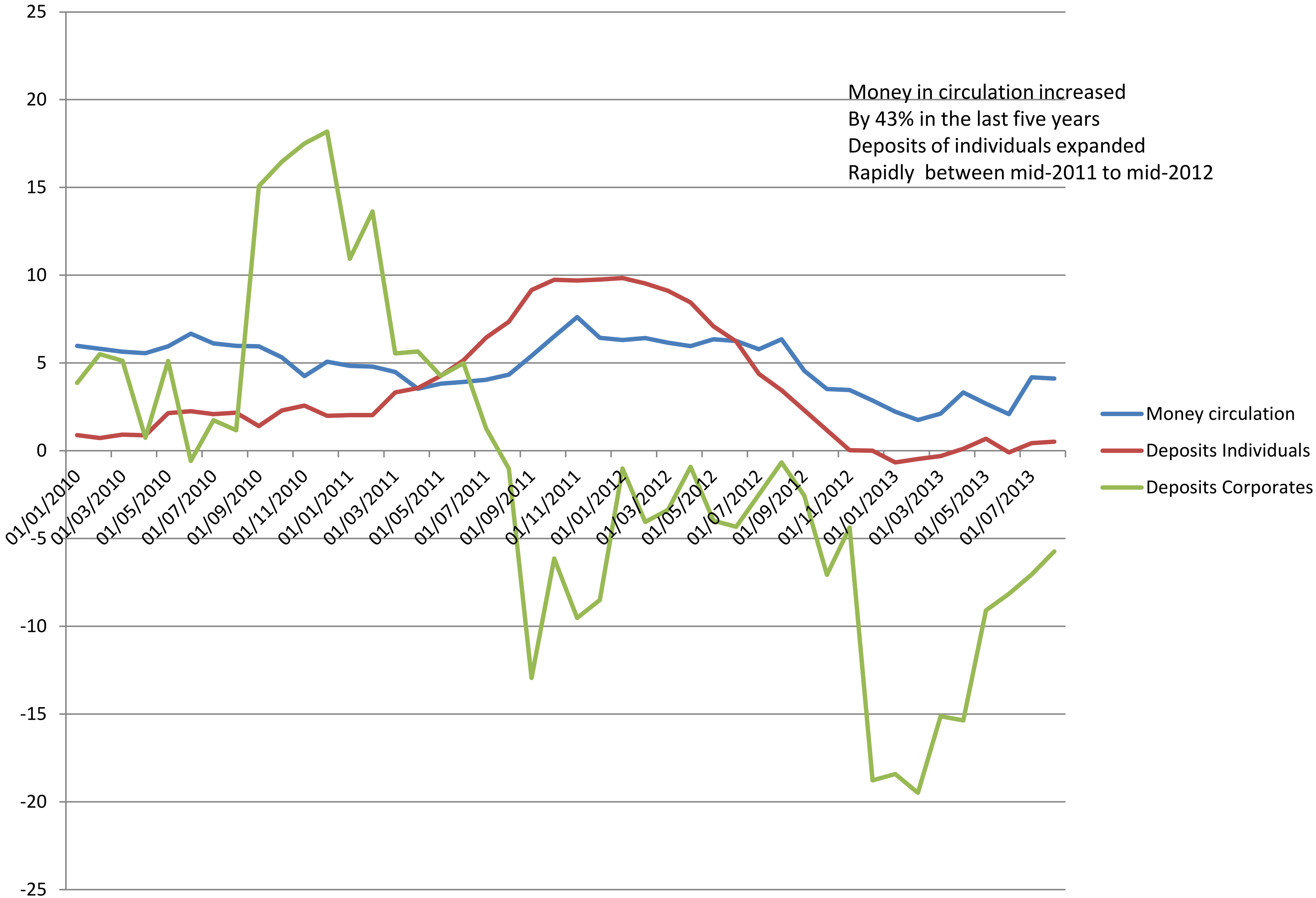


Credit


15
10
5
0
-5
-10
-15
Growth rates
01/12/2009
01/02/2010
01/04/2010
01/06/2010
01/08/2010
01/10/2010
01/12/2010
01/02/2011
01/04/2011
01/06/2011
01/08/2011
01/10/2011
01/12/2011
01/02/2012
01/04/2012
01/06/2012
01/08/2012
01/10/2012
01/12/2012
01/02/2013
01/04/2013
01/06/2013
01/08/2013
Total economy
Corporates
Individuals

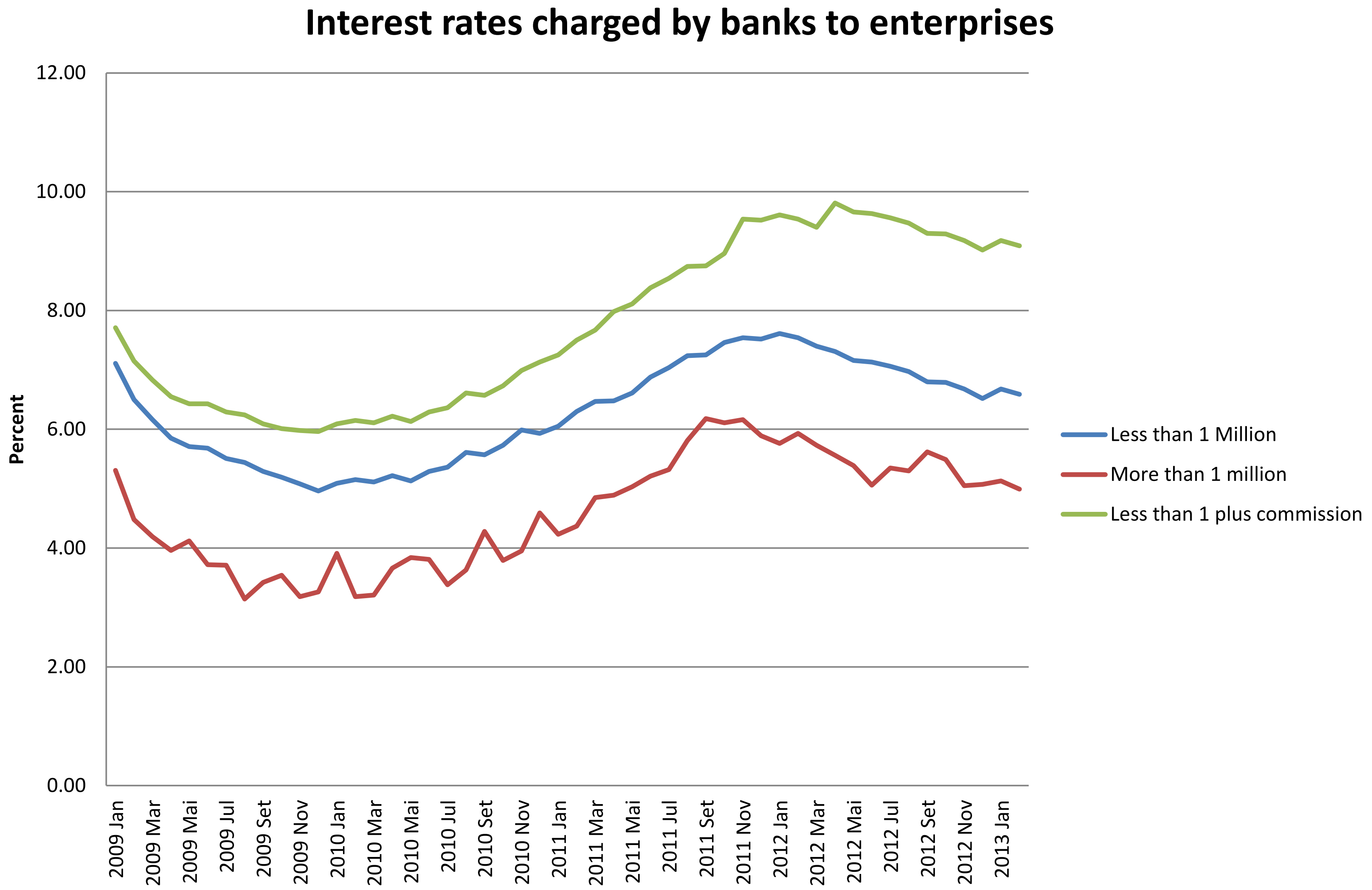
Deposits/credit ratio increased from .6 to .67
And Net Foreign Assets are recovering since 2011





25
20
15
10
5
0
-5
-10
-15
-20
-25
01/01/2010
01/03/2010
01/05/2010
01/07/2010
01/09/2010
01/11/2010
01/01/2011
01/03/2011
01/05/2011
01/07/2011
01/09/2011
01/11/2011
01/01/2012
01/03/2012
01/05/2012
01/07/2012
01/09/2012
01/11/2012
01/01/2013
01/03/2013
01/05/2013
01/07/2013
Money in circulation increased
By 43% in the last five years
Deposits of individuals expanded
Rapidly between mid-2011 to mid-2012
Money circulation
Deposits Individuals
Deposits Corporates

Problem of credit market segmentation
And SMEs
In the Eurozone



Leverage ratio decreased from 154 in 2011 to 128% in 2013
Core Tier1 has been increased to about 10%
Bad debts at around 10% are still below Spain and Italy

1st Semestre 2012													
	Core Tier I		ROE	Bad debts	Net profits	Financial margin	Banking product	Commission s	Clients resources	Deposits	Credits	Ratio leverage	
Santander Totta	10.9		4.7	4.0	64	282	539	177	27,265	20,203	30,523	151.1	111.9
CGD	9.6		2.2	8.7	64	803	1,593	258	70,345	64,398	81,392	126.4	115.7
BES	9.9		0.6	7.9	26	2,025	1,191	398	56,132	32,765	51,176	156.2	91.2
BCP	9.7		-29.8	13.2	-544	582	1,232	401	64,149	45,400	65,514	144.3	102.1
BPI	9.4		6.2	3.6	85	292	632	157	26,835	19,293	26,997	139.9	100.6
Total					-306	3,985	5,188	1,391	244,726	182,059	255,602	140.4	104.4
Growth rate					-162.8	38.2	2.7	0.5	-4.2	3.1	-6.2		
1st Semestre 2013													
	Core Tier I		ROE	Bad debts	Net profits	Financial margin	Banking product	Commission s	Clients resources	Deposits	Credits	Ratio leverage	
Santander Totta	12.7		2.8	5.4	46	247	423	166	27,687	21,264	28,953	136.2	104.6
CGD	9.3		-5.6	10.2	-200	468	1,159	256	71,827	65,795	77,109	117.2	107.4
BES	9.5		-6.5	10.7	-237	470	982	378	56,132	37,912	51,111	134.8	91.1
BCP	10		-32.3	12.6	-488	388	791	401	65,517	47,500	61,401	129.3	93.7
BPI	9.8		5.1	4.9	58	237	584	157	25,610	19,030	25,880	136.0	101.1
Total					-821	1,810	3,939	1,358	246,773	191,501	244,454	127.7	99.1
Growth rate					-168.4	-54.6	-24.1	-2.4	0.8	5.2	-4.4		

Annex:
Ireland strategy to return to markets

- Six months after Ireland was forced to accept the €67.5bn bailout from the EU-IMF in November 2010, John Corrigan, NTMA chief executive, restarted investor roadshows in Asia, the US and Europe.
- "We didn't do any deals on these early visits but it was important to maintain personal contacts with investors and explain how Ireland was dealing with its problems," says Mr Corrigan.
- By mid-2012 the NTMA began issuing three-month Treasury bills, short-term debt that enabled Dublin to re-engage with investors. In January this year the agency raised €2.5bn through a syndicated tap of an existing five-year security and a few months later it raised a further €5bn through the sale of a benchmark 10-year bond.

- US investors led the charge back into Irish bonds, betting that the country would deliver on its pledge to honour its debts and restore its economy to health. At one point Franklin Templeton, a California-based asset manager, controlled almost a 10th of Ireland’s government bond market. More risk-averse continental European and Nordic funds have since invested and by March this year some 57 per cent of Irish medium and long- term securities were owned by non-resident investors.
- Over recent months Ireland’s benchmark 10-year bonds have decoupled from fellow bailout struggler Portugal and are trading at more competitive levels than either Italy or Spain. Ahead of its bailout exit the NTMA has raised a €20bn funding cushion, which is enough to cover all debt redemption payments and government spending requirements in 2014.

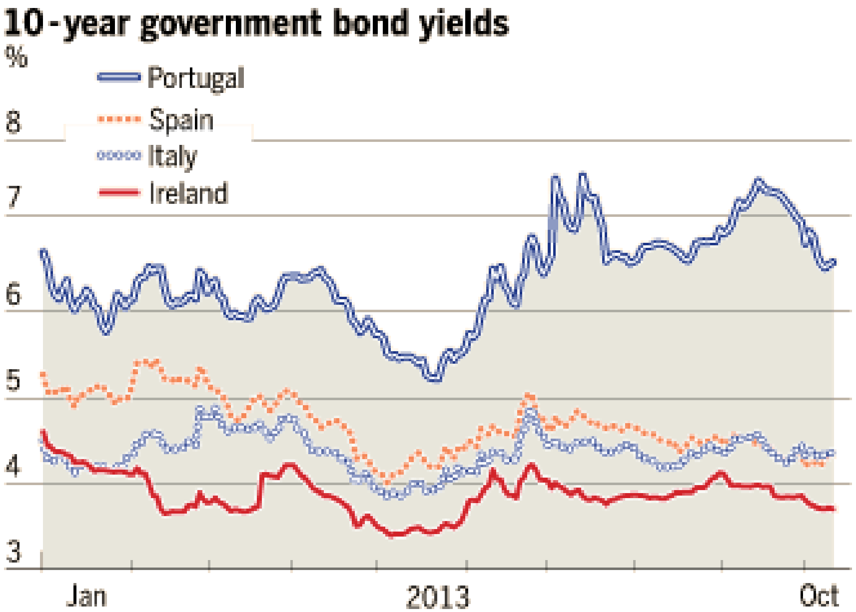
- “Ireland has been a success story,” says Chris Wightman, senior portfolio manager at Wells Fargo Asset Management. “But the concern is that the yields moved very low, very fast. The fundamentals are still not great and the bond market is limited. Despite this, Ireland is trading at extremely tight spreads compared to some of their peers,” he says.
- Standard & Poor’s and Fitch, the credit rating agencies, have both upgraded Ireland to investment grade. But Moody’s still maintains a “junk” status rating on Irish sovereign bonds. “This excludes a lot of Asian and Middle Eastern investors from buying Irish debt,” says Mr Corrigan. “We are disappointed with Moody’s. They missed Ireland on the way down and now they are being a laggard on the way up,” he says.
- Moody’s cites Ireland’s high debt, fragile banking system and its susceptibility to shocks elsewhere in the eurozone for its rating.
    - FT 14.10.2013

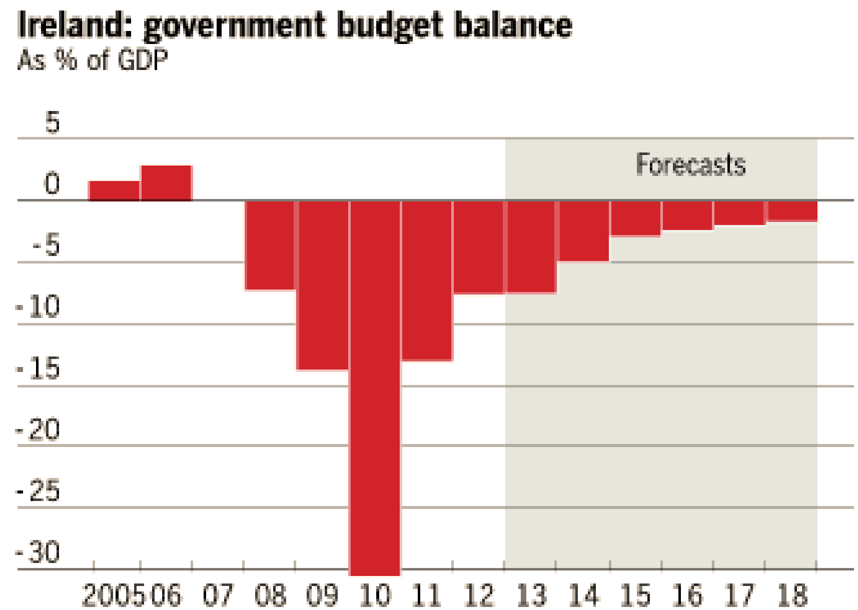
- “Positive growth is indispensable for the debt dynamics to turn in a favourable direction,” it said last month when it upgraded its Irish outlook to stable from negative but retained its “junk” rating.
- Ireland’s huge government debt, which is forecast to peak at about 123 per cent of gross domestic product this year, leaves the country vulnerable to external and internal shocks. The small, open nature of Ireland’s economy, where exports are worth more than GDP, means the country relies on the performance of its main trading partners – the UK, continental Europe and the US – to expand its economy.
- GDP grew 0.2% in 2013 and it is forecast to grow 1.8% in 2014

- The Marker, Ireland’s newest five- star hotel, opened this summer in the heart of Dublin’s “Silicon Docks” neighbourhood, a base for US technology companies such as Google, TripAdvisor and LinkedIn. Facebook and Yahoo are both looking for office space in the area, underlining the importance of foreign direct investment to the Irish recovery.
- Several other big US private equity investors, such as Kennedy Wilson, Lone Star and BlackRock, have bought into Ireland over the past year. Individuals including John Malone, the US media mogul, and Yelena Baturina, Russia’s richest woman, have also bought hotels.
- Ireland’s ability to meet its bailout targets, maintain political stability, return to bond markets and negotiate extensions of maturities on its debt with the EU authorities – which will ease funding requirements in the near term – have impressed investors.

- “The current market view is that Ireland can make it,” says Philip Lane, professor of economics at Trinity College Dublin. “But the vulnerability to contagion is the big issue for Ireland with Greece and Portugal still facing difficulties. Irish bond yields have also indirectly benefited from quantitative easing by major central banks and so are vulnerable to any tapering of these programmes.”

- The IMF wants Dublin to seek a precautionary line of credit – a form of backstop – from its international lenders when it leaves the programme as a contingency plan against unforeseen events. This may make Dublin eligible for the European Central Bank's bond-buying programme, which has been instrumental in calming the eurozone crisis, even though it has never been deployed.
- The fund is also pressing European authorities to allow the European Stability Mechanism, Europe's new bailout fund, to provide a backstop in case Ireland's banks fail next year's stress tests.
- It has also urged the EU to intervene to lower bank funding costs in Ireland, which are causing a squeeze on credit that is slowing recovery. But two months before Ireland's bailout exit, it remains unclear whether Dublin will apply for a backstop or whether EU authorities are willing to grant one.





Sources: Thomson Reuters Datastream; IMF