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Contingent Capital Instruments in Portugal

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Index

Background

1

Background

Bail-out package	• In April 2011, the Portuguese Government requested financial assistance from the EU and the IMF • In May 2011, Portugal was given a bail-out package worth EUR 78 billion • The bail-out package is governed, *inter alia*, by a Memorandum of Understanding, whereby the Portuguese governments undertakes to conduct several reforms, to improve its financial condition and economy

New core tier 1 requirements for Portugal

Memorandum of Understanding

- 10% Core Tier 1 ratio by the end of 2012
- Loan-to-deposit ratio of 120% by 2014

EBA Recommendation EBA/REC/2011/1

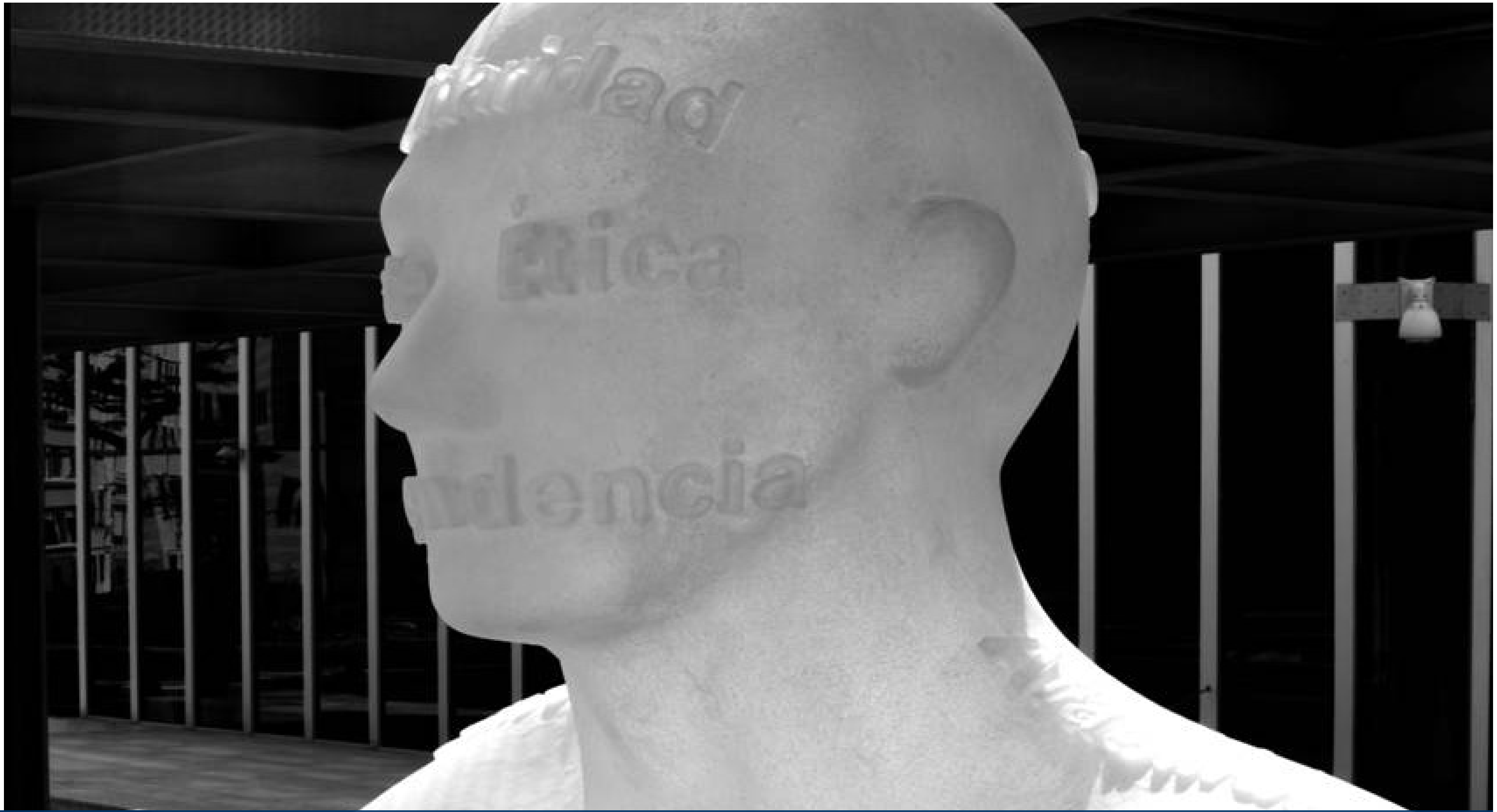
- 9% Core Tier 1 ratio by the end of June 2012, incorporating:
  - removal of the prudential filters on sovereign assets and prudent valuation in the sovereign debt and loan and receivables portfolios
  - Stricter definition of Core Tier 1

Course of action

- General halt in lending
- Sale of non-performing loans
- Sale of assets
- Capital increases

The Portuguese Government and the troika agreed to make available a EUR 12 billion recapitalisation line, to help fund the recapitalisation of Portuguese banks

General considerations on CoCo Bonds 2



Contingent capital instruments

Commonly referred to as CoCos – contingent convertibles

Typically, security that recapitalises a distressed financial firm without recourse to taxpayer funds

- possible solution to the **"too big to fail"** problem
- improve and maintain creditworthiness

Contingent capital instruments

Convert into equity	**Or**	are written down

When?

- upon the occurrence of a contingent, specified event (trigger)
- if contingent event does not occur: instruments will be redeemed at maturity

Regulatory framework in Portugal 3

Contingent capital instruments eligible for Tier 1	
EBA	The shortfall to the capital buffers provided by EBA Recommendation EBA/REC/2011/1 may be covered with contingent capital instruments which comply with the term sheet set forth therein
Notice 4/2012	On January 2012, the BoP issued the BoP Notice no. 4/2012, under which contingent capital instruments are recognised as Core Tier 1, when **subscribed by the Portuguese State** in the context of Government bank recapitalisation measures.
Conversion into equity	Pursuant to Ordinance no. 150-A/2012, such instruments **convert into equity** upon the occurrence of an essentially **regulatory discretion-based trigger**

Indicative termsheet	Contingent capital instruments in Portugal
1 Issuance	At par and subscribed by the Portuguese State
2 Term	5 years
3 Coupon rate	Ranging between 7% and 9.3%, to be added of: • 25 basis points per year in the two years following the issuance; and • 50 basis point for each of the following years
4 Coupon cancellation	• Applicable where its payment would lead to regulatory capital (particularly, Core Tier 1) requirements not to be complied with • Coupon to be replaced with shares

Indicative termsheet	Contingent capital instruments in Portugal
5 Trigger	Mandatorily convertible into equity upon: • material non-compliance with the recapitalisation plan (as defined therein); or • supervening ineligibility of instruments for Core Tier 1 purposes and where • the issuer does not repurchase all instruments within a term of 5 years from their issuance • there is a "Viability Event"
6 Conversion	To be determined by the Ministry of Finance, with a discount on the shares' market value at the conversion date.

Indicative termsheet	Contingent capital instruments in Portugal
7 Ranking	Subordinated against creditors of the institution, *pari passu* regarding holders of other contingent capital instruments and senior against ordinary shareholders.
8 Limit	Recognised up to 50% of the basic own funds of the issuer.
9 Other Conditions	• Remuneration (fixed and variable) of the members of the management and supervisory boards reduced to 50% of the previous 2 years' average; • Issuer's undertakings in the T&C of the instruments: ▪ Restrictions on payments under hybrid and subordinated debt ▪ Limitations on the granting of credit ▪ Obligation to invest in a fund that invests in SMEs

Issuances by Portuguese banks

Issuances by Portuguese banks

Millennium bcp	• Largest private Portuguese bank by assets • Share capital increase of EUR 500 million, with a firm commitment by the Portuguese State • Issuance of CoCo bonds worth EUR 3 billion
BPI	• Share capital increase of EUR 200 million • Issuance of CoCo bonds worth EUR 1.5 billion • Meanwhile, repurchased CoCo bonds worth EUR 500

Issuances by Portuguese banks

CGD	• Stated-owned and largest bank in Portugal • Share capital increase of EUR 750 million • Issuance of CoCo bonds worth EUR 900 million
Banif	• Stated-owned and largest bank in Portugal • Share capital increase of EUR 700 million • Issuance of CoCo bonds worth EUR 400 million • Further share capital increase of EUR 450 million to be carried out by June 2013

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