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In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […].		PUBLIC VERSION This document is made available for information purposes only.

Subject: State aid SA. 35238 (2013/N) Restructuring of BPI

Sir,

1. PROCEDURE

(1) On 29 June 2012 Banco BPI S.A. ("*BPI*" or "*the bank*") was recapitalised under the Recapitalisation Scheme for credit institutions in Portugal ("the Recapitalisation Scheme")[1]. Pursuant to recital 23 of the Decision authorising the Recapitalisation Scheme beneficiaries of State aid under that scheme have to submit a restructuring plan within six months from the recapitalisation.

(2) On 15 and 28 June 2012 the Portuguese authorities requested authorisation to pay out dividends on preference shares issued by the bank's subsidiary, BPI Capital Finance Ltd., in light of the terms of the Recapitalisation Scheme. By electronic mail of 29 June 2012 the Commission services confirmed that on the basis of the information available the dividend and coupon ban to which beneficiaries under the Recapitalisation Scheme are subject applied. By electronic mail of 29 July 2012 the Portuguese authorities submitted a memo in which they concluded that the dividend payment constituted a legal obligation and proposed to inform BPI accordingly.

[1] Decision in case SA.34055 (2011/N) of 30.5.2012, OJ C 249, 18.8.2012, p. 5.

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(3) On 13 August 2012 BPI paid dividends amounting to EUR 290 000 on preference shares issued by BPI Capital Finance Ltd. To date, a total amount of EUR 1.2 million of preferred dividends has been paid out on those preference shares.

(4) On 15 November 2012 BPI notified a restructuring plan. The restructuring plan was consequently updated by several submissions, the last one dated 18 July 2013.

(5) The restructuring plan for BPI was discussed between the Portuguese authorities and the Commission services in a series of meetings, phone conferences and other information exchanges between November 2012 and July 2013.

(6) Portugal exceptionally accepts that the present decision be adopted in the English language.

2. BACKGROUND

2.1 The beneficiary

(7) BPI is a limited liability company, incorporated under Portuguese law, with a share capital of EUR 1.190 billion. BPI has been listed since 1986, and its shares are traded at Euronex Lisbon. Its major shareholders are CaixaBank, SA, from the La Caixa Group with 46,2%, the Santoro Finance – Prestação de Serviços, SA, from Santoro Group with 19.5%, Allianz Europe, Ltd and Companhia de Seguros Allianz Portugal, from the Allianz Group, with 8,8% and Violas Ferreira Financial, SA, from the Portuguese HVF group, with 2,2%.

(8) The BPI Group ("the Group"), headed by BPI, is a financial group focusing on the banking business. The BPI Group provides a comprehensive range of financial services and products to companies, institutional and individual customers via its six pillars i) commercial banking, ii) asset management, iii) insurance, iv) domestic investment banking, v) financial investments and private equity and vi) international commercial banking.

(9) The activity developed within the domestic segment corresponds to the activities of commercial banking in Portugal, the banking services provided (by BPI and its foreign subsidiaries and branches) to non-residents, particularly communities of Portuguese emigrants, and services provided at the Madrid branch, and to the activities of investment banking, private banking, asset management, life capitalisation insurance, pensions and private equity.

(10) The international activity comprises essentially the activities located in Angola and Mozambique, namely the commercial banking activity conducted by Banco de Fomento Angola (BFA) in which BPI holds 50.1% (the Angolan telecommunications company Unitel holding the remaining 49.9%), as well as the 30% stake in Banco Comercial e de Investimentos (BCI) in Mozambique, which BPI consolidates through the equity method.

(11) The Group's balance sheet total by 31 December 2012 amounted to EUR 42.9 billion with risk weighted assets ("*RWA*") of EUR 24.5 billion. The total net assets in domestic operations amounted to EUR 37.9 billion, corresponding to 89% of the Group's consolidated assets. The total net assets in international operations amounted to EUR 6 billion (99% corresponding to the Angolan business).

(12) By end 2012 the Group had about 8 667 employees (6 400 in the domestic business and 2 267 in the international business) and 914 branches (747 in the domestic business and 167 in BFA).

(13) BPI holds a strong position in most of the domestic Portuguese business areas.

Table 1: BPI's main financial figures in the domestic segment

Domestic	**31/12/2011**	**31/12/2012**
Total assets (billion EUR)	37.57	37.94
Loans to customers (billion EUR)	27.44	25.46
Retail deposits (billion EUR)	17.41	16.94
Total wholesale funds (billion EUR)	3.11	3.73
Total employees domestic	6,659	6,400
Number of domestic branches	759	747

2.2 The aid measure

(14) BPI was recapitalised under the Recapitalisation Scheme for credit institutions in Portugal on 29 June 2012 in the form of contingent convertible subordinated bonds ("*CoCos*") amounting to EUR 1.5 billion (the amount being equal to ca. 6% of RWA), with an interest rate that started at 8.5% and gradually increases up to 10% over the restructuring period.

(15) The largest part of the capital need was related to the sovereign buffer requested by the European Banking Authority ("EBA"), which amounted to EUR 1 359 million, of which EUR 989 million were attributable to Portuguese sovereign debt. That buffer included EUR 256 million related to the negative revaluation of interest rate derivatives hedging the sovereign bond portfolio.

(16) Since the recapitalisation in June 2012 BPI has already repurchased CoCos for a total amount of EUR 580 million in four different operations, thus reducing the amount of outstanding government-subscribed CoCos to EUR 920 million.

(17) The first repurchase was performed on 13 August 2012. BPI performed a share capital increase via a rights issue of EUR 200 million of which the proceeds were

used to repurchase EUR 200 million worth of CoCos. The capital increase, in which the subscription price of the new shares had an implicit discount of 8.3% over the previous day's closing price, was fully subscribed by the main shareholders, thus maintaining or increasing their stakes.

(18) On 4 December 2012, the bank repaid an additional amount of EUR 100 million of CoCos held by the Portuguese State. That operation was followed by a third repayment of CoCos amounting to EUR 200 million on 13 March 2013, and a fourth repayment of EUR 80 million on 16 July 2013, leaving the outstanding amount of CoCos at EUR 920 million, which is lower than the temporary capital buffer for sovereign debt that was requested by EBA.

(19) BPI aims at repurchasing the remaining CoCos as quickly as possible and has committed to a repayment mechanism[2]. Until the full repayment of the CoCos, all retained earnings will be channelled towards that repayment.

2.3 The events leading to the aid measure

(20) The need for the State support was caused by a combination of the difficult economic environment, the sovereign debt crisis and a change in the regulation governing the capital requirements, requiring the bank to increase its capital buffers.

(21) BPI’s 2011 results were negatively impacted by the Greek sovereign debt crisis and an exacerbation of the Euro crisis. The impairments registered for the Greek exposure amounted to EUR 420 million after taxes and the transfer of part of the bank's pension fund to the Portuguese social security – a step which was imposed as part of the government’s efforts to close the budget deficit – had a negative net impact in the 2011 results. As a result, BPI recorded its first loss in 30 years.

(22) On 8 December 2011 EBA published a formal Recommendation related to banks’ recapitalisation needs. That Recommendation stipulated that the core tier 1 ratio ("CT1") as a percentage of RWA had to reach 9% including a sovereign buffer reflecting market prices as of 30 September 2011. Banks were expected to build those buffers by 30 June 2012 in order to reach the target ratio. In March 2012, without the sovereign buffer, BPI's CT1 funds amounted to EUR 2.3 billion (CT1 ratio of 9.4%).

(23) Taking into account the sovereign debt exposures and the prices of 30 September 2011, the amount of the sovereign buffer determined for BPI was set at EUR 1 359 million. The market prices of the sovereign bonds of 30 September 2011 can be considered as the trigger of the State aid which translated into the subscription of the CoCos by the Portuguese State in an effort to recapitalise the bank and allow it to comply with the new regulatory ratios.

[2] See recital 41 and 42.

2.4 The breach of dividend ban

(24) BPI was recapitalised under the Recapitalisation Scheme. In that context Portugal committed that banks which are recapitalised under the scheme would apply behavioural restrictions, including, inter alia:

- a dividend ban;
- a ban on coupon and interest payments on hybrid instruments and subordinated debt which are not held by Portugal and where there is no legal obligation to proceed with such payment.

(25) Starting from 13 August 2012 dividends on preference shares issued by BPI Capital Finance amounting to EUR 1.2 million were paid without prior Commission authorisation.

(26) The terms of the subordinated guarantee given by BPI in respect of the preference shares provide as follows:

"The Guarantor undertakes that, in the event that any Preferred Dividend is not paid in full to Holders in accordance with the rights attaching to the Preference Shares in accordance with the Articles of Association of the Issuer, the Guarantor will not

i) […][*]

ii)(if permitted) repurchase or redeem Parity Obligations or Junior Obligations until the date on which a fourth consecutive Preferred Dividend has been paid in full".

(27) Portugal is of the opinion that if those payments were not made it would prevent repayment of the CoCos and concludes that they therefore constitute a legal obligation.

3. THE RESTRUCTURING PLAN

(28) BPI's restructuring plan is based on three main elements, which the bank has already started implementing before the State support was granted:

- Focus on core activities and deleveraging of domestic non-core activities;
- increasing its operational efficiency;
- the repayment of EUR 920 million of CoCos during the restructuring period.

Focus on core activities and deleveraging of non-core activities

(29) As regards a deleveraging of the balance sheet, BPI had already made efforts in that respect well before the recapitalisation in June 2012. The restructuring plan sets out

[*] Confidential information.

additional deleveraging efforts. Those efforts involve the bank focusing on its core activities and a continuous deleveraging of its non-core activities.

(30) The core activities form the basis of a sound and viable bank focussing on BPI’s retail business and contain a limited sovereign bond portfolio. The non-core activities will include all activities that will be discontinued, closed or held to maturity.

(31) BPI will continue to perform its domestic activities (commercial banking in Portugal, banking services provided - by BPI and its foreign subsidiaries and branches - to non-residents, particularly communities of Portuguese emigrants and services provided at the Madrid branch and the activities of investment banking, private banking, asset management, life capitalisation insurance, pensions and private equity) and its international activities in Angola, Mozambique and South Africa.. In all those markets, the bank provides banking services to corporate and individual retail customers and is developing a strategy of quality in the provision of services to customers, adjusting itself to the economic and social environment of each one of the countries.

(32) The main geographical market that BPI is active in is the domestic market, which is still affected by the current macroeconomic outlook.

(33) The restructuring plan provides for a total deleveraging of [10-20]%, which results from a combination of a [20-30]% deleveraging in domestic activities and a significant growth of BPI’s small international activities in Angola and Mozambique (14% of total assets).

(34) BPI's domestic balance sheet will be reduced by [20-30] % between 2012 and 2015. That decrease will be achieved through significant deleveraging mainly through the reduction of government debt, a maturing loan book and a strong reduction of the Available for Sale portfolio[3].

(35) If added to previous restructuring efforts (2008 – 2012) those efforts represent a total reduction of the domestic balance sheet by [20-30]% compared to 31 December 2008. The deleveraging at group level by 2015 and compared to end 2012 amounts to [10-20]% as a result of a combination of strong domestic deleveraging and a significant increase of BPI's (currently) small international activities in Angola and Mozambique.

(36) The deleveraging of the core domestic loan portfolio ([5-10]%) is mostly achieved through reducing the sectors "Residential mortgages", "Corporates in Madrid" and, "Developers and construction", thereby creating more lending capacity for SMEs and large corporates. That increased lending capacity, combined with a favourable loan-to-deposit ratio will allow BPI to diversify its risk portfolio and to continue supporting the Portuguese real economy.

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[3] Available for sale is an accounting term that is used to describe assets that are purchased with the intention of holding them for a limited period of time before offering them for resale, typically before maturity is reached.

(37) Following the restructuring, BPI Group projects to post profits before tax in 2015 of EUR [300-600] million, a cost-to-income ratio of [40-70]% and a common equity tier 1 ("CT1") according to Basel III rules with phasing in [8-15]%.

Operational efficiency

(38) As regards the second main element in the restructuring plan, the increase of the bank's operational efficiency, BPI had also already taken measures in 2011 and 2012 to optimise its cost base and has, if compared to pre-crisis financial data, reduced both the labour cost and the selling, general and administrative costs of its domestic operations.

(39) BPI will continue that optimization effort by further reducing operational costs during the restructuring period. One of those measures is the optimisation of the bank's branch network, involving the reduction of 7% in branches in the domestic activities between 2012 and 2015. At the end of 2012, BPI held a total of 747 retail branches in its domestic network. BPI will reduce its network by additional 50 branches during the restructuring period, in order to keep 697 retail branches of which 684 will be in Portugal, with twelve branches in France and one corporate centre in Madrid.

(40) A reduction of the bank's headcount and the renegotiation of contracted services are the main levers to achieve additional savings. According to the restructuring plan, BPI will continue to reduce its labour costs over the restructuring period. In terms of headcount the bank reduces its domestic staff by 6%, thus reducing the total number of Full-Time-Equivalents ("FTE") from 6 400 in 2012 to 6 000 in 2015. BPI had already reduced its domestic workforce by 18% between 2008 and 2012, on the group level.

The repayment of CoCos during the restructuring period

(41) BPI commits to repay the outstanding amount of EUR 920 million of CoCos during the restructuring period. The deleveraging of the balance sheet and the increase of the operational profitability should enable BPI to redeem the CoCos.

(42) In order to balance the objectives of lowering the average funding costs on the one hand and keeping a sufficient capital buffer on the other hand, the restructuring plan sets out that in the fiscal years 2013 and 2014 BPI will use at least [50-60]% of its excess capital, defined as the capital exceeding a threshold of [100-150] basis points above the applicable minimum capital requirement under European and Portuguese law (including pillar 1 and 2) to repurchase CoCos. In the fiscal year 2015 BPI will use [90-100]% of its excess capital for the repurchase of CoCos.

(43) Table 2 presents the main financial projections as set out in the Restructuring Plan.

(44) *Table 2: Key financial projections for the years 2012 – 2015*

P&L(Group)	2012	2013	2014	2015	Evolution rate 2012-2015 (%)
Profit before tax (M EUR)	411	[…]	[…]	[300-600]	[…]
Cost - Income Ratio	50%	[…]	[…]	[40-70]%	[…]
FTE	8 667	8 868	8 847	8 673	0%
Of which: Domestic core	6 400	6 316	6 235	6 000	-6%
Branches	914	910	899	909	-1%
Of which: Domestic core	747	718	697	697	-7%
ROE	13%	[5-10]	[7-13]	[8-15]	[…]

Balance Sheet	2012		2013		2014		2015		Evolution rate 2012-2015	
Assets	Core	Group	Core	Group	Core	Group	Core	Group	Core	Group
Loans to clients (M EUR)	[…]	26 547	[…]	[…]	[…]	[…]	[20,000 – 25,000]	[25,000-30,000[	[…]	[…]
NPLs (M Eur)	[…]	892	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]
Total assets (M Eur)	[…]	42 850	[…]	[…]	[…]	[…]	[30,000-35,000]	[40,000-45,000]	[…]	[…]
RWA (M Eur)	[…]	24 512	[…]	[…]	[…]	[…]	[…]	[20,000-25,000]	[…]	[…]

4. POSITION OF THE PORTUGUESE AUTHORITIES

(45) The Portuguese authorities accept that the measure constitutes State aid.

(46) Portugal states that according to the underlying terms of the preference shares that have been issued by the bank's affiliate BPI Capital Finance, and in particular due to a subordinated guarantee granted on those shares, BPI as guarantor is obliged not to repurchase or redeem parity obligations or junior obligations until the date on which a fourth consecutive preferred payment has been made in full. Portugal considers that the repurchase of the CoCos constitutes such a repurchase of parity obligations or junior obligations. Portugal further submits that if the preferred payment had not been made in August 2012 any repurchase of the CoCos would have been deferred at least until August 2013. It contends that such a delay would have been incompatible with the overriding obligation of the Portuguese State to minimise the amount of the aid to BPI. Portugal concludes thereof that the dividend payment constitutes a legal obligation. Portugal further submits that by repurchasing CoCos in the amount of EUR 580 million BPI has demonstrated its capacity to repay the State aid early and that consequently the Commission should have authorised the dividend payment already in August 2012.

(47) Portugal has undertaken a number of commitments related to the implementation of the restructuring plan which have been presented in the Annex to this Decision.

(48) Furthermore, in order to ensure that the various commitments are duly implemented, the Portuguese authorities commit to appoint a monitoring trustee ("the Monitoring Trustee") in charge of monitoring all commitments undertaken by the Portuguese authorities and BPI towards the Commission.

5. ASSESSMENT

5.1 Existence of State Aid

(49) According to Article 107(1) of the Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

(50) The qualification of a measure as State aid requires the following conditions to be met cumulatively: a) the measure must be financed through State resources; b) it must grant a selective advantage liable to favour certain undertakings or the production of certain goods; c) the measure must distort or threaten to distort competition and have the potential to affect trade between Member States.

(51) The recapitalisation measure was granted under the Recapitalisation Scheme and in line with that scheme, and therefore constitutes State aid. The Commission observes in any event that the measure was provided by Portugal and thus involves State

resources. The measure conferred a selective advantage to BPI, enabling it to increase its capital at more favourable conditions than could have been found on the market. BPI is an internationally active bank, competing with other banks in Portugal and other countries. Accordingly, the measure could distort competition and affect trade between the Member States. The Commission therefore confirms that the measure constitutes State aid within the meaning of Article 107(1) of the Treaty.

5.2 Compatibility of the aid with the internal market

(52) As regards the compatibility of the aid provided to BPI, the Commission must determine, first, whether the aid can be assessed under Article 107(3)(b) of the Treaty, i.e. whether the aid remedies a serious disturbance in the economy of Portugal. Subsequently, the Commission, using that legal basis, must assess whether the proposed measures are in line with the internal market.

5.2.1 Legal basis for the compatibility of the aid

(53) Article 107(3)(b) of the Treaty empowers the Commission to find that aid is compatible with the internal market if it serves "*to remedy a serious disturbance in the economy of a Member State*".

(54) In respect of the Portuguese economy that assessment was confirmed in the Commission's various approvals of the measures undertaken by the Portuguese authorities to combat the financial crisis. In particular, the Commission has acknowledged in its last approval of the prolongation of the Portuguese Recapitalisation Scheme[4] that there is a continuous threat of serious disturbance in the Portuguese economy and that State support of banks is suitable to remedy that disturbance. The Commission notes that the Portuguese banking system faced severe difficulties at the time the aid measure was granted, as a result of the fact that some of the Portuguese banks were highly leveraged, had high loan-to-deposit ratios, and had to cope with an increasing ratio of non-performing loans. The Commission furthermore notes that Portugal receives financial assistance from euro area Member States, part of which is earmarked for the support of Portuguese banks[5].

(55) Given the systemic importance of BPI – being one of the leading banks in Portugal – and the significance of its lending activities for the Portuguese economy, the Commission accepts that its failure to satisfy strengthened capital requirements would have entailed serious consequences for the Portuguese economy.

(56) In view of the current situation of the Portuguese economy and the widespread lack of banks' access to international and wholesale funding markets, the Commission considers that the requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty are fulfilled.

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4 Decision of 17 December 2012, case SA. 35747 (12/N), OJ C 43, 15.2.2013, p. 21.

5 See press release 10191/11 of the Council of the European Union, 17.05.2011, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/122072.pdf

5.2.2 Compatibility of the aid with the Restructuring Communication

(57) The measure identified as State aid has been provided in the context of the restructuring of BPI. The Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules ("Restructuring Communication")[6] sets out the rules applicable to the granting of restructuring aid of financial institutions in the current crisis. According to the Restructuring Communication, in order to be compatible with the internal market under Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to (i) lead to the restoration of the viability of the bank, (ii), include sufficient own contribution by the beneficiary (burden-sharing) and ensure that the aid is limited to the minimum necessary and (iii) contain sufficient measures limiting the distortion of competition.

(58) Notwithstanding the requirements set out in the Restructuring Communication, point 14 of the Communication on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis ("the 2011 Prolongation Communication")[7] specifies that the Commission will "*undertake a proportionate assessment of the long term viability of banks, taking full account of elements indicating that banks can be viable in the long term without the need for significant restructuring, in particular where the capital shortage is essentially linked to a confidence crisis on sovereign debt, the public capital injection is limited to the amount necessary to offset losses stemming from marking* [European] *sovereign bonds to market in banks which are otherwise viable, and the analysis shows that the banks in question did not take excessive risk in acquiring sovereign debt.*"

(59) In that regard the Commission notes that the capital needs of BPI were essentially linked to a confidence crisis on the sovereign debt of Portugal. Although they were not directly caused by the impact of marking sovereign bonds to market, the underlying reason was comparable, as EBA required banks to establish a capital buffer related to the amount of sovereign bonds held on the balance sheet (the so called "sovereign buffer") and as a consequence increased its minimum capital requirements.

(60) The capital shortfall identified by the EBA stress test was almost entirely due to sovereign debt buffer (EUR 1 359 million). The currently outstanding amount of the CoCos of EUR 920 million is lower than the temporary capital buffer for sovereign debt.

(61) The Commission's analysis has furthermore shown that BPI did not take excessive risk in acquiring sovereign debt. The sovereign debt portfolio was acquired in the second half of 2009 by doing carry trade transactions (financed by ECB one-year funding). Whilst such transactions could under certain circumstances be considered

[6] OJ C 195, 19.08.2009, p. 9.
[7] OJ C 356, 6.12.2011, p. 7.

above average risk-taking the acquired bonds represented eligible collateral and the respective rating notations were well above investment grade (AA- for Portugal). Further the fact that BPI hedged the interest rate risk of the portfolio by using derivatives demonstrates the rather conservative approach of the bank.

(62) For those reasons the Commission will undertake a proportionate assessment of the bank's viability pursuant to point 14 of the 2011 Prolongation Communication.

Restoration of viability

(63) As the Commission sets forth in its Restructuring Communication the Member State concerned needs to provide a comprehensive restructuring plan which shows how the long-term viability of the beneficiary will be restored without State aid within a reasonable period of time and within a maximum of five years. Long-term viability is achieved when a bank is able to compete in the marketplace for capital on its own merits in compliance with the relevant regulatory requirements. For a bank to do so, it must be able to cover all its costs and provide an appropriate return on equity, taking into account the risk profile of the bank. The return to viability should mainly derive from internal measures and be based on a credible restructuring plan.

(64) The Portuguese authorities have submitted a plan for BPI with a three-year time span going up to 2015 and showing a return to viability at the end of the restructuring period.

(65) Point 10 of the Restructuring Communication requires that the proposed restructuring measures constitute a remedy to the beneficiary's weaknesses. In that regard, the restructuring plan adequately addresses the main causes of difficulties of BPI, namely the sizable sovereign portfolio (including Irish, Italian and Greek bonds) and the overall weak profitability in the domestic business.

(66) The restructuring plan provides for a further focussing on the bank's core competences whilst aiming at a wind-down of non-core and more risky activities. The plan therefore includes a split between the bank's core and non-core business, which will allow BPI to focus on retail banking and a limited government bond portfolio. BPI will use the non-core unit as a run-off vehicle to maximise the value of non-core assets through ordered disposals and winding down.

(67) The Commission notes positively that BPI commits to a cap of EUR [0-5] billion on […] debt and will run-down its foreign […] portfolio (and not engage in new business in that respect) which will adequately limit the risk.

(68) As regards profitability in the domestic business BPI aims at improving its operational efficiency by a reduction of branches by 7% and FTEs by 6% compared to 2012, projecting by 2015 a domestic cost-to-income-ratio of [60-80]% ([40-70]% on a group level) which is deemed appropriate for a retail and SME-focussed bank like BPI.

(69) The Commission positively notes the deleveraging efforts in the sectors “Developers and construction” and “Residential mortgages”, which will create more lending capacity for SMEs and large corporate and enables the bank to diversify its risk portfolio and to keep a steady flow of lending towards the real economy.

(70) As regards the deleveraging of the balance sheet the Commission furthermore observes that BPI's restructuring plan is well balanced and carefully avoids producing negative effects on the recovery of the Portuguese economy, even though n total the related measures add up to an amount of EUR [5-10] billion, equivalent to a balance sheet reduction of [20-30]%. If BPI as one of Portugal's largest banks had simply cut down the size of the credit budget it could have contributed to a credit crunch and hurt the real economy. That outcome was avoided by the fact that the main sources of BPI's deleveraging efforts are not linked to the amount of credit which may be provided to the Portuguese economy but are well targeted as they enable BPI to focus on its core retail banking operations, thus avoiding the potential negative effects of deleveraging for the Portuguese economy.

(71) In the same vein the Commission takes note of the commitment by BPI vis-à-vis the Portuguese Government to allocate EUR 30 million per year to a fund that will in turn invest in equity of SMEs and mid-cap corporates in order to secure financing to the real economy in Portugal. The investments of this fund are not subject of this decision. Such investments will not involve the acquisition of equity stakes in competing businesses, and the Commission also considers that they do not constitute market-distorting activities within the meaning of point 23 of the Restructuring Communication. There is nothing in that commitment which can give rise to an additional advantage to BPI, and therefore the Commission does not need to consider further the status of that commitment in the present decision.

(72) In terms of the viability of the Core Unit, the Commission notes that the restructuring plan uses underlying conservative assumptions in terms of market shares evolution in the core areas, net margins on pricing, new productions of loans and cost of funding. In particular, it plans to focus its activities on the SME segment, where growth rates are higher and in which it intends to apply a careful selection of borrowers. In addition, it plans to increase cross-selling activities to its customer base. Overall, the re-pricing of new production and the cross-selling strategy will improve the profitability of the core unit. Those measures will allow BPI to focus on its strong client base amongst retail and SMEs. At the end of the restructuring period, the core unit will be able to cover all its costs and provide an appropriate return on equity of [8-15]%.

(73) According to point 13 of the Restructuring Communication, the restructuring plan should address the requirements emerging from a stress test exercise and ensure that the entity is sufficiently and adequately capitalised. BPI undertook the stress test exercise as prescribed and verified by the Central Bank of Portugal, which included a severe macro-economic scenario and strict limitations on the access to the financial markets in order to identify the capital needs over a three-year time period (2012-

2014). That exercise was designed for assessing the current challenges of the Portuguese banking system, with conservative assumptions and an execution under the control of the Central Bank of Portugal.

(74) As a result of the evolutions within the stress test exercise and the repayment plan for the CoCos, BPI plans to reach a Basel III common equity tier 1 ratio [8-15]% at the end of December 2015, which is the end of the restructuring period.

(75) Finally, the restructuring plan provides information on the future funding profile of BPI. It factors in conservative assumptions in terms of deposits evolution and wholesale and central bank reliance. At the end of the restructuring period, the domestic entity will have a loan-to-deposit ratio of [100-120]% and reliance on the central bank funding will have reduced by [5-10]%. The international activities currently show a very low loan-to-deposit ratio ([20-30]% in 2012 on the aggregated level) which will be increased up to [20-30]%.

(76) The Commission therefore considers that the implementation of the restructuring plan, which involves a reduction of the balance sheet, and hence of funding needs, as well as its loan-to-deposit ratio target and reduction of the central bank reliance, will ensure a conservative funding profile of BPI.

(77) The Commission concludes that the bank on the basis of the above should be able to generate an appropriate return on equity, while covering all costs of its normal operations and complying with the relevant regulatory requirements.

Aid limited to the minimum necessary, own contribution

(78) The Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary in order to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end, it provides that (i) both the restructuring costs and the amount of aid should be limited and (ii) a significant own contribution is necessary.

(79) BPI's restructuring plan does not contain any elements that suggest that the aid, which served the purpose to cover the capital shortfall identified following the sovereign buffer set by EBA, exceeds the means required to restore long-term viability.

(80) According to point 34 of the Restructuring Communication, adequate remuneration of any State intervention is one of the most appropriate limitations of distortions of competition. The Commission notes in that context that the capital provided in form of CoCos is adequately remunerated, in line with the guidelines of the Commission and the ECB[8]. The remuneration of the CoCos starts at an initial 8.5% for the first year and will with step-ups increase over time, resulting in an average remuneration of 9% over the investment period.

[8] ECB Governing Council recommendations on the pricing of recapitalisations of 20 November 2008.

(81) The Commission positively observes that BPI has already repaid EUR 580 million, i.e. more than one-third of the aid amount. The Commission furthermore notes that BPI commits to use its excess capital for the full repayment of the CoCos[9]. That repayment mechanism limits the buffer of capital that BPI may hold on its balance sheet and thereby ensures that the aid will over the restructuring period remain limited to the minimum necessary.

(82) However, the Commission notes that BPI did not comply with the dividend ban which is set out in recital 23 lit. c of the Recapitalisation Scheme under which BPI was recapitalised. Pursuant to that provision Portugal committed to impose upon the beneficiaries of State aid under the Scheme "*a dividend ban [...], unless previously authorised by the Commission.*" BPI Capital Finance paid out dividends in a total amount of EUR 1.2 million without Commission authorisation, and therefore in contravention of that commitment.

(83) The aim of dividend (and coupon) bans is to prevent the outflow of funds, thereby ensuring that the aid can be repaid and hence that State aid is limited to the minimum necessary. To that end, shareholders of the bank as well as holders of hybrid capital and subordinated debt should as far as possible be excluded from the potential benefit of the State aid.

(84) Exceptionally, the Commission can authorise dividend payments provided the benefits of the dividend payment outweigh the disadvantages of such deviation. However, the Commission must ensure that commitments are obeyed and that any deviation from a commitment is subject to an explicit authorisation.

(85) BPI started repaying the CoCos immediately after the first dividend payment, thus demonstrating that it was in a position to actually repay the aid. The Commission acknowledges that due to the terms and conditions of the preference shares, namely the guarantee on those shares which prevents any repurchase or redemption of parity obligations or junior obligations until the date on which a fourth consecutive preferred dividend has been paid in full, BPI would not have been in the position to repurchase the CoCos. However, that element does not alter the Commission's assessment that the dividend payment took place in contravention of the dividend ban.

(86) As BPI was in a position to pay out dividends, it was demonstrated that the aid amount was not limited to the minimum necessary.

(87) The Commission concludes that the aid measures in the amount of EUR 1 500 million were limited to the minimum necessary, with the exception that an amount of EUR 1.2 million was used for dividend payments. In that respect the Commission takes in particular note of the commitment by BPI to pay back to Portugal an amount equalling the dividend payment and therefore the amount by which the aid granted exceeded the minimum necessary. Given that commitment, the aid is deemed to have

9 See Section 6 of the Commitments.

been limited to the minimum necessary.

(88) The Commission further takes note of the dividend and coupon ban to which BPI commits[10].

(89) BPI has already repaid part of the aid and credibly demonstrated its capacity to continue to do so in the future. Such repayment of the aid ensures that the aid is limited to the minimum necessary. The Commission therefore exceptionally authorizes the payment of the preferred dividend on the preference shares issued by BPI Capital Finance in order not to prevent the repayment of the CoCos which otherwise would not be feasible.

(90) For those reasons, the Commission concludes that the restructuring plan including the repayment mechanism provide for an appropriate own contribution and ensure that the aid is limited to the minimum.

Limiting distortion of competition

(91) Finally, section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should be tailor-made to address the distortions on the markets where the beneficiary bank operates post-restructuring. The nature and form of such measures depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the markets on which the beneficiary will operate. Furthermore, the Commission must take into account the extent of the beneficiary’s own contribution and burden-sharing over the restructuring period.

(92) The Commission recalls that BPI has received State aid in the form of a capital injection in an amount of EUR 1 500 million, which is equivalent to 6 % of BPI's RWA.[11] However, whilst the relative amount of aid to the beneficiary is large, it needs to be positively taken into account that: i) BPI pays an adequate remuneration in accordance with the Recapitalisation Scheme[12] and ii) BPI has already repaid more than one-third of the total aid amount which is an important contribution to limit potential distortions of competition. In addition, it needs to be taken into account that according to the projections BPI will repay the full aid amount before the end of 2015, thus considerably earlier than the five-year period which could, pursuant to point 15 of the Restructuring Communication, in principle apply for the restructuring of a bank.

(93) The proportionate downsizing of BPI in terms of business segments, branches and staff is considered appropriate compared to the distortions of competition stemming from the aid

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10 See points 5.5 and 5.6 of the Commitments.

11 Risk Weighted Assets (or RWA) as of the relevant reference date when the aid measure was granted.

12 See recital 80.

(94) In addition to those structural measures, Portugal also committed to several behavioural constraints. The Commission takes note of those behavioural commitments set out in Section 5 of the Commitments, such as a ban on advertising State support and a ban on aggressive commercial practices, preventing BPI from using the aid for anti-competitive market conduct. It in particular welcomes an acquisition ban, which ensures that the State aid will not be used to take over competitors, but that it will instead serve its intended purpose, namely to ensure that the aid is not used to expand the bank's business to the detriment of competitors.

(95) In sum, the Commission considers that there are sufficient safeguards to limit potential distortions of competition, in particular in light of the application of point 14 of the 2011 Prolongation Communication as a consequence of the events leading to the necessity for State aid, namely the EBA sovereign buffer.

5.3 Monitoring

(96) Pursuant to section 5 of the Restructuring Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly.

(97) Moreover, the correct implementation of the Restructuring Plan and the full and correct implementation of all commitments contained in the Commitments will be continuously monitored by an independent, sufficiently qualified Monitoring Trustee.

5.4 Conclusion on the compatibility of the aid measure

(98) The Commission finds that the restructuring aid in favour of BPI is compatible with the internal market for reasons of financial stability on the basis of Article 107(3)(b) of the Treaty, in light of the Commitments annexed to this Decision.

6. CONCLUSION

The Commission has accordingly decided:

– to consider the aid to be compatible with internal market.

The Commission notes that Portugal exceptionally accepts that the adoption of the Decision be in the English language

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: (+32)-2-296.12.42

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President

ANNEX

COMMITMENTS Banco BPI, S.A.

1. BACKGROUND

This document sets out the terms (the “Commitments”) for the restructuring of Banco BPI S.A. ("BPI"), which the Portuguese Republic and BPI have committed to implement.

2. DEFINITIONS

In this document, unless the context requires otherwise, the singular shall include the plural (and vice versa) and the capitalised terms used herein have the following meanings:

Term	Meaning
BoP	Bank of Portugal
BPI	Banco BPI, SA, also referred to as "the Bank"
Commitments	means the undertakings related to the restructuring of BPI set out in this document
Core Region	means the geography where BPI develops its Core Activities and in which BPI will be primarily focused pursuant the Restructuring Plan
Decision	means the decision of 24 July 2013 of the European Commission on the restructuring of BPI in the context of which these Commitments are undertaken
FTE	means Full-Time Equivalent, a unit that indicates the workload of an employee (e.g.: 1.0 FTE means that the person is equivalent to a full-time employee)
Monitoring Trustee or Trustee	has the meaning set out in clause 8 and Annex I herein
NPV	means Net Present Value
Restructuring Period	is the time period specified in clause 3.3
Restructuring Plan	means the plan originally submitted by BPI to the European Commission, via the Republic of Portugal, on 15 November 2012, as successively amended and supplemented by written communications, and last updated on 18 July 2013. One of those amendments is this Commitments document, which was submitted on 18 July 2013 and which contains all the qualitative and quantitative restructuring plan’s mandatory targets, objectives and measures; in the event of any conflict between (i) the content of the plan submitted on 15 November 2012 and any other written communications and (ii) the Commitments, the latter shall prevail.

Term	Meaning
Remedial Actions	mean action(s) that will allow BPI to meet the identified target(s). The remedial actions need to be fully displayed and explained within one month after the need to take such action has become known to the Monitoring Trustee and notified to BPI. The Monitoring Trustee will analyse the remedial actions proposed and will report to the Commission on their adequacy to meet the targets set out in the Restructuring Plan.
SME	SME (Small & Medium Enterprise): refers to BPI's SME internal classification and is based on the commercial network segmentation. BPI has two commercial networks managing companies (retail network and corporate network), segregated in 3 segments: - Large companies (corporate network) - a fixed list of larger companies; most significant includes listed companies and companies with turnover larger than EUR 200 million; - SME managed by the corporate network (mid-size companies) – other companies with turnover above EUR 2 million; - SME managed by the retail network (small businesses) – businesses and companies with turnover up to EUR 2 million. SME includes SME managed by the retail and corporate networks but excludes: - Madrid: operations run through Madrid branch; - Public sector: Central and regional government, state owned enterprises and other institutional; - Commercial real estate: companies of sectors classified as real estate by Portuguese Classification of Economic Activities (CAE/sectors 411 and 68); the list of companies was adjusted by BPI's Risk Department (a) to exclude companies with sufficient cash flows non-related with CRE and (b) to include companies classified in other sectors but with significant activity in CRE.
VAR	Means Value At Risk, the portfolio risk measure as described in the 1996 amendment by the Basel Committee on Banking Supervision. Value at risk is the amount in euros that the value of a given static position can potentially lose in a given time period due to an extreme negative evolution in the prices that inform its value. For the purposes of the calculation, figures refer to a parametric methodology (variance covariance matrix) using a 10-day holding period, a 99% confidence interval and trading data corresponding to a 1-year horizon.
CoCos	Means the Contingent Convertible Subordinated Bonds subscribed by the Portuguese State, the outstanding amount of which, at the date of the Decision, is EUR 920 million.

3. GENERAL

3.1 Portugal undertakes to ensure that the Restructuring Plan for BPI submitted on 18 July 2013 is correctly and fully implemented.

3.2 Portugal undertakes to ensure that the Commitments are fully observed during the Restructuring Period.

3.3 The Restructuring Period will end on 31 December 2015 provided the quantitative targets set out in Sections 4.1.2 and 4.1.3 are met or (if that date occurs prior to 31 December 2015) on the date where (i) the quantitative targets defined in Sections 4.1.2. and 4.1.3. (balance sheet size of the domestic Core Activities of no more than EUR [30,000-35,000] million, total number of branches in mainland Portugal not higher than 684 and 6000 FTE) are met and (ii) the CoCos are fully reimbursed. The Commitments apply during the Restructuring Period, except where it is provided that they cease to apply at an earlier or later date.

4. RESTRUCTURING OF BPI: SPLIT INTO CORE ACTIVITIES AND NON-CORE ACTIVITIES

BPI will split its activities into two parts: namely the Core Activities and the Non-Core Activities. This split will be executed as follows:

4.1 <u>The Core Activities</u>

4.1.1 Assets allocated to the Core Activities

A. The Core Activities include the Retail, SME and Corporate banking business of BPI located in Portugal ("domestic") and the international banking activities located in Angola and Mozambique and South Africa.

The Core Activities shall be those of a normal commercial bank, with a particular focus on Individual, SME and Corporate banking, which also provides consumer loans and car leasing services, primarily focused on the domestic region and selective international areas.

The Core Activities include (i) the “domestic” activities, meaning all activities and services of commercial banking in Portugal, banking services provided to non-residents – particularly communities of Portuguese emigrants – by the Bank and its foreign subsidiaries and branches, and the activities of investment banking, private banking, asset management, life capitalisation insurance, pensions and private equity and (ii) the international banking activities located in Angola, Mozambique and South Africa.

B. The domestic Core Activities include the assets set out below (cut-off date 31 December 2012):

i) EUR 279 million Cash and balances with the central bank;

M€	2010	2012	2014P	2015P
Cash and balances with the central bank	476	279	[…]	[…]

ii) EUR 908 million Loans (/Receivables) to credit institutions;

M€	2010	2012	2014P	2015P
Loans (/Receivables) to credit institutions	1 540	908	[…]	[…]

iii) EUR 197 million Financial assets held for trading;

M€	2010	2012	2014P	2015P
Financial assets held for trading	339	197	[…]	[…]

iv) EUR 4 213 million Available-for-sale financial assets;

including:

EUR 3 732 million […] Debt (T-Bonds/Bills),

The total volume of […] is capped at EUR [0 – 5,000] million during the restructuring period.

EUR 109 million Corporate Bonds;

M€	2010	2012	2014P	2015P
Available-for-sale financial assets	1 546	4 213	[…]	[…]
thereof:				
[…] T-Bonds	1 065	427	[…]	[…]
[…] T-Bills	0	3 305	[…]	[…]
Corporate Bonds	300	109	[…]	[…]

v) EUR 24 697 million Loans to customers

including:

EUR 4 494 million Large corporations,

EUR 4 033 million SME,

EUR 11 864 million Housing,

EUR 1 069 million Consumer, Cards and Car Financing,

M€	2010	2012	2014P	2015P
Loans to clients	28 290	24 697	[…]	[…]
thereof:				
Large Corporations	5 364	4 494	[…]	[…]
Corporate banking (large companies)	2 528	2 442	[…]	[…]
Madrid corporate loans	1 536	956	[…]	[…]
SOEs - Government	552	190	[…]	[…]
SOEs - Private	748	907	[…]	[…]
SME	5 372	4 033	[…]	[…]
Corporate banking (medium sized)	3 172	2 555	[…]	[…]
Retail banking	2 199	1 478	[…]	[…]
Housing	12 505	11 864	[…]	[…]
Consumer, Cards and Car Financing	1 345	1 069	[…]	[…]
Other CORE segments not mentioned:				
Commercial Real Estate	706	474	[…]	[…]
Project Finance (Portugal)	1 147	1 190	[…]	[…]
Central Government	138	115	[…]	[…]
Regional and local	1 158	918	[…]	[…]
Other institucionals	108	76	[…]	[…]

vi) EUR 80 million Property, plant and equipment;

M€	2010	2012	2014P	2015P
Property, plant and equipment	136	80	[…]	[…]

vii) EUR 12 million Intangible assets;

M€	2010	2012	2014P	2015P
Intangible assets	6	12	[…]	[…]

viii) EUR 1 831 million Other

M€	2010	2012	2014P	2015P
Other assets	1 903	1 831	[…]	[…]
thereof:				
Derivatives	564	609	[…]	[…]
Tax assets	423	598	[…]	[…]
Pensions	357	47	[…]	[…]
Unitel	153	102	[…]	[…]
Tangible assets hold for sale	76	105	[…]	[…]
Other	330	369	[…]	[…]

ix) EUR 338 million book value of domestic strategic holdings

M€	2010	2012	2014P	2015P
Investments	336	338	[…]	[…]

Unlisted subsidiaries (*)	Share (in %)	Book value (in M€)
Domestic CORE		
BPI Vida e Pensões	100%	200
Companhia de Seguros Allianz Portugal, S.A.	35%	81
Unicre - Instituição Financeira de Crédito, S.A.	21%	31
Cosec - Companhia de Seguros de Crédito, S.A.	50%	25
Inter-Risco – Sociedade de Capital de Risco, S.A.	49%	1
BPI Inc.	100%	0

(*) Includes only Equity accounted subsidiaries.

C. The international Core Activities include the assets set out below (cut-off date 31 December 2012):

i) EUR 6 007 million total assets in Angola

M€	2010	2012	2014P	2015P
Angola	4 859	6 007	[…]	[…]

ii) EUR 39 million total assets in Mozambique

M€	2010	2012	2014P	2015P
Mozambique	22	39	[…]	[…]
BCI (*)	23	39	[…]	[…]
BPI Dealer	0	0	[…]	[…]

(*) Referes to the 30% share consolidated under the equity method.

iii) Other: EUR 1 million book value

M€	2010	2012	2014P	2015P
South Africa	0	1	[…]	[…]

D. The values for 2014 and 2015 included in the tables of A), B) and C) above have only an indicative nature and are not a commitment with the exception of the cap on […] debt at EUR [0 - 5,000] million. The commitment regarding balance sheet values will only be the one set in Section 4.1.2.

4.1.2 Size

i) At the end of 2010, total assets of the domestic Core Activities were of EUR 34 571 million. By end-December 2014, the balance sheet size of the domestic Core Activities shall not be higher than EUR [30,000-35,000] million. By end-December 2015, the balance sheet size of the domestic Core Activities shall not be higher than EUR [30,000-35,000] million.

ii) If the above balance sheet limits are not met, BPI shall present Remedial Actions within a month from the request by the Monitoring Trustee to do so. The Monitoring Trustee will analyse the Remedial Actions proposed and will report to the Commission on their adequacy to comply with the above mentioned limits.

4.1.3 Branches and FTEs

The structure of BPI in the domestic Core Activities will be reduced as follows:

(i) From 803 branches in 2010 to 684 branches in mainland Portugal before the end of 2014.

(ii) Branches may not be replaced by other entities or structures that essentially provide the same services and involve a meaningful amount of manpower (e.g. representatives, franchises etc.). However, BPI may install automated points of service instead (e.g. ATM or the like).

(iii) From 7 297 FTE in 2010 to 6 235 FTE before the end of 2014 and to 6 000 FTEs before the end of December 2015.

After the year 2014 until the end of the Restructuring Period the number of branches and FTEs in Portugal shall not increase.

4.1.4 Principles which apply to the international Core Activities

Until the end of the Restructuring Period, BPI shall not increase its exposure on capital and intra group funding to its international Core Activities except when (i) the increase is a result of operations which are meant to address legal or regulatory requirements, to comply with the supervision authorities directions or recommendations or to maintain the capital and voting rights' percentage currently held, (ii) the increase arises directly from previously (i.e. the date of adoption of the decision) existing contractual obligations assumed before third parties (iii) the increase derives from the non-distribution of profits generated by the above mentioned activities or (iv) the increase results from trade finance or other normal banking operations concluded between BPI and the companies that carry out the above mentioned International Core Activities.

For the purposes of the paragraph above, deposits or other forms of funding placed in BPI by the companies that carry out the International Core Activities do not constitute an increase of exposure.

4.2 <u>The Non-Core Activities</u>

4.2.1 Assets allocated to the Non-Core Activities to be run-down

A. The Non-Core Activities include the assets set out below (cut-off date 31 December 2012):

i) EUR 4 004 million Available-for-sale financial assets

thereof:

EUR 2 980 million Sovereign Debt,

EUR 1.024 million Corporate Bonds (issued by non-residents, excluding non-resident subsidiaries of Portuguese companies);

M€	2010	2012	2014P	2015P
Available-for-sale financial assets	4 537	4 004	[…]	[…]
thereof:				
Sovereign debt	3 128	2 980	[…]	[…]
Portugal	*1 549*	*1 588*	[…]	[…]
Greece	*325*			
Italy	*972*	*1 020*	[…]	[…]
Ireland	*283*	*372*	[…]	[…]
Corporate Bonds (non-residents) (*)	1 409	1 024	[…]	[…]

(*) Excluding non-resident subsidiaries of Portuguese companies.

ii) EUR 793 million Loans to customers

thereof:

EUR 768 million Project Finance Madrid,

M€	2010	2012	2014P	2015P
Loans to customers	986	793	[…]	[…]
Project finance Madrid	912	768	[…]	[…]
Loans and receivables-debt securities(*)	74	25	[…]	[…]

(*) Excluding non-resident subsidiaries of Portuguese companies.

iii) EUR [20-30] million holding in Finangeste, Empresa Financeira de Desenvolvimento, SA. The remaining shareholders of Finangeste are Bank of Portugal ([40-50]%), Millennium BCP ([10-20]%) and Caixa Geral de Depósitos ([0-5]%).

M€	2010	2012	2014P	2015P
Investments	24	27	[…]	[…]

(iv) EUR 567 million Loans (/Receivables) to credit institutions

M€	2010	2012	2014P	2015P
Loans (/Receivables) to credit institutions	138	567	[…]	[…]

B. The values for the years 2014 and 2015 included in the tables of A) above have only an indicative nature and are not a commitment. The commitment regarding balance sheet values will only be the one set in Section 4.1.2.

4.2.2 Principles which apply to the Non-Core Activities

A. Limitation on new production:

i) Contractually committed but not yet paid-out amounts shall be limited to the strict minimum.

ii) No additional financing to new and existing customers which is not contractually committed shall be provided except when it is strictly necessary to preserve the value of the loan collateral, or otherwise related to minimising capital losses and/or enhancing the expected recovery value of a loan.

B. Management of existing assets: The existing assets shall be managed in a way that maximises NPV of the assets. Specifically, if a client cannot respect the terms of his loan, the loan will only be restructured (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring would lead to enhancing the present value of the loan.

4.2.3 Active winding down of the Non-Core Assets

The Non-Core Assets shall be managed with the objective of being divested, liquidated or wound down, in an orderly manner but minimizing the cost. No new activities shall be undertaken, unless explicitly mentioned in this document. As a general rule, Non-Core Assets shall be sold as quickly as possible. BPI commits to sell such assets whenever the sale does not lead to having to book a loss, except if the sale price is unreasonable in view of a non-controversial valuation.

4.2.3.1. *Sovereign and Corporate Bonds*

As regards the Sovereign and Corporate Bonds referred to in 4.2.1. (A), BPI will, notwithstanding the provisions of sections 4.2.2. and 4.2.3:

(i) pursuant to the principles set out in 4.2.3., employ its best efforts to dispose of those bonds, but will only be obliged to dispose of them other than by receiving the respective payment on maturity should there be an opportunity to sell them without leading, directly or indirectly, to have to book a loss or any other prudential or accounting negative consequence.

(ii) The active winding down of the Sovereign and Corporate Bonds referred to in 4.2.1. (A) will not be incompatible with the acceptance by BPI of exchange offers by which those Bonds are exchanged by Bonds of the same nature but with different maturities.

5. BEHAVIORAL MEASURES

5.1 Ban on acquisitions: Unless previously authorised by the Commission, the Finance Minister and the Bank of Portugal, BPI shall refrain from making acquisitions. This applies to both the purchase of companies with their own legal structure, and shares in companies, as well as asset bundles that represent a commercial transaction or a branch of activity. This prohibition does not apply to the following acquisitions: (i) acquisitions that represent the management of existing obligations of customers in financial difficulty; (ii) acquisitions that form part of the bank's normal on-going business. The prohibition does not apply also to acquisitions that must be made in order to maintain financial and/or association related stability, or in the interests of effective competition, provided they have been approved beforehand by the Commission.

BPI may acquire stakes in undertakings provided that the purchase price paid by BPI for any acquisition is less than [0-5]% of the balance sheet size of BPI at the date of the Commission decision and that the cumulative purchase prices paid by BPI for all such acquisitions over the whole Restructuring Period is less than [0-5]% of the balance sheet size of BPI at the date of the Commission decision.

The ban on acquisitions applies for a period of three years.

5.2 Ban on commercial aggressive practices: BPI shall avoid engaging in aggressive commercial practices.

5.3 Advertising: BPI must not use the granting of the aid measures or any advantages arising therefrom for advertising purposes.

5.4 Remuneration Policy:

a) BPI shall verify the incentive effect and appropriateness of its remuneration systems and ensure that they do not result in exposure to undue risks, are oriented towards sustainable, long term company objectives, and are transparent.

b) BPI as a financial institution shall establish and implement its policies on salary and compensation matters strictly in accordance with the rules set forth by the Portuguese Government in Decree-law 104/2007, of 3 April (which transposed the Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions) as amended by Decree-Law 88/2011, of July 20, and with the rules established by the Portuguese Central Bank in Aviso 10/2011, of 29 December, as well as with the rules set forth in Law No 63-A/2008 of 24 November (as amended) and Ministerial Order (Portaria) No 150-A/2012 of 17 May (as amended).

c) Likewise, BPI commits to ensure that the bank complies with the rules and recommendations set out by the European Commission on this subject within the EU framework for State aid.

d) In particular, BPI undertakes to restrict the total remuneration to any member of staff, including board members and senior management, to an appropriate level, including all possible fixed and variable components, comprising discretionary pensions benefits, as provided in Articles 92 and 93 of Directive 2013/36.

5.5 Ban on coupon payments: BPI will not make any payments to holders of preference shares and subordinated debt, in so far as those payments are not owed on the basis of contractual or legal obligations. Exceptionally BPI is allowed to make payments of coupons or interest to holders of preference shares of BPI CAPITAL FINANCE - ACC. PREF. SER C considering that it has been proven that non-payment would hinder or prevent the repurchase of the CoCos that is described in section 6.

5.6 Ban on dividend payments: BPI is subject to a dividend ban.

5.7 Proprietary trading: Portugal will ensure that BPI will not engage in any proprietary trading beyond the minimum necessary for the normal functioning of the Bank. During the Restructuring Period, the total VAR limit of the bond and equity proprietary trading portfolio will not exceed EUR 40 million**.**

5.8 Support for Portuguese SMEs: In view of securing financing to and deleveraging of the real economy, BPI has committed vis-à-vis the Portuguese Government to allocate EUR 30 million per year to a fund that will invest in equity of Portuguese SMEs and mid-cap corporates. The fund shall be managed according to international best practice by the Bank or a third party with sufficient expertise and access to investment opportunities. The investment in the fund shall be subject to prior approval by the Portuguese Ministry of Finance according to the criteria defined in the Ministerial Order setting the terms for the recapitalization under national law and will be held by BPI. Any funds not transferred to such fund within 12 months of commitment shall be transferred to the Treasury. The fund shall not be used as a refinancing mechanism for existing loans. Any investment exceeding the above referred amount shall be subject to prior approval by the European Commission.

5.9 Other rules of conduct: BPI shall continue expansion of its risk monitoring operations and conduct a commercial policy that is prudent, sound and oriented towards sustainability.

6. REPAYMENT MECHANISM OF THE AID

6.1 Based on the audited accounts BPI will repurchase at least the following amounts of CoCos:

a) For the fiscal year 2013 and 2014: [50-60]% of the excess capital above the applicable minimum capital requirement under European and Portuguese law (including Pillar I and Pillar II) plus a capital buffer of [100-150] basis points.

b) For the fiscal year 2015 :[90-100]% of the excess capital above the applicable minimum capital requirement under European and Portuguese law (including Pillar I and Pillar II) plus a capital buffer of [100-150] basis points

The repurchase of the CoCos shall be, totally or partially, suspended if, on the basis of a reasoned request by BPI to the BdP, the latter considers that partial or full repayment would endanger the solvency position of the bank in the following years.

For the avoidance of doubt, it is herein explicitly underlined that the threshold levels of capital referred to in a) and b) above are defined only to set the point above which BPI will be obliged to repurchase CoCos. Accordingly, the fact that BPI's capital stands at a level below those threshold levels of capital will not in any way prevent BPI from repurchasing CoCos (provided the respective consent from the Bank of Portugal is obtained).

c) The repurchase of the EUR 920 million outstanding amount of the CoCos is foreseen by 31 December 2015 at the latest. Upon full repayment of the CoCos, the Commitments set out above under sections 4.1.4. and 5.2 to 5.9 will expire. In what concerns the Commitment set out under Section 5.8., this is without prejudice to any commitment entered into between the Portuguese Government and BPI under national law, which shall be governed by terms and conditions set out in Law no. 63-A/2008, of 24 November, as amended, Ministerial Order 150-A/2012, of 17 May, as amended, and Despacho no. 8840-A/2012, of 28 June.

If the repurchase of the EUR 920 million outstanding amount of the CoCos is not completed by 31 December 2015, BPI shall present Remedial Actions within a month from the request by the Monitoring Trustee. The Monitoring Trustee will analyse the Remedial Actions proposed and will report to the Commission on their adequacy to repurchase the outstanding CoCos as soon as possible.

The fact that BPI does not fully repurchase the CoCos on 31 December 2015 shall not constitute a breach of the obligations arising out of the Decision or of any other obligation, namely for the purposes of the CoCos' legal regime and terms and conditions. In case that the CoCos cannot be repurchased because of external factors, not controllable by BPI (such as, without limitation, the Bank of Portugal's non consent of such repayment, the subsistence of EBA Core Tier 1 ratio or the evolution of the Portuguese sovereign debt prices), the Remedial Actions referred to in the previous paragraph will consist exclusively in the presentation to the Commission of an updated CoCos repurchase plan.

In case the CoCos cannot be repurchased by 31 December 2015 because of internal factors, controllable by BPI, the Remedial Actions will be discussed and agreed upon between the

Commission, Portugal and BPI. The Remedial Actions shall be proportionate and shall take into account the amount of outstanding CoCos, the factors that lead to the non repurchase and the solvency of the bank.

In no event, except those referred to in a) and b) and to the extent referred therein, shall BPI be obliged to repurchase the CoCos before the date defined as “Data do Fim do Investimento” in the CoCos’ terms and conditions (29.06.2017).

6.2 BPI undertakes to pay by 31 December 2013 EUR 1.2 million to the Republic of Portugal (i.e. an equivalent amount to the coupon payment to holders of preference shares BPI CAPITAL FINANCE - ACC. PREF. SER C in August 2012).

7. MONITORING TRUSTEE

7.1 Portugal shall ensure that, during the Restructuring Period, the full and correct implementation of the Restructuring Plan including the Commitments and that the full and correct implementation of all Commitments within this document is continuously monitored by an independent, sufficiently qualified Monitoring Trustee.

7.2 The appointment, duties, obligations and discharge of the Monitoring Trustee must follow the procedures set out in Appendix I hereof.

7.3 Portugal and BPI shall ensure that, during the Restructuring Period, the Commission or the Monitoring Trustee have unrestricted access to all information needed to monitor the implementation of the Decision. The Commission or the Monitoring Trustee may ask BPI for explanations and clarifications. Portugal and BPI shall cooperate fully with the Commission and the Monitoring Trustee with regard to all enquiries associated with monitoring of the implementation of the Decision.

Appendix I – The Monitoring Trustee

(A) Appointment of the monitoring trustee

(i) Portugal undertakes to ensure that BPI appoints a Monitoring Trustee as set out in paragraph C.(x) of this Annex. The mandate applies to the entire duration of the Restructuring Period. At the end of the mandate, the Trustee must submit a final report.

(ii) The Trustee must be independent of BPI. The Trustee must possess, for example as an investment bank, consultant or auditor, the specialised knowledge that is required in order to carry out its mandate, and must at no time be exposed to any conflict of interest. The Trustee is to be remunerated by BPI in a way that must not impede the independent and effective fulfilment of its mandate.

(iii) Portugal undertakes to ensure that BPI submits the names of two or more persons to the Commission for approval as monitoring Trustee no later than six weeks after notification of the Decision.

(iv) These proposals must contain sufficient information about those persons to enable the Commission to verify whether the proposed Trustee fulfils the requirements set out in paragraph A(ii), and must in particular include the following:

(a) the full terms of the proposed mandate with all the provisions which are necessary to enable the Trustee to fulfil its duties; and

(b) the draft of a work plan describing how the Trustee intends to carry out its assigned duties.

(v) The Commission has the discretion to approve or reject the proposed Trustees and to approve the proposed mandate[13] subject to any modifications that it deems necessary in order to enable the Trustee to fulfil its obligations. If only one name is approved, BPI will appoint the person or institution concerned as Trustee or cause that person or institution to be appointed, in accordance with the mandate approved by the Commission. If more than one name is approved, BPI is free to decide which of the approved persons should be appointed as Trustee.

[13] Note: This mandate should not be different from the one set in this Term Sheet.

The Trustee will be appointed within one week of the Commission’s approval, in accordance with the mandate approved by the Commission.

(vi) If all the proposed Trustees are rejected, Portugal undertakes to ensure that BPI submits the names of at least two further persons or institutions within two weeks of being informed of the rejection, in accordance with the requirements and procedure set out in paragraphs A(i) and A(iv).

(vii) If all further proposed Trustees are also rejected by the Commission, the Commission will nominate a Trustee which BPI will appoint or cause to be appointed, in accordance with a Trustee mandate approved by the Commission.

(B) General duties and obligations

(viii) The Trustee is to assist the Commission to ensure BPI’s compliance with the Commitments and to assume the duties of a monitoring Trustee specified in this document. The Trustee is to carry out the duties under this mandate in accordance with the work plan, as well as revisions of the work plan that have been approved by the Commission. BPI is not entitled to issue instructions to the Trustee.

(C) Duties and obligations of the Trustee

(ix) The duty of the Trustee is to guarantee full and correct compliance with the obligations set out in the Commitments, and full and correct implementation of BPI’s Restructuring Plan. The Commission may, on its own initiative or at the request of the Trustee, issue any orders or instructions to the Trustee in order to ensure compliance with the Commitments included in this document. The Trustee shall be bound by legal confidentiality duties.

(x) The Trustee:

(a) is to propose to the Commission in its first report a detailed work plan describing how it intends to monitor compliance with the Commitments included in this document;

(b) is to monitor the full and correct implementation of BPI's restructuring plan and the Commitments included in this document, in particular:

(I) the balance sheet targets/limits;

(II) the restriction of business activities;

(III) the discontinuation of predefined business areas;

(IV) the sales process in the predefined business areas;

(c) is to monitor compliance with all other Commitments;

(d) is to assume the other functions assigned to the Trustee in the Commitments included in this document;

(e) is to propose measures to BPI that it considers necessary to ensure that BPI fulfils the Commitments included in this document; and

(f) is to take into account any regulatory changes on solvency and liquidity when verifying the evolution of the actual financials with respect to the projections made in the Restructuring Plan.

(g) is to submit a draft written report to the Commission, Portugal and BPI within thirty days after the end of each six-month period. The Commission, Portugal and BPI can submit comments on the draft within five working days. Within five working days of receipt of the comments, the Trustee is to prepare a final report, incorporating the comments as far as possible and at its discretion, and submit it to the Commission and to the pertinent Portuguese Authorities. Only afterwards the Trustee is also to send a copy of the final report to Portugal and BPI. If the draft report or the final report contains any information that may not be disclosed to BPI, only a non-confidential version of the draft report or the final report is to be sent to BPI. Under no circumstances is the Trustee to submit any version of the report to Portugal and/or BPI before submitting it to the Commission.

The report is to focus on the duties set out in the mandate by the Trustee and compliance with the Commitments by BPI, thus enabling the Commission to assess whether BPI is being managed in accordance with those Commitments obligations. If necessary, the Commission may specify the scope of the report in more detail. In addition to these reports, the Trustee is to report promptly in writing to the Commission if it has reasons to suppose that BPI is failing to comply with these Commitments, sending a non-confidential version to BPI at the same time.

(D) Duties and obligations of BPI

(xi) BPI is to provide and to require its advisors to provide the Trustee with all such cooperation, assistance and information as the Trustee may reasonably require to perform its tasks under this mandate. The Trustee is to have unrestricted access to any books, records, documents, management or other personnel, facilities, sites and technical information of BPI or of the business to be sold that are necessary to fulfil its duties under the mandate. The powers of the Trustee shall not extend to communications of the bank which are covered by the legal professional privilege. BPI is to make available to the Trustee one or more offices at its business premises and all employees of BPI are to be available for meetings with the Trustee in order to provide it with all the information it needs to perform its duties.

(xii) Subject to BPI's approval (this approval not to be unreasonably withheld or delayed) and at its expense, the Trustee may appoint advisors (in particular for corporate finance or legal advice), if the Trustee considers the appointment of such advisors necessary or appropriate for the performance of its duties and obligations under the mandate, provided that any costs and other expenses incurred by the Trustee are reasonable. Should BPI refuse to approve the advisors proposed by the Trustee, the Commission may approve their appointment instead, after hearing BPI's reasons. Only the Trustee is entitled to issue instructions to the advisors.

(E) Replacement, discharge and reappointment of the Trustee

(xiii) If the Trustee terminates its functions under the Commitments or if there are any other significant grounds, such as a conflict of interest on the part of the Trustee:

(a) the Commission can, after hearing the Trustee, require BPI to replace it, or

(b) BPI, with the approval of the Commission, can replace the Trustee.

(xiv) If the Trustee is removed in accordance with paragraph E(xiii), it may be required to continue in its function until a new Trustee is in place to whom the Trustee has effected a full handover of all relevant information. The new Trustee is to be appointed in accordance with the procedure referred to in paragraphs A(i) to A(vi).

(xv) Besides removal in accordance with paragraph E(xiii), and subject to what is set in A (i) above, the Trustee is to cease its activities only after the Commission has discharged it from its duties. This discharge is to take place when all the obligations with which the Trustee has been entrusted have been implemented. However, the Commission may at any time require the reappointment of the Trustee if it is subsequently found that the relevant remedies have not been fully and properly implemented.