MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Portuguese banks' government-guaranteed debt to stable from negative

03 Dec 2013

Ratings of Caixa Geral de Depositos affirmed at Ba3 with negative outlook

Madrid, December 03, 2013 -- Moody's Investors Service has today changed the outlook to stable from negative on the Ba3 government-guaranteed debt ratings of four Portuguese banks: Caixa Geral de Depositos, S.A. (CGD), Banco Espirito Santo, S.A. (BES), Banco Comercial Portugues, S.A. (BCP) and BANIF-Banco Internacional do Funchal, S.A.(Banif).

At the same time, Moody's has today affirmed the debt and deposit ratings of Caixa Geral de Depositos S.A. (CGD) at Ba3/Not Prime. The standalone bank financial strength rating (BFSR) has also been affirmed at E (equivalent to a caa1 baseline credit assessment or BCA) and the ratings of CGD's senior subordinated debt, junior subordinated debt and preference shares have been affirmed at current rating levels. All ratings carry a negative outlook.

The rating actions follow the recent change of the outlook on the Ba3 government bond rating of Portugal to stable from negative (for further details please see "Moody's changes outlook on Portugal's Ba3 rating to stable from negative").

RATINGS RATIONALE

RATIONALE FOR CHANGING OUTLOOK ON GOVERNMENT GUARANTEED DEBT

Today's rating actions follow the change of the outlook on the Ba3 Portuguese government bond rating to stable.

Moody's rates Portuguese government-guaranteed debt at the sovereign rating level. The outlook on the government-backed debt of CGD, BES, BCP and Banif has been aligned with the stable outlook on Portugal's Ba3 government bond rating.

The ratings of these government-guaranteed securities have been affirmed at Ba3, following the affirmation of the Portuguese sovereign bond rating at Ba3, announced on 8 November 2013.

RATIONALE FOR AFFIRMATION OF CGD's RATINGS

CGD is Portugal's largest financial institution with total assets of EUR112.4 billion at end-September 2013 and is 100% owned by the Portuguese government. The stabilization of the outlook of CGD's parent has not triggered a similar change in the outlook of the bank's ratings, which remains negative.

Today's affirmation of CGD's ratings with a negative outlook has been driven by Moody's view that risks of CGD's creditworthiness are still skewed to the downside based on the rating agency's expectations of ongoing asset quality and profitability pressures stemming from the country's still weak operating environment - at end-September 2013, CGD reported a non-performing loan (NPL or so-called "credit at risk") ratio of 11.9% compared to 9.2% a year earlier -, and that the bank's weak credit fundamentals are likely to be further challenged during 2014 in light of our expectations of very modest economic growth in Portugal.

Furthermore, Moody's says that declining lending volumes, low interest rates and increasing non-earning assets have significantly diminished CGD's capacity to generate recurring earnings that could fully offset its asset-quality pressures, especially if the pressures from the operating environment continue. During the first nine months of 2013, CGD reported a EUR277.8 million loss compared to a loss of EUR130 million for the same period a year earlier.

The debt ratings of CGD have been affirmed at Ba3, resulting in four notches of uplift from its standalone credit assessment of caa1, and based on Moody's assessment of a very high probability of support from the Portuguese government as CGD's sole shareholder.

RATIONALE FOR THE NEGATIVE OUTLOOK OF CGD AND STABLE OUTLOOK FOR THE GOVERNMENT GUARANTEED DEBT SECURITIES

The negative outlook that Moody's has assigned to CGD's ratings reflects its vulnerability to a further weakening of its credit profile in light of the anticipated modest recovery of the Portuguese economy and the negative implications for its asset quality metrics. The outlook also reflects the downside risks to Moody's macroeconomic forecasts, which could exert further credit-negative pressure if these risks were to materialise.

The stable outlook on the government-backed debt of CGD, BES, BCP and Banif has been aligned with the stable outlook on Portugal's Ba3 government bond rating.

WHAT COULD MOVE THE RATING OF CGD UP/DOWN

Further downward pressure would be exerted on CGD's standalone BCA if (1) a broad deterioration of its financial fundamentals means that the bank cannot deliver the targets contemplated on its five year capital and funding plan approved by the Troika and Bank of Portugal (i.e. a Core Tier 1 ratio above 10% as per Bank of Portugal's criteria and a loan to deposit ratio below 120%); (2) operating conditions worsen beyond Moody's current expectations of a very modest GDP recovery for 2014; and/or (3) the bank's liquidity profile deteriorates significantly (i.e. significant outflow of deposits, increased reliance on European Central Bank (ECB) funding to refinance maturing wholesale funding, etc.).

The bank's debt and deposit ratings are linked to the standalone BCA, and any change to the BCA would likely also affect these ratings. Furthermore, any change in Moody's systemic support assumptions may directly impact CGD's senior debt ratings. A reduction in the level of government ownership could also adversely affect the bank's debt and deposit ratings, although this is not envisaged by Moody's in the foreseeable future.

Moody's is unlikely to raise the banks' BCA, given the negative outlook. An improvement of its BCA could be driven by clear visibility of an asset-quality improvement, together with a sustainable recovery in its recurring earnings and capacity to generate capital. Any significant macroeconomic growth beyond Moody's central scenario of 0.7% in 2014 could underpin signs of a turnaround and also increase positive rating pressure.

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Maria Jose Mori
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Johannes Felix Wassenberg
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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