



Rating Action: Moody's takes rating action on seven Portuguese banks

26 May 2023

Rating action follows the change in outlook on Portugal's Baa2 government bond rating to positive from stable

Madrid, May 26, 2023 – Moody's Investors Service (Moody's) has today taken rating actions on seven Portuguese banking groups. The rating actions were prompted by the rating agency's decision to change the outlook on Portugal's Baa2 government bond rating to positive from stable. For further information on the sovereign rating action, please refer to Moody's press release dated 19 May 2023 ("Moody's changes Portugal's outlook to positive from stable, affirms Baa2 ratings"; <https://ratings.moody.com/ratings-news/403027>).

Consequently, Moody's changed Portugal's Macro Profile to "Strong-" from "Moderate+" to reflect firstly the improvement in Portuguese banks' operating environment driven by the country's economic strength and secondly banks' healthier funding conditions. Today's actions took into account a stronger Macro Profile as well as continued progress in several banks' performance and financial fundamentals. For a detailed analysis of Portugal's Macro Profile please see: "Portugal Macro Profile: Strong-" (http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1363938).

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL477118 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

(1) CHANGE IN THE MACRO PROFILE REFLECTS IMPROVING OPERATING CONDITIONS IN PORTUGAL

By changing Portugal's Macro Profile to "Strong-" from "Moderate+", the rating agency recognizes improved operating conditions owing to the continued economic recovery, with 2.2% real GDP growth forecasted for 2023 and 2.0% for 2024. Furthermore funding conditions have improved over the last few years with banks' larger reliance on deposits and limited recourse to central bank's funding while access to capital markets, yet for limited amounts, has been restored. The Macro Profile also reflects the country's diversified economy and strong institutions.

(2) BANK-SPECIFIC CONSIDERATIONS

– CAIXA GERAL DE DEPOSITOS, S.A. (CGD)

The upgrade of CGD's long-term deposit ratings to Baa1 from Baa2 and the affirmation of its senior unsecured debt ratings at Baa2 reflect: (1) the upgrade of the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa3; (2) the result from Moody's Advanced Loss Given Failure (LGF) analysis that leads to one notch of uplift for the deposit ratings and no further uplift for the senior unsecured debt ratings; and (3) moderate government support assumptions for CGD given its systemic importance; nevertheless this support no longer results in rating uplift for both deposits and senior unsecured debt (from one notch of uplift for senior unsecured debt previously) because of a narrower proximity between the bank's Adjusted BCA (also considering the LGF uplift) and the Portuguese government's rating.

In upgrading CGD's BCA to baa2, Moody's has considered the bank's strengthened credit profile, namely its

enhanced asset quality and capital metrics and its improving recurring profitability. At end-December 2022, CGD's tangible common equity (TCE) to risk-weighted assets ratio stood at a high 17.5%, although Moody's expects that it will decline mainly as a result of dividend payments to its parent. The bank's non-performing assets (NPA) ratio (NPAs defined as non-performing loans along with repossessed real estate assets) declined to 4.1% from 4.9% a year earlier, which compares to an estimated system average of 3.8%. CGD's recurrent earnings have improved and Moody's expects this trend to continue over the outlook period as the repricing of floating-rate loans, which represent the bulk of CGD's loan portfolio, gradually takes place.

– BANCO COMERCIAL PORTUGUES, S.A. (BCP)

The affirmation of BCP's long-term deposit ratings at Baa2 and of its senior unsecured debt ratings at Baa3 reflects: (1) the affirmation of the bank's BCA and Adjusted BCA at ba2; (2) the result from Moody's Advanced LGF analysis that leads to three notches of uplift for the deposits and one-notch of uplift for senior unsecured debt; and (3) Moody's assessment of a moderate government support given the systemic importance of BCP, which results in a one notch uplift for senior unsecured debt ratings and no uplift for the deposit ratings.

The affirmation of BCP's BCA at ba2 reflects the bank's improved asset-risk indicators, its modest capital levels and a still weak bottom-line profitability. At end-December 2022, BCP reported a low net income to tangible assets ratio of 0.1%. Moody's believes that BCP's profitability could be severely affected by further losses that its Polish subsidiary's (Bank Millennium S.A.; Baa3 negative, ba3) could incur on its foreign-currency-denominated mortgages. However, on a consolidated basis, the bank's asset quality metrics have continued improving in 2022, with its NPA ratio declining to 4.8% from 6.2% a year earlier, still above system average. The bank's TCE ratio stood at a modest 9.5% at end-December 2022.

– BANCO SANTANDER TOTTA S.A. (BST)

The affirmation of BST's long-term deposit ratings at A3 and the upgrade of its senior unsecured programme ratings to (P)Baa1 from (P)Baa2 reflect: (1) the upgrade of the bank's BCA to baa2 from baa3; (2) a high probability of affiliate support from Banco Santander S.A. (Spain) (A2 stable/A2 stable, baa1) which results in one notch of uplift to the Adjusted BCA (baa1); and (3) the result from Moody's Advanced LGF analysis that leads to two notches of additional ratings uplift for the deposit ratings and no further uplift for the senior unsecured programme ratings. Moody's assigns a low probability of government support for BST's deposit and senior unsecured programme ratings resulting in no uplift.

The upgrade of BST's BCA to baa2 reflects enhanced asset risk metrics, high capital levels and improving recurring profitability. At end-December 2022, BST's NPA ratio declined to 3.7%, down from 4.5% a year earlier. The bank's TCE ratio stood at a high 18.3%, although Moody's expects it to decline mainly as a result of dividend payouts to its Spanish parent. Profitability metrics will improve because the repricing of floating-rate loans will continue to boost the bank's revenues.

– NOVO BANCO, S.A. (NOVO BANCO)

The affirmation of Novo Banco's long-term deposit ratings at Ba1 and of its senior unsecured debt ratings at Ba3 reflects: (1) the affirmation of the bank's BCA and Adjusted BCA at ba3; and (2) the result from Moody's Advanced LGF analysis that leads to two notches of uplift for the deposits and no uplift for senior unsecured debt. Moody's assigns a low probability of government support for Novo Banco's deposit and senior unsecured debt ratings resulting in no uplift for these ratings.

The affirmation of Novo Banco's BCA at ba3 reflects the bank's improved credit profile as a result of the successful completion of the restructuring plan agreed with the European Commission. Nevertheless, the bank's NPA ratio remains high at 7.9% at end-December 2022 from 11.2% a year earlier. Novo Banco's capital levels are high, as the bank is subject to a dividend ban agreed with the Portuguese resolution fund until 2025. Its TCE ratio stood at 15.4% at end-December 2022, up from 10.8% a year earlier. However, Moody's expects capital to reduce once the dividend

ban has been lifted. The bank's profitability is strong, with a recurring net income to tangible assets ratio of 0.9%, and the rating agency expects profitability improvements to continue over the outlook period.

As part of today's rating action, Moody's has also upgraded Novo Banco's junior senior unsecured programme ratings to (P)Ba3 from (P)B1 to reflect the increased buffer of subordinated instruments. Moody's Advanced LGF analysis now indicates a moderate loss-given-failure for junior senior unsecured creditors, leading to no uplift from the ba3 Adjusted BCA from a one notch negative adjustment previously.

– BANCO BPI S.A. (BPI)

The affirmation of BPI's long-term deposit ratings at A3 and the upgrade of its senior unsecured programme ratings to (P)Baa1 from (P)Baa2 reflect: (1) the upgrade of the BCA to baa2 from baa3; (2) a high likelihood of affiliate support from CaixaBank, S.A. (CaixaBank; A3 stable/Baa1 stable, baa3), which results in no uplift to the Adjusted BCA of baa2; and (3) Moody's Advanced LGF analysis which provides a two-notch uplift for deposits and one-notch of uplift for the senior unsecured programme from the bank's Adjusted BCA.

The upgrade of BPI's BCA to baa2 reflects a stronger credit profile. Moody's has considered the bank's sound capital levels, which are, however, constrained by the risks stemming from BPI's Angolan exposure, its better-than-average asset risk (2.2% NPA) and its improving domestic profitability metrics. BPI's TCE ratio stood at a high 17.5% at end-December 2022. However, Moody's expects these capital levels to be reduced following dividend payments to CaixaBank. Domestic profitability has gradually improved over recent years, and the rating agency expects this improvement to continue. At end-December 2022, the bank reported a domestic net income to tangible assets ratio of 0.6%.

– CAIXA CENTRAL DE CREDITO AGRICOLA MUTUO, CRL (CAIXA CENTRAL)

The upgrade of Caixa Central's long-term deposit ratings to Baa2 from Baa3 and of its senior unsecured debt ratings to Ba1 from Ba2 reflects: (1) the upgrade of the bank's BCA and Adjusted BCA to baa3 from ba1; and (2) the result of Moody's Advanced LGF analysis which provides a one-notch uplift for deposits and a negative notch for senior unsecured debt from the bank's Adjusted BCA.

Moody's ratings on Caixa Central reflect its key role within the Grupo Credito Agrícola (GCA), which is made up of a network of cooperative banks bound by a solidarity mechanism enshrined in law. Caixa Central's ratings reflect Moody's view on the creditworthiness of the entire group i.e. GCA, with Caixa Central acting as the group's treasury and sole debt issuing entity.

The upgrade of Caixa Central's BCA to baa3 reflects GCA's enhanced creditworthiness. In particular, Moody's has considered the group's improved asset risk metrics, its strong capitalization and improving profitability indicators. GCA's NPA ratio stood at 8.3% at end-December 2022, down from 11.1% a year earlier but still well above system average. GCA's capitalization is however strong, with a TCE ratio of 15.4% as of the same date (13.7% a year earlier). Historically modest profitability has improved and Moody's expects this improvement to continue, as the repricing of the loan book gradually takes place.

– CAIXA ECONOMICA MONTEPIO GERAL, CEB, S.A. (BANCO MONTEPIO)

The upgrade of Banco Montepio's long-term deposit ratings to Ba2 from Ba3 and of its senior unsecured programme ratings to (P)B1 from (P)B2 reflects: (1) the upgrade of the bank's BCA and Adjusted BCA to b1 from b2; and (2) Moody's Advanced LGF analysis which provides a two-notch uplift for deposits and no uplift for the senior unsecured programme from the bank's Adjusted BCA.

The upgrade of Banco Montepio's BCA to b1 reflects the bank's strengthened credit profile stemming from the continued de-risking of its balance sheet completed over the last few years. Moody's has considered Banco Montepio's improved asset quality metrics, its enhanced solvency levels and the improving profitability trends. Banco

Montepio has significantly reduced its stock of NPA principally by way of disposals. However, the bank reported a high NPA ratio of 8.9% at end-December 2022, compared with 12.8% a year earlier. The bank's TCE ratio increased in 2022 at 11.6% as of year-end, up from 9.4% a year earlier. Banco Montepio's profitability is still weak (its net income to tangible assets stood at 0.2% as of end December 2022) but Moody's expects it to improve on the back of the economic recovery and rising interest rates.

– OUTLOOKS

The positive outlook on CGD, BCP, Novo Banco and Banco Montepio's long-term deposit and senior unsecured debt ratings (where applicable) reflects Moody's expectation that the improvements in the banks' credit profiles will be sustained over the next 12 to 18 months. Nevertheless, Moody's anticipates a moderate increase in problem loans amid the current unsettled operating environment and inflationary pressures on households' purchasing power and corporate margins which will weigh on their creditworthiness. However, under Moody's base case scenario, such deterioration is unlikely to materially weaken these banks' credit profiles, underpinning the positive outlook.

For BCP, the bank's long-term deposit and senior unsecured debt ratings would only be upgraded if the headwinds faced by its Polish subsidiary Bank Millennium S.A. were to remain contained.

For CGD, an upgrade of the BCA is unlikely as long as Portugal's government bond rating remains at Baa2, as a bank's BCA will not typically exceed the sovereign rating under Moody's methodology, reflecting banks' significant exposures to sovereigns either directly or indirectly.

The positive outlook on BST and BPI's A3 long-term deposit ratings reflects the positive pressure on these ratings assuming that the Baa2 government rating of Portugal would be upgraded, as a bank's rating does not typically exceed the sovereign rating by more than two notches under Moody's methodology.

The stable outlook on Caixa Central's long-term deposit ratings reflects our view that the expected performance of the bank's financial fundamentals over the next 12-18 months is already captured in the bank's current ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

For CGD, BCP, Novo Banco and Banco Montepio, banks' standalone BCAs could be upgraded as a consequence of stable asset quality and capital levels, coupled with a sustained improvements of recurrent profitability levels.

For BST, BPI and Caixa Central, banks' standalone BCA could be upgraded as a result of further asset quality and profitability improvements beyond Moody's expectations.

Moody's notes that CGD, BST and BPI's BCAs are currently positioned at the same level as the government's bond rating, and therefore an upgrade of the BCA is unlikely as long as Portugal's government bond rating remains at Baa2.

Banks' BCAs could be downgraded as a result of: (1) a reversal in current asset risk trends in Portugal with a material increase in the stock of NPLs and/or other problematic exposures; (2) banks failing to maintain their risk-absorption capacity due to asset quality weakening and/or additional provisioning efforts in excess of capital generation capacity; and/or (3) a deterioration in the banks' liquidity position.

As the banks' debt and deposit ratings are linked to the standalone BCA, any change to the BCA would likely also affect these ratings.

The bank's deposit and senior unsecured debt ratings could also experience upward or downward pressure from changes in the loss-given-failure faced by these liabilities.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at

<https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL477118 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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