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Banking and Capital Markets

The Government announced it would nationalize Banco Português de Negócios (BPN) and require banks to increase their Tier 1 capital ratios to 8%.

Portuguese Government announces the nationalization of BPN and imposes re-capitalisation of banks

1. The nationalisation of BPN

The Portuguese Cabinet of Ministers decided yesterday to propose to the Parliament the nationalization of Banco Português de Negócios S.A. (BPN), which had been facing difficulties since its previous board of directors discovered losses of an estimated amount of €700 million that had been ommitted in previous reports to the Bank of Portugal (BoP).

According to the Bank of Portugal, most of the unaccounted losses of BPN resulted from transactions with off-shore companies and from an undisclosed relationship with Banco Peninsular, a bank located in Cape Vert, controlled by the BPN group.

Despite the efforts of the BPN's board appointed in July 2008 in restructuring the bank, the risks of an insolvency increased after the refusal of its shareholders to subscribe the second tranche of the share capital increase scheduled for the October 31, as well as the financial crisis which prevented BPN from selling assets to cover its losses.

The Minister of Finance justified the Government's decision with the need to ensure the safety of BPN's depositers and to prevent any adverse effects that a failure by the bank in meeting its obligations could have in the credibility of the Portuguese banking system.

The Minister of Finance also decided to put BPN under the control of Caixa Geral de Depósitos (the State-owned bank), and appointed two of its directors to the Board of BPN to overview the management of the bank until the nationalization is completed.

Following the nationalization, the Government could either decide to merge BPN's operations into Caixa Geral de Depósitos and dispose of certain assets or sell of BPN as a whole to another domestic or foreign bank.

2. The re-capitalisation of Portuguese banks

The Government also announced that it would issue new legislation requiring Portuguese banks to increase their Tier 1 capital ratio and to fund banks to meet the new capital requirements if needed.

The new legislation, adopted following consultations with the BoP, will require Portuguese banks to increase their Tier 1 capital ratio from the current level of 4% to 8%, in line with the policies that are now being adopted in other EU member countries. The BoP and the Government expect that local banks will need to raise between €4,000 million and 4,500 million to meet the new captial requirements. According to the Governor of the BoP, at the end of the third quarter, BES had 6.6% of Tier 1 capital and BPI and BCP 7.4%.

In the event, banks cannot obtain new equity from their shareholders or the market, the Government pledged to subscribe preferred non-voting shares. The minimum remuneration of the Government shares was not announced.

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