



Tagging Info

**Fitch Maintains Montepio Geral and Finibanco on Rating Watch** Ratings

04 Mar 2011 9:52 AM (EST)

Fitch Ratings-London/Barcelona-04 March 2011: Fitch Ratings has maintained Portugal-based Caixa Economica Montepio Geral's (Montepio Geral) Issuer Default Ratings (IDR) on Rating Watch Negative (RWN). The agency has also maintained Finibanco SA's (Finibanco) IDRs, Individual rating and Support Rating on Rating Watch Positive (RWP). A full list of rating actions is at the end of this comment. The rating actions have no impact on the ratings of Montepio Geral's covered bonds.

The banks were initially placed on RWN and RWP on 4 August 2010 following the announcement of Montepio Geral - Associacao Mutualista's (MGAM; Montepio Geral's owner) intention to launch a takeover bid for Finibanco Holding SGPS (Finibanco's parent). The takeover was completed on 2 December 2010. In Fitch's opinion, it is highly probable that Finibanco will merge with Montepio Geral to maximise synergies. Once this is completed, Fitch will assess the effects on both institutions and resolve the Rating Watches.

Fitch expects that Montepio Geral will be challenged to integrate Finibanco, which would account for about 15% of the combined entity's total assets, at a time when economic prospects in Portugal are weak and wholesale funding constraints for Portuguese banks prevail. To this end, if the merger does not take place, there could be renewed downside risk on Montepio Geral's IDRs from asset quality pressures and funding and liquidity concerns due to its reliance on wholesale funding and significant refinancing risks.

More positively, the integration of Finibanco into Montepio Geral would help the group to increase its branch network and attract both additional potential members for MGAM and deposits for Montepio Geral. It would also help diversify Montepio Geral's loan book towards SMEs and consumer loans and provide geographical diversification outside Portugal, notably in Angola, which would help compensate for expected muted growth in its home banking business. In addition, it would increase the group's market shares in insurance and asset management.

At end-2010, Montepio Geral had a market share of loans and deposits of around 5% in Portugal (around 8% of residential mortgages; total assets of EUR18.2bn) and equity of EUR1bn. At end-September 2010, Finibanco Holding SGPS had total assets of EUR3.3bn and equity of EUR236.8m, with a market share of loans and deposits in Portugal of around 1%. Both entities are primarily focused on retail banking within the domestic market. While Montepio Geral is largely focused on residential mortgages and lending to real estate and construction sectors, Finibanco is mainly centred on SMEs and consumer lending.

The rating actions are as follows:

**Montepio Geral:**

Long-term IDR: rated 'BBB+', RWN maintained  
Short-term IDR: rated 'F2', RWN maintained  
Individual rating: unaffected at 'C'  
Support Rating: unaffected at '3'  
Support Rating Floor: unaffected at 'BB'  
Senior unsecured debt; rated 'BBB+', RWN maintained  
Subordinated debt; rated 'BBB', RWN maintained

**Finibanco:**

Long-term IDR: 'BBB-', RWP maintained  
Short-term IDR: 'F3', RWP maintained  
Individual rating: 'C/D', RWP maintained  
Support Rating: '5', RWP maintained  
Support Rating Floor: 'No floor', RWP maintained

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010, 'Rating Hybrid Securities', dated 29 December 2009, 'Equity Credit for Hybrids & Other Capital Securities', dated 29 December 2009, and 'Short-term Ratings Criteria for Corporate Finance', dated 2 November 2010, are available at [www.fitchratings.com](http://www.fitchratings.com).

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria  
Rating Hybrid Securities  
Equity Credit for Hybrids & Other Capital Securities - Amended  
Short-Term Ratings Criteria for Corporate Finance

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