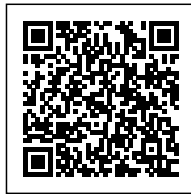# BALANCING OWNERSHIP AND CONTROL IN PORTUGAL'S BANKS - PBBR

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How institutions raise their capital ratios may have a significant impact on their ownership and share structures.

In the face of the requirement to raise core tier one capital ratios, it is not a question of if Portugal's banks need to recapitalise but how, and what this means for their existing shareholders, says Alexandre Jardim, Banking and Finance Partner at pbbr in Lisbon.
The European Banking Authority has demanded Europe's banks raise capital ratios to nine percent by June, but under the terms of Portugal's financial bailout, domestic banks must in addition raise their ratios to 10 percent by December.

"All of Portugal's banks are assessing the relative merits of how to raise new capital, including from asset sales, bond and share issues. All may prefer to raise their own capital, but some will inevitably have to access the State's €12bn bank solvency fund."
The issue in such a circumstance is what degree of control the Government will require over the institutions it is lending to, and where that leaves the existing shareholders.

"I do not believe the Government wants to take over any bank; but if it does have to inject funds, it will want them to be used wisely. So, will they take equity stakes – and demand a seat on the Board

– or use hybrid instruments to inject capital and the Bank of Portugal to guide behaviour? This is what we are waiting to see."

The regulation outlining the details of each approach has yet to be published, but the sense is that it has been the macro-economic situation that has overwhelmed institutions rather than mis-management, says Jardim.

"A declining economy and falling savings deposits, limited interbank-lending and the credit downgrade of the Republic, alongside demands to increase capital, have created a perfect storm of illiquidity. Mixing politics with business is not, however, always the best recipe for success, so we are helping our clients consider all the options."