



URÍA MENÉNDEZ - PROENÇA DE CARVALHO

FROM BES TO NOVO BANCO

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The Espírito Santo Group and BES



The Espírito Santo Group and BES

GES

- One of the largest conglomerates in Portugal, operating in several business lines, such as banking, healthcare, hotels, tourism and agriculture
- Ultimately owned by the Espírito Santo Family
- Controlled by holdings incorporated in Luxembourg
- Highly opaque and complex corporate structure (operating through *circa* 400 companies)
- Following the intervention in BES, attracted great interest:
 - Sale of Tranquilidade to Apollo Global Management
 - 4 public and private offers over Espírito Santo Saúde
 - Sale of Espírito Santo Viagens to Springwater
 - Ongoing sale process of Tivoli Hotels

The Espírito Santo Group and BES

5 members of the Espírito Santo Family

Espírito Santo Group



Finance	Real Estate	Tourism Hospitality	Energy	Healthcare	Agriculture
ESFG	ES Property	ES Viagens	Georadar	Espírito Santo Saúde	Paraguay Agric. Corporation
BES	ESPART	Hotéis Tivoli	Asset Geo		Comp. Agríc. Botatu
Tranquilidade		Herdade da Comporta	Energias Renováveis		Agriways
			Luzboa		Cobrape
					Mozambique Agricultural

 Filed for insolvency or controlled management
 Sold or in the process of being sold

The Espírito Santo Group and BES

BES

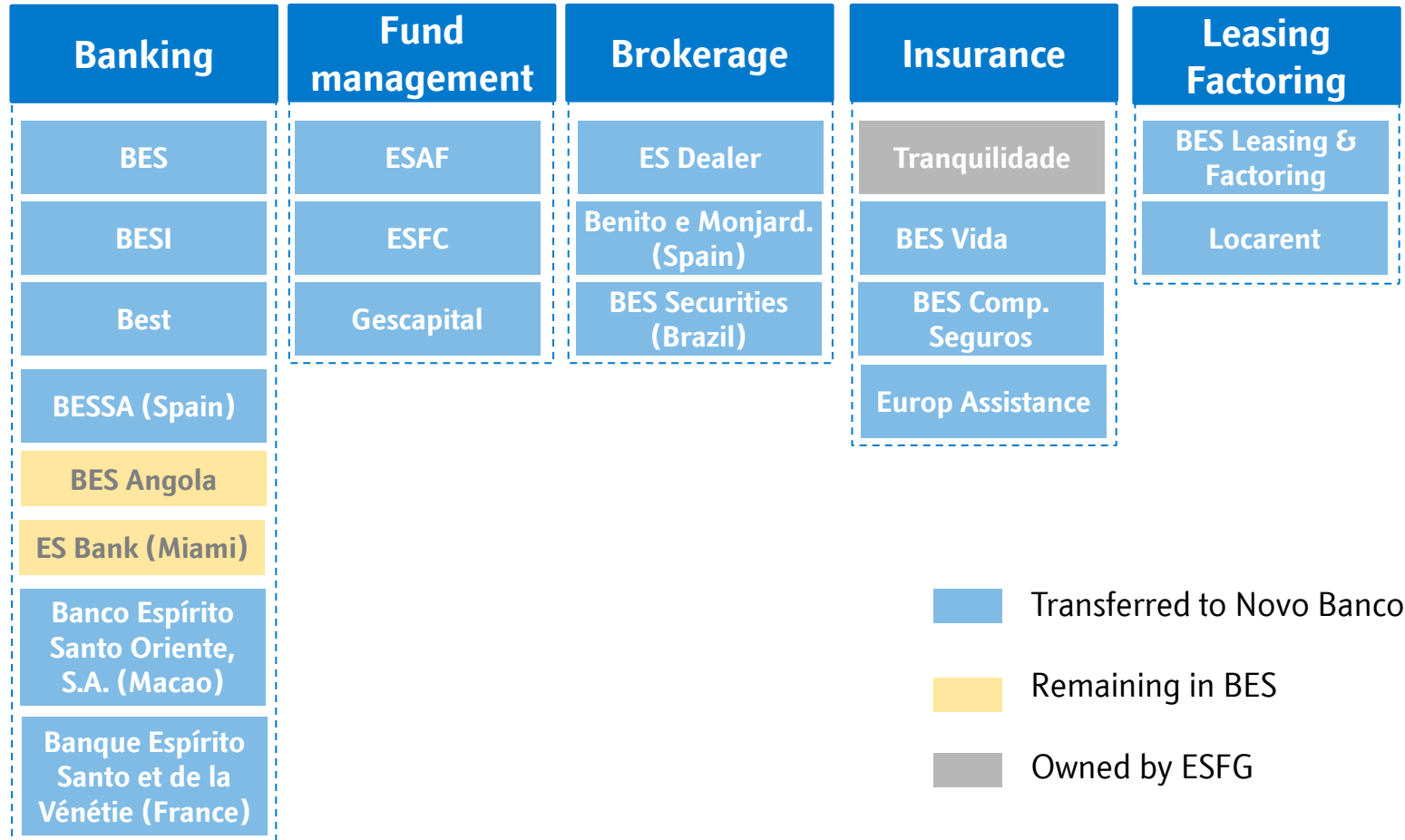
- Largest listed bank in Portugal: market cap of EUR 4.2 billion
- Second largest private financial institution in Portugal according to asset value: EUR 80.6 billion
- Market share: 19,7% (25,5% in the business segment)
- Presence in 25 countries
- Over 10,000 workers

GES and BES

- BES originated from a business founded by the Espírito Santo Family in 1869
- BES was nationalised after the 1974 revolution
- In 1990 and 1991 the Espírito Santo Family reacquired Tranquilidade (an insurance undertaking) and BES, leveraged on credit
- Right before the intervention by the BoP in August 2014, GES owned 20.17% of BES

The Espírito Santo Group and BES

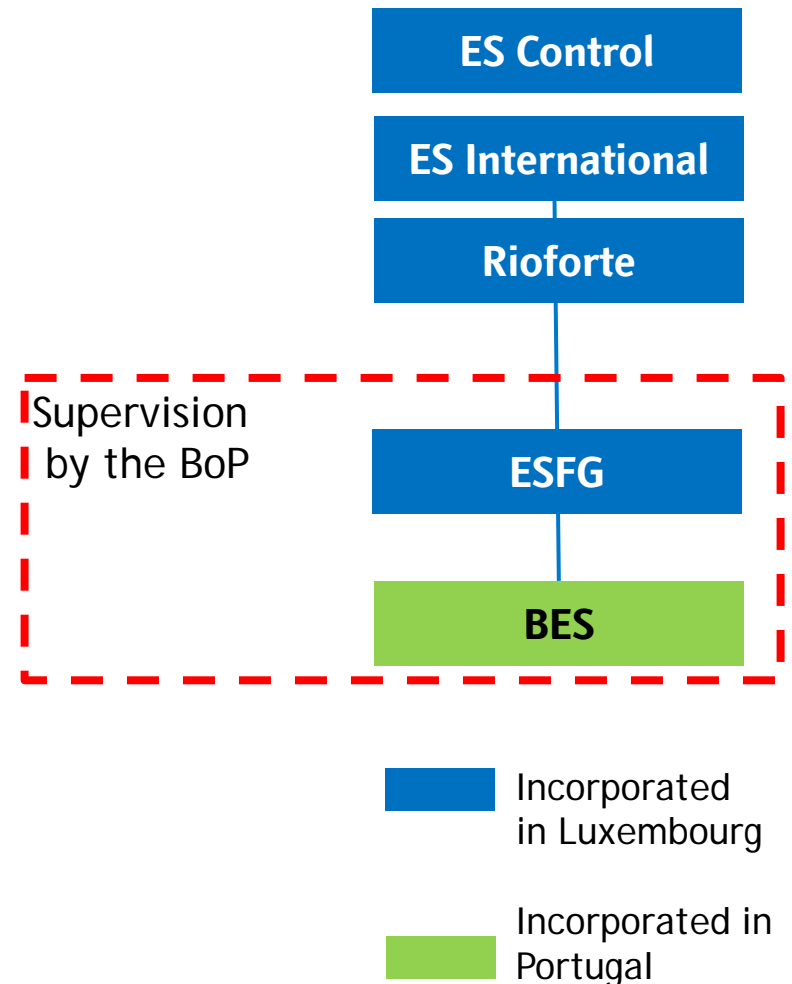
BES Group



The Espírito Santo Group and BES

Supervision of GES / ESFG / BES

- The BoP supervised BES on a consolidated basis, at the level of ESFG
- As of 30 June 2014, the BoP started supervising only BES, following changes in its shareholder structure and the resignation of the shared members of the management team of both companies
- The BoP had no supervisory powers over the entities within GES that were above ESFG



Backdrop



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Backdrop

Timeline

October 2013

- BES is made aware that BES Angola lent EUR 5.7 billion to unknown entities
- The Angolan government undertakes to issue a EUR 4.2 billion guarantee

November 2013

- The BoP is informed that the liabilities of GES amount to EUR 5.6 billion as at 30 September, whereas as at 30 June amounted to EUR 3.8 billion

December 2013

- The BoP demands the financial condition of ESFG to be recovered and a ring-fencing between BES and the remainder of GES

May 2014

- BES announces a EUR 1.045 billion rights issue. The prospectus brings the difficulties of GES to the public light

Backdrop

Timeline

July 2014

- **14 July** ESFG is enforced a pledge over 5% of BES and is left with 20.17%
- **18 July** Espírito Santo International applies for controlled management
- **22 July** Rioforte applies for controlled management
- **24 July** ESFG applies for controlled management
- **30 July** BES posts record losses of EUR 3.577 billion
- **31 July** The BoP suspends some members of the board of directors and inhibits the voting rights attached to the shares of BES held by ESFG

August 2014

- **1 August** The CMVM suspends the trading of BES shares

3 August Transfer to a bridge bank resolution measure

The resolution measure



The resolution measure

Legal framework

Before

- Early intervention and resolution framework approved in 2012
- Inspired by the European Commission's *"Technical details of a possible EU framework for bank recovery and resolution"* and the Financial Stability Board's *"Key Attributes of Effective Resolution Regimes for Financial Institutions"*
- Rules on bridge banks different from those in the BRRD

After

- The resolution framework was amended twice, on the Friday preceding the intervention and on the Monday following the intervention
- The first amendment harmonised the rules under Portuguese law and those in the BRRD
- The second amendment allowed for piecemeal sales

The resolution measure

Bridge banks under the amended legal framework

1

Transfer

- The BoP selects and transfers the assets, liabilities, off-balance sheet items and assets under management ("**Items**")
- The transfer of some Items to a bridge bank is forbidden under the applicable legal framework
- Additional Items may be transferred from the original credit institution to the bridge bank and vice-versa

2

Valuation

- The Items must be the object of a valuation, which shall calculate the estimated recovery in case of winding-up

The resolution measure

Bridge banks under the amended legal framework

3

Formalities

- Bridge banks may initiate their activities without meeting all legal requirements and formalities, to expedite the transfer procedure

4

Acceleration

- Agreements may not be accelerated on the grounds of the transfer

5

Term

- A bridge bank has a maximum term of two years
- Term may be extended for 1-year periods, up to 5 years

BES's present and future



BES's present and future

Authorisation

- BES continues to exist as a stand-alone credit institution, although with limitations
- The CMVM suspended the registration of BES as a financial intermediary for 60 days

Loss bearers

- The shareholders of BES, the subordinated creditors and certain related parties were left at BES
- They will be the ones primarily bearing the losses

Waivers

- BES has been waived of:
 - meeting the applicable prudential rules for a year, as of 3 August 2014; and
 - fulfilling obligations previously entered into, except in specific cases, also for a year, as of 3 August 2014

BES's present and future

Prohibitions

- BES has been prohibited from:
 - granting credit and applying funds in any types of assets, except in specific circumstances; and
 - taking deposits

Possible courses of action

- Continue operating
- Dissolution
- Revocation of authorisation

Likely course of action

- Revocation of BES's authorisation
- Subsequent initiation of winding-up proceedings

Novo Banco



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Novo Banco

Key points

Creation

- Was announced on 3 August by the Governor of the BoP
- Created on a Sunday, by a resolution of the board of directors of the BoP
- Incorporated without being registered with the commercial registry office and without meeting other formalities

Items

- Received all of the Items of BES, except for some Items
- Items not transferred include subordinated claims, liabilities and claims involving shareholders with a 2% shareholding or higher in BES, directors and entities within GES

Novo Banco

Key points

Funding

- Share capital of EUR 4.9 billion
- Wholly-owned by the Portuguese Resolution Fund
- Funded with:
 - EUR 3.9 loan by the Portuguese treasury
 - EUR 377 million in contributions to the Resolution Fund
 - EUR 635 milion loan by the Portuguese banks

Issues

- Possible losses for the Portuguese banking system
- High degree of uncertainty regarding the Items transferred
- Real estate registry issues

Novo Banco

	Novo Banco	<ul style="list-style-type: none">• Recovery of the EUR 3.3 billion credit line granted to BES Angola• Return to normality• Disposal as swift as possible
Next steps	Supervisor's opinion	<ul style="list-style-type: none">• The powers laid down in the law are not sufficient to intervene effectively in banks in distress• There should be a separation between managers in financial and non-financial businesses• The role of supervisor should be separate from that of shareholder (<i>i.e.</i>, from the Resolution Fund)• Review of the rules on the relationship with off-shore havens and EU jurisdictions• The whole of BRRD will be implemented into Portuguese law briefly



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