8-3-2014

Press Release of Banco de Portugal on the application of a resolution measure to Banco Espirito Santo, S.A. - Banco de Portugal

Banco de Portugal/Central Bank of Portugal

https://elischolar.library.yale.edu/ypfs-documents2/2153

This resource is brought to you for free and open access by the Yale Program on Financial Stability and EliScholar, a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact y bfs@yale.edu.
Press Release of Banco de Portugal on the application of a resolution measure to Banco Espírito Santo, S.A.

The Board of Directors of Banco de Portugal has decided on 3 August 2014 to apply a resolution measure to Banco Espírito Santo, S.A.. The general activity and assets of Banco Espírito Santo, S.A. are transferred, immediately and definitively, to Novo Banco, which is duly capitalised and clean of problem assets. Deposits are fully preserved, as well as all unsubordinated bonds.

Nothing changes for the customers, who will be able to carry out all operations as usual and without disruption. The contents of the contractual relationships with the customers remain unchanged. The branches of Novo Banco, which for the time being retain the brand name and logo of BES and the telephone and homebanking services will continue to operate as usual. All collaborators of Banco Espírito Santo, S.A. will become Novo Banco's collaborators, their rights being safeguarded.

In line with the Community regulatory framework, the capitalisation of Novo Banco is ensured by the Resolution Fund, supported by the financial sector, and the losses related to problem assets will be borne by shareholders and subordinated creditors of Banco Espírito Santo, S.A.. This means that this operation does not involve any costs for public funds.

This measure ensures the continuity of the institution’s activity, being the best to protect the depositors and other customers of the institution and financial stability.

I. BACKGROUND


The results disclosed on 30 July 2014 reflect the practice of management acts seriously detrimental to the interests of Banco Espírito Santo, S.A. and the violation of determinations of Banco de Portugal that prohibited an increase in the exposure to other entities of the Grupo Espírito Santo. These facts occurred under the former management of Banco Espírito Santo, S.A.. Acts committed when the replacement of the former management had already been announced, led to an additional loss of around 1.5 billion euros compared with the losses that were to be expected after Banco Espírito Santo, S.A. communication to the market on 10 July 2014.

This situation had several consequences:

- i) Banco Espírito Santo, S.A. ceased to comply with the minimum solvency ratios in force (Common Equity Tier 1 ratio of 5 per cent, i.e. 3 percentage points below the minimum regulatory level).
- ii) Access of Banco Espírito Santo, S.A. to monetary policy operations and therefore to the liquidity provided by the Eurosystem was suspended.
- iii) Increasing pressure was generated on Banco Espírito Santo, S.A. cashflows.
- iv) The public perception of the Banco Espírito Santo, S.A. deteriorated further, as shown by the strongly negative performance of its securities, undermining depositors' confidence. This negative public perception led to the suspension of transactions on Friday afternoon, 1 August 2014, with the risk of contaminating the perception regarding the other institutions of the Portuguese banking system.
Against this background, problems arose regarding the continuity of Banco Espírito Santo, S.A. activity. Considering the importance of the institution in the Portuguese banking system and in the financing to the economy, these problems endangered the stability of the national payment and financial systems.

**II. NOVO BANCO AND PARTICIPATION OF THE RESOLUTION FUND**

The situation described prompted an imperative and very urgent intervention by Banco de Portugal.

With the application of a resolution measure to Banco Espírito Santo, S.A., a separation is made between:

- Problem assets, which in essence correspond to liabilities of other entities of the Grupo Espírito Santo and to shareholdings of Banco Espírito Santo Angola, S.A. whose losses are borne by the shareholders and subordinated creditors of Banco Espírito Santo, S.A.;
- The remaining assets and liabilities, which are integrated in Novo Banco, a duly capitalised bank, and ensure full continuity of the institution’s activity, with no impact on its customers, collaborators or suppliers.

The Novo Banco will be subject to Banco de Portugal’s supervision and will be obliged to comply with all legal and regulatory rules applicable to Portuguese banks. The by-laws of Novo Banco were approved by Banco de Portugal.

The State will bear no costs related to this operation. The equity capital of Novo Banco, to the amount of €4.9 billion, is fully underwritten by the Resolution Fund.

The Resolution Fund's sources of funding are the contributions paid by its member institutions and the proceeds from the levy over the banking sector, which, according to applicable regulations, are collected without jeopardising the solvency ratios.

Given that the Resolution Fund started its operation only in 2012 and has not available sufficient financial resources to finance the resolution measure applied to Banco Espírito Santo, S.A., the Fund took out a loan from the Portuguese State. The loan granted by the State to the Resolution Fund will be temporary and replaceable by loans granted by credit institutions.

**III. RELATIONSHIP WITH BANCO ESPÍRITO SANTO, S.A. CUSTOMERS**

With the resolution measure applied by Banco de Portugal, the general activity carried on by Banco Espírito Santo, S.A. will be ensured without disruption by Novo Banco.

The customers of Banco Espírito Santo, S.A. whose deposits, other credit claims or loans were transferred to Novo Banco, will thenceforth deal with Novo Banco, no further action being required. This transfer will be cost free for the customers. That is, customers will be able to carry out with Novo Banco all operations they used to carry out with Banco Espírito Santo, S.A.

**Deposits.** The resolution measure applied by Banco de Portugal ensures the safety of the deposits that had been made with Banco Espírito Santo, S.A.. Hence, the customers’ legal or contractual rights remain unchanged. Deposits are transferred in full to Novo Banco. The balances of deposits remain unchanged and available for movements, with no restriction.

**Credit.** Contractual conditions of credit granted by Banco Espírito Santo, S.A., transferred to Novo Banco, remain unchanged. As a consequence, the periodical repayments (principal and interest) continue to be made by the borrowers as they did to Banco Espírito Santo, S.A..

**Customers of BESI, BEST and Banco Espírito Santo dos Açores, ESAF, BES Vida and several branches, including Spain, Macau, New York and London.** The resolution measure has no implications for these entities’ customers.

**Additional explanations**

For additional explanations on the resolution measure applied to Banco Espírito Santo, S.A., please refer to the following:

- List of frequently asked questions;
- Call centre: 707 201 409; 9 a.m. – 6 p.m., working days (Cost: €0.10 per minute for calls made from fixed networks and €0.25 per minute for calls made from mobiles, with per second billing after the first minute) - only available in Portuguese;
- E-mail address: infobes@bportugal.pt.

Lisbon, 3 August 2014
More about this subject

- 22-12-05 - Estatísticas das Empresas Não Financeiras da Central de Balanços
- 22-11-2005 - Contas Nacionais Financeiras - Estatísticas sobre Patrimónios Financeiros de 1999 a 200...
- 22-11-2005 - Ajustamento Sazonal de Séries Estatísticas da Balança de Pagamentos
- 22-05-2007 - Contas Nacionais Financeiras: resultados para 2006 e início da publicação de contas tri...