

Banco Espírito Santo Bailout

By Nahal Bahri, J.D. Candidate 2015 | August 4, 2014

After financial turmoil, the [Portuguese bank](#), Banco Espírito Santo (“BES”), will be shut down and bailed out by a plan approved by the European Commission. Part of the bank will remain and continue to operate as Novo Banco; this bank will include healthy assets and senior debts. The [troubled portion](#) of BES will continue to house “shareholders and subordinated debtors who will be written down against the bad assets formed mainly of exposure to the rest of the Espírito Santo and to the bank’s Angolan unit.”

BES will be [bailed out](#) to the tune of €4.9 billion in an attempt to rescue the healthy portion of the bank. The plan is “financed primarily by the Portuguese government,” and the [bailout](#) will “serve as an early test of new European rules intended to make sure that investors, and not just taxpayers, most directly deal with the fallout when banks fail.” The bank’s assets totaled €76.6 billion and Portugal’s bank resolution fund is the primary entity rescuing BES. The fund is mainly supported by financial institutions.

While BES is not close to being one of the largest banks in Europe, the bailout plan must [conform](#) with the European Commission’s “new rules intended to minimize the cost to taxpayers while preventing disruption to the financial system.” The bank’s assets “including deposits and loans that are likely to be repaid” will become part of Novo Banco.

Major shareholders and creditors could stand to lose all of their investments as a result of BES’ troubled assets. These [equity and subordinated debt holders](#) include Espírito Santo Financial Group and Crédit Agricole, a major French lender. Ultimately, the bailout will only protect senior creditors and taxpayers while shareholders and junior bondholders will be stuck with the [troubled assets](#). This bailout will not cost taxpayers any Euros.

Some [analysts](#) believe that the division of BES into two banks is a sign that the “systematic euro crisis is over. While the eurozone crisis still has issues, it now has a well-oiled machine to deal with them.”

Trading [BES securities](#) has been suspended by CMVM, “Portugal’s stock market regulator.” Healthy assets belonging to [Novo Banco](#) will not begin trading on the stock market until the bank is sold and rebranded. In a statement made by the newly appointed chief executive of Novo Banco, [Vítor Bento](#), “the bank is now stronger and safer than it was before.”