

Novo Banco – what good out of a bad bank?

João Carlos Marques Silva - *Department of DCTI, ISCTE-IUL.*

José Azevedo Pereira - *ISEG- Universidade de Lisboa.*

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Abstract

Research methodology
Analysis of public sources.

Case overview/synopsis

The bank named “Novo Banco” (New Bank in Portuguese) was created because of an emergency intervention by the Bank of Portugal to save the “good” assets of the once great but bankrupt Banco Espírito Santo (BES) on August 4, 2014. The toxic assets remained in BES (dubbed “bad bank”). BES was one of the biggest private banks in Portugal, with origins mounting back to the year 1869. In 2013, it was headed by the founder’s great-grandson, Ricardo Salgado, when an external audit revealed several problems with the bank’s accounting and concluded that BES had a severe financial problem (the risky credit represented 11.1% of the bank’s accounts). The bank underwent a public capital increase (endorsed by several public figures, including the Portuguese President at the time, Cavaco Silva) of €1.045m to reposition itself, which was 100% successful (demand of about 160%, with a significant part of foreign investors). However, continued amounts of suspicions led Ricardo Salgado to be replaced by Vitor Bento (via a settlement between BES’s shareholders and the Bank of Portugal) in July 2014. At the end of that same month, BES announced imparities totaling the amount of €4.2535m. This led the European Central Bank to suspend BES’s access to the financial operations, forcing it to reimburse its credit to the Eurosystem in the value of €10.000m. In two days, the stock prices dropped by 80% to around €0.03 per share. It was later proven that the administration led by Ricardo Salgado had disobeyed the Bank of Portugal 21 times between December 2013 and July 2014, apparently acting against the institution’s best interests. Some carousel schemes with companies within the Espirito Santo Group were also detected in BES’ financial movements to improve the bank’s financial statements.

Complexity academic level
Finance Valuation, Strategy

Keywords

- Finance
- Valuation
- Banking
- Strategy
- Ethics
- Politics
- Bank Insolvency
- Bankruptcy
- Imparties
- Government Intervention
- Rebranding
- Nationalization
- Privatizing

