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“FROM BES TO NOVOBANCO: What Changed?”: A Corporate
Governance Comparative Analysis

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Master in Science in Business Administration

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Department of Marketing, Strategy and Operations

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Dedication

I want to dedicate this Master Degree thesis to all the ones who ever knew I was able to change my life for better. Specially to my grandfather, José Manuel de Bastos Seoane, and Doctor Therapist Carla Pinelo Mariz. This project is for you. This change is for me.

Abstract

Due to the last years events, the Portuguese banking system has suffered significant changes, even impacting the own European Banking System. The Banco Espírito Santo debacle, and restructuring into Novobanco, caused an urgent discussion and reflection over the Corporate Governance measures which were being applied at the Portuguese regulators and financial institutions. More than ever, it was important to prevent the future and safeguard earnings and interests. However, it was also important to understand what could be improved, and what could be learned from the present (and past) mistakes.

My master dissertation focuses on the Corporate Governance framework adopted at both banks, with the intend to explore and understand, how much the adopted structures have been transformed, and which were the results obtained.

Keywords: Corporate Governance; Banco Espírito Santo; Novobanco;

JEL Codification: M1 (Business Administration); M4 (Accounting and Auditing); G34 (Mergers; Acquisitions; Restructuring; Corporate Governance).

Resumo

Desde a queda e reforma, de uma das mais importantes e antigas instituições financeiras portuguesas, que o setor bancário nacional tem vindo a sofrer alterações significativas, estando sobre constante tensão. Os mais recentes eventos relacionados com o Novobanco, têm vindo a causar bastantes dúvidas e agitação social, dada a inconstância dos resultados atingidos, e as sucessivas falhas apresentadas. Mais do que nunca, torna-se urgente discutir e pensar o futuro da banca, bem como identificar os erros que têm sido cometidos, e qual o seu verdadeiro impacto no setor.

A minha dissertação de Mestrado baseia-se em analisar algumas das consideradas, medidas de boa governança corporativa, citadas pelas entidades competentes no tema, como forma de analisar e entender qual a condução que tem sido dada a um Banco” reerguido das cinzas” do seu antecessor.

Palavras-chave: Corporate Governance; Novobanco; Banco Espírito Santo;

JEL Codification: M1 (Business Administration); M4 (Accounting and Auditing); G34 (Mergers; Acquisitions; Restructuring; Corporate Governance).

Table of Contents

Dedication

Abstract ... i

Resumo ... ii

Introduction ... 1

CHAPTER 1. Literature Review

1.1 The Corporate Governance Concept ... 3

1.1.1 Corporate Governance in banks ... 4

1.2 Corporate Governance Mechanisms ... 6

1.2.1 Shareholders ... 7

1.2.2 Debt Holders ... 7

1.2.3 The Auditor ... 7

1.2.4 Remuneration ... 8

1.2.5 Dimension ... 8

1.2.6 Independence, Neutrality and Leadership ... 9

1.2.7 Role of Managers ... 9

1.2.8 Performance ... 10

1.2.9 Board Composition ... 11

1.3 Governance Standards and Principles around the World ... 11

1.3.1 Global Financial Crisis ... 12

1.3.2 Other Related Case Studies ... 13

CHAPTER 2. Methodology ... 14

CHAPTER 3. Comparative Analysis ... 20

3.1. Regulatory Context ... 20

3.2. BES & Novobanco: The “Bad” & the “Good” Banks ... 21

3.2.1 Banco Espírito Santo (BES), or the “Bad Bank” ... 22

3.2.1.1 Investor Relations / The Agency (Shareholder) Conflict ... 22

3.2.1.2 Board’s dimension and neutrality ... 22

3.2.1.3 Compensation ... 23

3.2.1.4 Internal and External Auditing ... 24

3.2.1.5 Corporate environment and Leadership style ... 24

3.2.2 Novobanco, or the “Good Bank” ... 25

3.2.2.1 Dimension ... 25

3.2.2.2 Compensation ...	27
3.2.2.3 The Statutory Auditor (External Auditor) ...	30
3.2.2.4 The Financial Affairs Committee (Internal Auditor) ...	32
3.2.2.5 Corporate environment and Leadership style ...	33
CHAPTER 4. Conclusion ...	35
Bibliography ...	37
APPENDIX 1 ...	39
APPENDIX 2 ...	41

Introduction

The international financial crisis, originated in 2007-2008, and the subsequent sovereign debt crisis in the euro area, had a considerable impact on the European and Global financial system, making clear the necessity to review the financial system's models of regulation and supervision. Because of this, methodologies of scrutiny have been reviewed and sharpened, regulatory areas at the level of each financial institution, were expanded, and new regulatory and supervisory strands, have been introduced. Including macro-prudential and systemic ones (Banco de Portugal, 2016).

By its turn, the year of 2014 has revealed itself one of the toughest periods of the Portuguese financial history, with the confirmed collapse of Banco Espírito Santo (BES) (Crisóstomo et al., Público, 2020). BES, created in 1920, was later incorporated in the Espírito Santo Group (GES): a conglomerate with businesses in several industries, operating internationally in many different jurisdictions, over sectors such as: financial services, tourism and hospitality services, oil, industry, gas and transportation, agriculture, etc. Right next with the European financial crisis of 2008, (Nestor and Joseph, 2014), it also came the bankruptcy, causing immeasurable losses to main institutional investors and private clients. Legal litigation and state prosecution in several jurisdictions followed most of them and are still in course without foreseeable conclusion. Confronted with a potential infectious systemic risk for the Portuguese economy, the Portuguese Government intervened, ordering the bankruptcy of BES. This restructuring process entailed the allocation of assets and liabilities of BES in two different financial private enterprises: lower financial risk assets and liabilities - Novobanco (NB), the good bank; and the higher financial risk assets and liabilities – BES, the bad bank.

This decision aimed to give continuity to the needs and urgencies of the former BES clients. Despite this, NB was launched as a new brand through the creation of a new logo to help symbolically clean the damages from the past: “c452. It is therefore urgent and imperative to find a solution that will allow BES to continue its activities with the least possible disruption, while safeguarding the stability of the financial system and the confidence of its depositors” (Parliament's Final Report, 2015, p.374). In the other hand, NB's way forward would reveal itself as very difficult to thrive, when trying to conquer the trust of the market again. More recently, doubts about the financial and economic viability of NB have been casted (Caetano, O Observador, 2021) in connection with the amount of “doubtful debts”, resulting from past lending operations and regarding its equity adequacy. The legacy of the former BES, as well as the governmental decision (Resolution of the Assembly of the Republic nº.83/2014) may be the underlying causes explaining NB's situation (Esteves, Público, 2019).

Insofar as to succeeding, this new bank entity needed to be differentiated from the former bank entity. Considering the OECD corporate governance definition: “Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other

stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD,2015, p.11). Therefore, this research aims to explore how much the design of NB’s governance system, contributes to the rebuilding of a new entity. Regarding the main Portuguese and European Financial system regulator’s vision, my work will try to “reduce” the gap and lack of texts talking about governance systems, and internal regulation procedures inside the Portuguese banking industry. Aiming to understand the steps given by the recent bank, to accomplish its goals and resolutions, I also try to reach a conclusion about the procedures and methods in use, resulting in what could be their result in the future.

This dissertation is set into different sections, to explain what Corporate Governance is, and how important it is for the security and stability of the financial industry. At the literature review section, the COSO’s definition of Governance will be detailed, defining so, which are the concepts englobed, and what do the responsible entities for this topic suggest, when it comes to reach balance inside firms. Also, other authors and experienced academics over the issue, are quoted, with the goal to expose their vision, and define which are the main goals and activities of an efficient governance system.

Methodology section follows to define my option for conceiving this case study and exposes which kind of data and researching methods I opted for. The comparative analysis, is then developed and explored, starting by providing the description of the regulatory framework of the Portuguese regulatory system, to put into context both BES and NB’s operations. The measures taken by the “Good Bank” are then, detailed and enumerated for analysis purposes. Also, BES old measures are compared to the new ones, so that it can be established a better vision of what should, and what should not, be the new bank.

Finally, at the Conclusion section, I try to answer if the adopted Corporate Governance variables, at both institutions, had a different impact, considering the known results.

CHAPTER 1

LITERATURE REVIEW

The overriding theme of most of the great histories of banking houses such as Morgan, Warburg, Rothschild, Baring, and their key personalities seems to be that the glory days of these institutions are, so to speak, "Gone with the Wind."

(Christopher, 2008)

1.1 The Corporate Governance Concept

The notion of Corporate Governance started appearing in the last century, by the academics and independent researchers Berle and Means (1932), who started by observing how larger size corporations have contributed to their control dissipation, breaking its ownership. In fact, the Latin root of the word "gubernare", revokes to the Old Ages, when the monarch and Lord of the Lands, used to be served by the others around (Cadbury, 1992:3).

According to Cadbury (2002), Corporate Governance consists into a comprehensive system which determines the health of an organization, and its ability to survive economic shocks. Morck et al. (1989), by their turn, defined that some of the main factors supporting the stability of any country's financial system, include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regime and an appropriate savings deposit protection system.

Many definitions have been given to understand this concept, being their specificities dictated by the own business characteristics, and all parties included. In what concerns to the banking and financial systems, Shleifer and Vishny (1997), Vives (2000) and Oman (2001) corroborated by observing this subject, as the methods by which suppliers of finance may control managers, to ensure that their capital cannot be expropriated, and they can continue to earn a return on their investment. By their turn, Arun and Turner (2002b) affirm an approach in which Corporate Governance is the mechanism through which shareholders assure that managers will act accordingly to their interests, adding that, thanks to the special nature of banks, Corporate Governance is essential, as well as a govern intervention, to restrain the banks managerial action. Finally, the main goal of Corporate Governance at banks, is to manage positive relationships, regulating the exercise of power in the assets management, at the same time, it improves accountability and a transparent administration.

The Organisation for Economic Co-Operation and Development (OECD) is a well-regarded reference in Corporate Governance matters. It resulted from an agreement of both private sector and Government, first time in 1999, aiming to begin a banking system reform (OECD, 2015, p.3). It also composes a basis to six key areas over business governance, understanding a mix of social, legal and

economic concepts (Jesover & Kirkpatrick, 2005, p.7). These measures constitute a safer way to evaluate not only large and publicly traded companies, but also, other small and not so well-known ones, comprising ethical, anti-corruption and even environmental procedures, allowing so, that different investors may have trust and confidence when analysing different companies (Idem, p.2-3). It is also important to highlight that, these principles, are not supposed to work alone, without the supervision of a resident (or national) jurisdiction for each case (Ibidem, p.7).

Next to the OECD, there are other entities working in this matter. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), created in 1985, is a private organization, resulting from the junction of 5 sector organizations (also engaged into the Governance issue) - to know, the AAA (American Accounting Association); the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Internal Auditors (IIA), and finally, the Institute of Management Accountants (IMA) (COSO, 2014, p.24). The COSO's mission settles on the development of Fraud prevention, Internal Control, Enterprise Risk Management (ERM) frameworks (Idem). COSO's proposal is to define Governance, based on a Business Model scheme (COSO, 2014, p.3). Here, the adopted governance policies, and implanted strategy, come from the company's vision and mission. Resulting from the executive board plans and operations, in parallel, with the management board executions and practices (Idem). The entire process is based on the following elements: business planning; execution; monitoring and adapting (Ibidem).

1.1.1. Corporate Governance in banks

Besides this is a topic of wide interest, Corporate Governance is especially important to Banks once it can comprehend two important dimensions. The first, is to protect the investor interests (also known by the Agency Problem/Conflict); and the second one, is to balance the risk management system. Corporate Governance role at this industry, is also appointed to regulate business affairs, and relations among directors and senior management, through: setting objectives and daily operations; consider shareholders' interests; align actions and behaviours with the applicable laws and regulations; protect depositors interests; define the responsible authorities and security mechanisms; set cooperation strategies among the board of directors; senior management and auditors; define a system of internal controls, as for example: an external and internal auditor, and an independent risk Management responsible; monitor risk exposures and interest conflicts; define incentives and correct promotion and compensation forms; and finally, to control information which flows outside and inside the company (The Basel Committee on Banking Supervision, 1999).

Some of the reasons why Corporate Governance is such an important issue to Banks, are also enumerated by King and Levine (1993) and Levine (1993), defining these financial entities as growth engines for economy, and very relevant for society. Once financial markets are normally, underdeveloped, banks compose an intermediary structure, among firms/depositors and their

financial results. All around the World, there are manifests of the significant role, that this topic takes into firm's financial stability.

Such statements coincide with the fact that, over the last two decades, governments around the World, moved away from using economical regulations, and opted by prudential regulation, instead. Which reformed their financial system (Arun and Turner. 2002). The same prudential strategies, include, by their turn, measures to safeguard bank's financial stability and its depositor's interests, such as: having to hold capital proportional to their risk-taking; early warning systems; bank resolution schemes and being examined on an on-site and off-site basis by banking supervisors. However, this does not totally inhibit the financial crisis phenomena. Barth, Caprio and Levin (2001) refer the role that developing economies have, over sharpening prudential measures effectiveness: first, because of the lack of capital and disposable confident shareholders, that small underdeveloped economies show to have; and second, because of the lack of trained supervision authorities, once at such countries, their political independence seems to be rare; and finally, because of the "flexibility" shown by accounting rules at these nations, which compromises accurate and timely accounting information.

Other authors such as Arun Turner (2002), also argue that Corporate Governance principles seem to be applied by few private banks in poor economies once it usually leads to abuse of power and ownership control. For a good corporate governance measurement, and organizational success, Klapper and Love (2002), affirm that it is implied a total quality management, based over six performance areas: capital adequacy, assets quality, management, earnings, liquidity, and sensitivity risk. Next to this, Coleman and Nickolas-Biekpe (2006) add, that Corporate Governance in banks needs special attention in what comprehends the Principal - Agent relation, and the regulation of decision making. They divide this situation into some main effects: 1) by accepting regulation as an external, independent force in the market, which affects direct and indirectly the contemplated firm; 2) these same regulations determine both managers and owners behaviours, in a different way that at unregulated firms; 3) by preventing systemic risk, such as, lender of last resort, banking regulation means that a second and external party is sharing the banks' risk.

We must also, not forget about the impartial character, that the adopted regulation must have, when acting as a public's interest agent. This does not mean only profit maximization, but also, to focus on the internal firm's interest in construction (Freixas and Rochet, 2003). The importance of such a thing, is based on the wide range of conflicts that corporate banks present, in comparison with other firms, because of administrative, legal, financial codes, that banks face daily. So, regulation has a role to perform in what concerns to separation and distinction of the company from the Market, through segregating banks as a specific kind of business, and giving them different decision-making processes. Regulation also acts as an additional member, external to the firm, neutralizing interests, and finally, controlling the business risk (Idem).

When talking about Corporate Governance, it is important to highlight the role of the Agent (or, Agency) Theory on its formulation. This phenomenon, firstly registered by economists in 1960/70, consists in the conflict of interests created between different parties, when cooperating and working together. More properly, and accordingly to Jensen and Meckling (1976), between a Principal, who delegates a task, and an Agent, who must follow his/her instructions (Eisenhardt, 1989, p.58). This theory settles mainly over the relation between these two personalities, focusing two central questions: (1) the reasons of the conflict; (2) how to control the actuation of the agent (Idem).

To study this Theory, researchers have divided their attention over the both complementary, Positivist, and Principal-Agent Research (Eisenhardt, 1989, p.59-60). As referred by Berle and Means (1932), Positivist Research, is the less logical approach, focusing on identifying mechanisms which may help Principals to prevent the Agent's behaviour, as well as any other situations which may cause this contradictory reaction on him (Idem). The Principal-Agent Research, consists by its turn, into a way of measuring and evaluating different variables, anticipating distinct scenarios for various types of work relations, and reducing their uncertainty and risk (Ibidem).

Variables influencing the Agency Theory, have been proved to be various, and from many origins. They can be identified as outcome based, behaviour based, an even institutional based variables (Anderson (1985), as referred in Eisenhardt, 1989, p.69-70). Late researches over this topic, also conclude a direct connection of the Agency Theory, and the Principal-Agent hypothesis, with variables such as, information systems; risk; outcome uncertainty; outcome measurability; time and task programmability (Eisenhardt, 1989, p.70). However, this is a constantly expanding theory, being recommended to: "Key on theory- relevant contexts." (Eisenhardt, 1989, p.71). This strategy, also allowed to discover that, workplaces presenting problems, such as: goal conflicts; outcome uncertainty; unprogrammed teams and jobs, and even, technology-based firms, were more propense to suffer from these phenomena (Idem).

When it comes to banking governance, there are specific business conditions, which may contain crucial importance for the mentioned above theory. So as the ability to take uncertain risks; conditioning access to information; shareholder's divergent opinions, next with insufficient and non-qualified directors; divergences among markets and regulations; political influence, etc. (Brecht et al. 2011, p.438).

1.2. Corporate Governance Mechanisms

To achieve good corporate governance, is not only to prevent expropriation and ensure better decision making by shareholders.... Despite the few quantitative evidence of this (Imam, 2006), an efficient firm's monitoring and allocation of resources, may lead to a better performance, which may even attract other stakeholders, employees, and suppliers, conducting to an effective and sustainable

economic growth (Iskander and Chamlou, 2000). Ownership control and separation has however, given origin to the abuse of power from other people than the shareholders themselves, especially management (Jensen and Meckling, 1976; Fama and Jensen, 1983). To control this tendency, there have been developed some mechanisms. Accordingly, to Oman (2001), the most important of their all, auditing and accounting standards, once they're related to managers monitoring, and improving governance transparency. Agrawal and Knoeber (1996), by their turn, defined mechanisms to be internal or external. Davis, Schoorman and Donaldson (1997, p.23), finally conclude that shareholder's interests protection, next to costs minimization and agent-principal interest alignment, are governance main priorities, being this exercise specially practiced by the board of directors.

1.2.1. Shareholders

Once shareholders are a crucial element to the business, providing liquidity, merges, and direct/indirect elections and voting, incentive contracts are one common measure to ensure loyalty from the board of directors. However, small shareholders seem to face a major struggle when comparing to larger ones, due to information asymmetries, frequently causing a free-rider problem. Baysinger and Butler (1985) found that corporate governance measures implanted by shareholders, lead to a firm's better performance. Huson, Malatesta and Parrino (2004) studied how short-term effects are resulting from the adopted governance proposals. However, Gillan (2006), found that proposals taken by institutional investors, have a worse effect on stock prices, than the ones made by shareholders.

1.2.2 Debt Holders

Debt holders (or debt purchasers) are an important measurement structure for risk and assets. They can obtain rights to repossess collateral, throw the corporation into bankruptcy proceedings, and even vote when it comes to reorganize, and dismiss managers. However, debt holders also face the same struggle as Shareholders, being the biggest ones, privileged when compared to small ones, in effective legal systems (Myers,1997).

1.2.3 The Auditor

Auditors are expected to work in an independent and transparent way (Bhagat and Jefferis, 2002). However, at underdeveloped markets, the auditor's role is doubtful, being normally responsible for financial reports manipulation, also serving the majority interests. Frankel, Johnson and Nelson (2002) showed a negative relationship between earnings and the auditor's independence, but at the same time, Agrawal and Chadha (2005), found no relation between the audit committee independence and the firm's earnings.

1.2.4 Remuneration

Induces risk-shifting (p.438-439). The importance of a mixed and leveraged compensation for both executive and managerial working sectors: "But the combination of leverage with the other caveats discussed below makes it more likely that bank executives have an incentive to take more risks than is desirable "(p.446). Also, the elected CEO's also must have an income aligned with the expected performance. Brecht et al. (2010) recommend payments for this position based in both stock price and performance, considering for that, other banks results, and default risk (p.446). Next to this, Romano et al. (2008) refer at their 1920's Paper, how mixed executive compensation, has been used as an improved corporate governance strategy, for over a decade (p.1812). The authors quote the investigations of the finish economist Bengt Holmström (1979, and 1982), where this Corporate Governance factor, is related with the Principal Agent Theory, revealing that "(... contracts providing for incentive compensation such as options dependent on outcomes are necessary to induce labour supply and optimal risk-taking)" (Idem). Also, related to this topic, the Enron scandal has been an important phenomenon to consider. Having been thought that, because of the non-adjustability of remuneration, executives of the firm, have manipulated the accounts, so they could receive more (Bruce Bartlett, as quoted at Romano et al,2008).

1.2.5 Dimension

Independent boards tend to be larger (Brecht et al. (2010) p.439). However, this is a conclusion which may be controverse once other academics have contraposed this theory. As mentioned by Jensen (1993) and Yermack (1996), the increasing's board's size may bring disabilities, as the incapability to control and supervise the management team (Grove et al.2011, p.420-421). Other approach to this dimensional question, suggests that it can be established an U- shape relation among board's size and bank's performance, being prejudicial both situations of an excessive enlargement or shrinking. (Adams & Mehran, 2003,2005, as referred by Grove et al. 2011, p.4211). Also, Marina Brogi (2008), at her single article, studied this Governance issue, affirming both positive and negative opinions about the importance of the board's dimension for the firm's performance (p.5-6). However, the author refers a divergence among the results reported for the financial and non-financial firms, appearing that size, may be a crucial factor in what concerns to banking and insurance businesses (Idem). Through analysing actuarial indexes as P/E Ratio and ROA, for different samples, (the Eurotop index firms, and the European financial intermediaries), the Italian economist also reached that, financial companies present better results through larger boards, in opposition to other types of companies (p.15). In conclusion, Brogi (2008), finishes the article, with the idea of an impossible generalization, in what concerns to the board's ideal dimension. "(...) there is no "one size fits all" in the field of governance

“(p.7). As the executive board’s composition, the board’s size is a crucial factor to control both the CEO and the Management team. If a board is larger, it is probable that this same movements, are more dominated and disciplined (Pfeffer (1972) and Zahra and Pearce (1989)). However, it is important to take in mind, that very large boards also may compromise the firm’s performance, enhancing agency costs (Yermack .1996). Hermalin and Weisbach (2002), found out that a major board is likely to be less impartial among supervisors and directors, and Mak and Li (2001), concluded that the board’s characteristics are an important topic to reach a good performance, but, still, there is not a unique receipt for this. Finally, Yermack (1984, 1991) found an inverse relation between board size and firm’s value, since the moment when the board’s size passes from small to medium (6-12), and medium, to big (12-24).

1.2.6 Independence, Neutrality and Leadership

Neutrality and Leadership are directly connected among themselves, being recommended to separate charges and functions, to not compromise the neutrality and independence of the board (Grove et al. 2011, p.422). Accordingly, to the investigation taken ahead by Brecht et al. (2011), Governments should not be a bank’s major owner and investor (except in case of restructuration and recapitalization) (p.444). Executive board’s structures should not only be composed and attended by the designated members, but also by representative agents for other engaged parties; (p.438). Banking Governance principles should not only focus on the shareholder’s interests, but also, on depositors, creditors, transaction counterparties, and other taxpayer’s necessities. Solutions for this step, may pass by establish a limit of trade exchanges per deposit, and separate investment bank activity from the commercial one (p.445).

1.2.7 Role of Managers

Managers are proved to be, generally, more risk adverse than shareholders, and specially, when they find their earnings in danger, they usually tend to react against their “Principal’s” intentions (p.446). Also, the existence of a Chairman and a CEO, is a common and important strategy at banks. In this case, the CEO will be restricted to the Chairman decisions, been this last one, the true leader of the firm. Grove et al. (2011) constated that if having both the leadership and executive power in one person, it is more likely to find interest conflicts and a reduced board independence (p.421). The present article still defends the importance of the internal and external auditors, being this, the reason for committee existence (p.422). As well as any other corporate governance variables, Managers can present both pros and cons. If in one hand, they can reduce asymmetries, in the other one, they also can enhance costs, especially at developed markets (Monks and Minow, 2001). At underdeveloped markets, managers are also known for acting in favour of major shareholders, and safeguarding their

own jobs, pursuing bonuses and compensation (Bhagat and Jefferis, 2002). For reaching better results, strategies such as joining shareholders and managers interests, are the ideal way of converging goals and improving the firm's value (Mehran. 1995). One practical example of these arguments is also reached by Brogi (2008), when referring to the Lehman Brother's collapse, due to the bad risk management presented by its managers, and, of course, wrong leadership decisions (p.456).

1.2.8 Performance

Albanese, Dacin and Harris, (1997), defend that better corporate governance should lead to higher stock prices or better long-term performance, through decreasing agency costs.

1.2.9 Board Composition

For a correct governance performance, it is also necessary to have a functional board of directors, who monitor both Auditor and Management, and even, select the rest of the staff. The executive board it is also responsible for controlling costs and resolving internal conflicts, never forgetting to be available for shareholders decisions (Vance (1983), Anderson and Anthony (1986), Nikomborirak (2001) and Tomasic, Pentony and Bottomley (2003)). Composing the Board there are outsider (independent) and insider directors. To be neutral, a major part of the executive board, should have more independent directors, than the opposite (Bhagat and Jefferis, 2002; Tomasic, Pentony and Bottomley, 2003). In the other hand, internal directors have a specific role to perform, concerning the shareholders' interests, being responsible for contradicting information asymmetries (Bhagat and Black (1999), and Bhagat and Jefferis (2002). Still, it is important to remind that, an optimal number of insider/outsider directors must be chosen, so that it can be possible to maintain nonbiased decisions (Asian Development Bank, 1997). Studies about this topic reveal both positive and negative effects in what concerns of reaching a healthy performance, through different board structures. If researchers like Pfeffer and Salancik (1978); Ogus, (1994,1998); Pearce and Zahra (1992) and Vafeas (1999), found a better result to be obtained through outsiders dominating an executive board, others such as Weisbach, (1988); Daily and Dalton (1992); Mehran (1995); Daily and Ellstrand (1996); Rosenstein and Wyatt (1997); Klein (1998); Weir and Laing (2009 and Bhagat and Bolton (2005), regarded the oppose, when evaluating the firm's value and accounting profits.

However, in the case of family-based businesses, board's commanded by insiders are proven to have fewer effective monitors and supervisors, once, commonly, they also have the Chairman and CEO in one unique person. In these cases, outside directors are usually links to reality and securitization entities (Daily and Ellstrand, 1996). Baysinger and Butler (1990) and Rosenstein and Wyatt (1997) studied the market's successful situations, when firms appoint outside directors. Brickley, Coles and

Terry (1994) found out a positive relation among stock market reactions and outside directors' election, and Anderson, Mansi and Reeb (2004) evaluated the cost of debt negatively, when related with board independence.

1.2.9 Role of Chief Executive Officer

For shareholders, the CEO is one of the maximum value creator organs, being also responsible for implementing and following a governance system (Brian, 1997; Defond and Hung, 2004). It is the Executive Board who approves or dismisses the CEO and decides his/her remuneration (Monks and Minow, 2001). This is an important alignment strategy, which has been recommended to be linked with the CEO's presented performance (Yermack.1996). Also, short duration contracts for the charge consist into other strategy to evaluate medium-term goals, limiting stock prices as a proxy indicator (Bhagat and Jefferis, 2002). Contrarily to other corporate governance variables, CEO's are proven to be less neutral in developed markets, once here, firms apparently don't inspire so much confidence to shareholders. Other important variable related to the CEO's performance, is the CEO's duality. This means that, having a single person occupying both the CEO and Chairman charges, is a lack of security, being the final results always dependent of his/her performance (White and Ingrassia. 1992). Yermack (1996) found that firms are more valuable when the CEO and board chair positions are separate, but, however, Holthausen and Larcker (1999) found that compensation is lower when the CEO and Chairman charges are separated.

1.3. Governance Standards and Principles around the World

Because of economical scandals all over the World, and global economic crisis, Corporate Governance measurements have gained a more relevant role in society, as well as the need for transparency and accountability (Mallin 2004, p.19). Countries such as England, USA, Australia, and other European ones, have gradually developed their own Corporate Governance principles, through guiding research and discussing this topic. For example, at the UK, major works related with Corporate Governance involve famous reports, such as: 1) The Cadbury Report (1992), which included the definition of executive and non-executive director's responsibilities, audit committees, auditors' role, and the connection among shareholders, boards and auditors. 2) The Greenbury Report (1995), which interfered directly over the remuneration topic; 3) The Hempel Report (1998), which, next to the last reports, defined goals, and established other criteria, such as nomination and independence. 4) The Higgs Report (2003), where major recommendations were defined. To know: a plus clear description of the role of the non-executive director; a definition of 'independence' that addresses relationships; the fact that, at least half of the board of directors should be independent; the appointment of a senior independent director to take responsibility for shareholder concerns; the necessity of having both roles of chairman

and CEO, separated; the appointment of a nomination committee (consisting of a majority of independent non-executives) to conduct board appointments; the annually reviewed performance evaluation system for individual directors, board and its committees; the level of remuneration for non-executive directors, and finally, to encourage and lead debates over these topics (Solomon and Solomon 2004; Mallin 2005). Other formal example of the Corporate Governance's evolution, is the Combined Code of Corporate Governance (2003), and the OECD (first published in 1999). The first one, based on the referred UK's Reports, consists into reforms and counsels for the addressed key-issues, contemplating a sum of principal duties for remuneration and nomination committees. By its turn, the OECD Principles of Corporate Governance, intended to provide guidelines for legal, institutional, and regulatory frameworks (OECD,1999, p.11). Since the beginning of this publishment, that the OECD Principles have suffered transformations, being constantly developed. Some of the most recent changes over the established topics, are now: 1) Ensuring the basis for an effective corporate governance framework; 2) The rights of shareholders and key ownership functions; 3) The equitable treatment of shareholders; 4) The role of stakeholders in corporate governance; 5) Disclosure and transparency; 6) The responsibilities of the board. In the case of Australia, we have an example of a country which adopted the original version of the OECD Principles (1999), in a wide range of activities (Standards Australia 2003, p.6). The main effects of this adoption were translated by bolstering consumer confidence and providing ways of governance validation for companies (Bezzina 2004, p.60). The adopted frames are divided into: good governance principles; Fraud and corruption control; Organization codes of conduct; Corporate social responsibility; Whistle-blower protection for entities. Finally, USA are constantly improving regulation related with Corporate Governance topic, specially after great historical collapses, such as Enron and WorldCom scandals. Some improving frameworks as The Sarbanes-Oxley Act 2002, and the NYSE Corporate Accountability and Listing Standards 2002 have been launched until now.

1.3.1 Global Financial Crisis

Besides the World has been constantly presented with financial crises, financial innovation as also been a frequent phenomenon, which made the whole financial system increase, and turned higher the possibility of spreading risk, also reducing transaction costs and asymmetric information (Merton, 1995). These processes turned higher liquidity and provisions to banks (Santomero & Trester, 1998). However, this also brought new challenges when it came to implant new products and develop more of the traditional banking operations. Santomero & Trester (1998) found a connection among financial innovation market growth and bank risk. This happens in parallel with the opacity character that banks have conquered gradually, thanks to securitization, investments, and the interbank market (Gorton & Rosen, 2009). By its turn, opacity conducted to credit resources and, consequently, over-dimensioned

commissions/ fees, as well as short term profits, in order to satisfy a rapid growth, uncertain market (Caprio et al., 2008). This entire process ended creating interbank market meltdown (Gorton and Rosen, 2009).

1.3.2 Other Related Case Studies

Many U.S Commercial Banks, as the Lehman Brothers, had their collapse cause based on governance issues (Leventis et al. 2013.p.282), more specifically, the remuneration factor. The short-term profits made the group collapse, because of its executives and leader's ambition. (Idem). The same could be said about the Wall Street fall (Serapicos et al.2018). Even, Parmalat, created in 1960, was a dairy milk company who settled on a family business, despite of having grown global, and acquired international visibility. However, based on this expansion project, the group presented debts higher than profit, in 2003, revealing the beginning of the financial crisis (Carrara, 2006, p.539). Later, it came to public that the industrial group had subsidiaries at Cayman Islands tax heaven, as well as investments funds, which consumed major part of its liquidity (Idem.p.540). Lately, this scandal forced the group to delay stock payments because of market's reaction to the news, having the emitted bonds been downgraded by S&P (Ibidem). Lately, it was discovered that some Parmalat's executive directors were also shared with the Eurofood Commission, having been transacted private placements among these two entities (Idem, p.553). The case had to be debated over the Insolvency Regulation, having been discussed certain variables, as the enterprise dimension, and neutrality (Ibidem, p.561-562).

During 2002, major investment banks settled at NY, as well as other regulators (Credit Suisse, Goldman Sachs, and J.P. Morgan), suffered sanctions because of deceptive practices (Giroux, 2008, p.1206-1208). These same acts included fraudulent transactions, and managerial interest conflicts (Idem). By its turn, the Enron scandal figured out as a large-scale fraud. (Idem, p.1208). Because of its large size, performance results and compensation payments were also attractive, which ended up creating a corruption atmosphere, passing from a manipulator chairman and meetings scheduled for manipulation, to a CFO involved on hide-side agreements, and corrupted external auditor and lawyers (Idem, p.1208-1209). Thanks to the engaged parties, Enron's financial position was always strongly rated, in despite of reality. (Idem, p.1209). Giroux (2008), affirms that, one of the energetic company strategies, was moving profits among different periods, justifying being orders (p. 1210). Besides Enron's external auditing company have discovered these acts, and reported them to the auditing committee, they stood quiet about it, having internal control and corporate governance policies remained uncorrected and not workable (Idem, p.1211).

CHAPTER 2

Methodology

This research, and case study formulation, focus on two different stages. First one, was to detail some corporate governance variables, and interpret their workability inside the two entities, BES and NB. The second one, consists into trying to conclude about the effectiveness and success of the change suffered by the financial entity, until now, using as an indicator, the media reports found over the issue.

My dissertation goal was to discover if the same adopted Corporate Governance variables, by both financial entities, were having a different impact, and result, when comparing Novobanco and BES performances. For this, I related Academic Literature research over the Corporate Governance matter, and the regulator’s legislation, with to two main types of data sources: the primary, based on governmental and banking reports over the BES and Novobanco results, and the secondary, which majorly consists into media news, and public opinions over the present issue.

Table 1

Terms & Concepts	Academic Literature	Case Study
<p>Corporate Governance (COSO/OECD)</p>	<p>Corporate Governance may be defined by a set of procedures and measures who aim to control and direct an organization.</p> <p>They may be applied in multiple ways and types of companies, regulating good practices to ensure their “accountability, fairness and transparency in the relationships with its various stakeholders, e.g., shareholders, lenders, customers, suppliers, employees, governments, regulators and the communities in which it operates” (COSO, 2014, p.3).</p>	<p>At both banks, Corporate Governance schemes will be dictated by the priorities and necessities of the different Executive Boards.</p> <p>At a certain part of their paths, the counselled measures, may have been followed or ignored according to what concerns more, or less, to the same executive power.</p>
<p>The Agent Theory ECB / Jensen & Meckling (1976)</p>	<p>Interest conflicts between Principals and their Agents. These may be caused by mixed variables, such as:</p> <ul style="list-style-type: none"> - Remuneration. - Risk. - Vision. - Relationships; etc. 	<p>BES bankruptcy had origin on a lack of information, and bad managerial decisions, caused by self-interests from its Executive Board and CEO/Chairman.</p> <p>Novobanco now, tries to break this heritage, by changing staff and adopting multiple strategies and good Corporate Governance proposals.</p> <ul style="list-style-type: none"> - However, will they be enough?

<p>Risk Management (COSO)</p>	<p>At the banking industry, risk is much more inherent and constant, than at any other business, what makes it an important player to consider, when planning and defining strategies.</p>	<p>As mentioned by Brecht et al. (2011), risk is naturally present at banking businesses. For both banks, it was present at portfolios, daily financial activity, employee's remuneration, etc.</p> <p>However, BES didn't truly consider it when it felt the need for liquidity, and even when launching non valuable "assets" for sale, it did not prevent the company from ruin.</p> <p>By its turn, Novobanco established the Risk Management has a priority, defining a specialized committee to manage it. The results obtained until now, always contain a risky component, even for its executive's compensation.</p>
<p>Executive Board Dimension Brecht et al. (2011)</p>	<p>Brecht et al. (2011) defended that larger boards tend to be more neutral.</p> <p>However, other authors (Adams & Mehran, 2003,2005) complete this theory, by establishing limits for size enlargement, defending that an excessive dimension, will bring interest conflicts and difficult monitoring activities.</p>	<p>BES belonged to an international holding, containing many different businesses, and presenting several teams for different departments and Commissions. However, this was in fact, a conditioned variable, once executives were responsible for more than one charge, and department, to manage and direct.</p> <p>By its turn, Novobanco continued to settle on an international holding. Besides still being large, this structure suffered now, a restructuration, having already been owned by different entities, from the public and private sectors.</p> <p>The different committee established, are now uncharged of supervising department's results, and presiding to other committee's meetings. Until the present moment, the results and progresses obtained have varied, as well as the main leaders.</p>
<p>Internal Control (COSO)</p>	<p>Internal Control is defined as part of the established framework for Governance, being composed by a risk reduction measures over six areas, such as:</p> <ul style="list-style-type: none"> - control environment. - risk assessment. 	<p>At both banks, there were designated Internal and External Control organs, represented by an Internal Auditing Committee and an External Auditor firm, which was defined for a certain</p>

	<ul style="list-style-type: none"> - control activities. - information and communication; monitoring activities. <p>Internal Control it is also a useful instrument to improve leadership inside organizations.</p>	<p>time. The Internal Auditor is the first responsible entity, for informing the External one, about any pertinent topic.</p> <p>BES occulted its financial results from the external control's view, creating a scandalous situation over the Portuguese banking system, and causing its own bankruptcy.</p> <p>Novobanco presents now a new External Auditor, and a different committee for Internal Control. Despite that the internal results have now, finally been positive, does this mean a good cooperation among the two parts?</p>
External Control (COSO)	External Control is directly connected with the Internal Control variable. This type of control intends to review control strategies taken ahead, and its results, evaluating the performance metrics obtained internally.	
Compensation (Brecht et al.)	Brecht et al. (2011) defend that compensation is an important factor to control Corporate Governance alignment with the staff, and both manager's and executive's performance. Only with a measured and mixed income, risks may be mitigated, and different interests may be satisfied.	Both banks referred to have fixed and variable components to offer in what concerns to compensation matters. However, at some point, these two parts, may have not been applied at the same time.
Leadership (COSO) Grove et al. (2011)	Corporate Governance is directly connected with Leadership, being a very important "tool" to manage and govern the entire organization (COSO, 2014, p. 18). The Leader function is expected to come from the CEO of the firm, who must reach a total vision from the different areas of the firm: strategy; finance; operations (p.6).	BES maintained its leadership during several times, which conduced to an abuse of power, next with a centralization of it.
	Leadership at banks it is also recommended to be divided by both the CEO and Chairman position, so duality behaviours may be reduced (Grove et al. 2011, p.421).	Novobanco, adopted a different strategy, having until now, changed its CEO for three different times. However, not because of the best reasons. There have been different contexts and even scandals, related with this, since: bad performance results to exchange of favours and personal interests.

Primary sources will be detailed at "APPENDIX 1" and focused over the related Corporate Governance strategies and terms, giving us indicators and measurement strategies, for the present case. Here, we may highlight, the BES account reports and judicial inquiries, (2013-2015), the OECD and COSO legislation (2014 and 2015), as well as the Novobanco holding articles, and governance

policies (2018-2022). Academic literature directly relates with this chapter, contemplating corporate governance analysis and related scholar research (1989-2018), focusing the Agency Theory (or the principal-Agent Theory), where Corporate Governance terms and concepts will be developed and adapted to the firm's performance. Finally, secondary sources have their own "APPENDIX 2", having been selected the mediatic articles about the speculation caused by BES and Novobanco, until now (2018-2022).

At first, I tried to apply multiple evaluation methods. To collect and analyse data, I tried to conduced surveys. The sample included people who worked, directly and/or indirectly, for Novobanco, - staff, and external auditors. However, this action failed once no one wanted to respond to the questionnaires. Because of this, I had to opt only by a qualitative method. As Seale et al. (2004) refer, at page 2 of "Introduction: Inside qualitative research", qualitative analysis and research are often considered more "quite stereotypical and close to common sense" (Denzin and Lincoln. 2005. p.277). This may be caused by the actual excess of paradigms, strategies of inquiry and analysis methods, next with the inexistence of patterns and standards monitoring this type of evaluation. Which ends up, giving qualitative data, a much more creative and interpretative character than the quantitative one, commonly becoming antiscientific and disproved of scholarship quality and rigor. (Idem). However, on the other hand, some authors also defend that an exclusive statistical approach, may conduce to a lack of economic significance and relevance (Ziliak and McCloskey, 2009, p.2032). Despite this, a suggestion comprising statistical and conceptual vision, is the Case Study (Alston,2008, p.121). This is an ideal tool for research, once it helps to create an analytical narrative, through "Temporal analysis of the determinants and impact of institutions is necessary in order to better understand the dynamics of institutional change." (Idem, p.115). Other favourable characteristic of Case Studies consists of their facility on isolating study variables, and test them around, being especially adequate to study institutional change processes. (Ibidem, p.103-104).

Finally, Case Studies may adopt a comparative position, allowing various institutional analysis of the firm's departments, and external factors (Gibbons,2010, p.4). Accordingly, to Robert Yin (2004), "Case study research enables you to investigate important topics not easily covered by other methods questions" (p.1). To apply to this kind of research, we must concern with questions as "How?" "What?" or "Why?", exposing a causal relationship (p.3). During this investigation, the researcher, will have to find new connections and meanings, trying to explain it to others (Stake, 1995, p.292). By recurring to Academic Literature, I've chosen papers related to the Agency Theory topic, narrated by researchers as Jensen and Fama (1983), as well as Corporate Governance practices counselled by international authorities, such as COSO and OECD, to establish an analysis point and guideline, in order to evaluate both the Banco Espírito Santo, and Novobanco's evolution. To reach Corporate Governance variables and understand the environment around them, I also recurred to Academic Literature published during

centuries XX and XXI, settling over different researchers and visions, to conceive notions for: dimension; remuneration; risk; leadership; internal and external control; etc.

However, once there are not any known scientific studies published over the Novobanco's performance until now, most of the facts and proves only may be found at the Portuguese media, which gives a theoretical development and hypothetical approach to this dissertation, eventually making it rich on analytical generalisation. Other important aspect in which my work tried to settle, obeys to Yin's vision of quality on research, from which it can be detached, my focus on trying to attend to all evidence; comprehend major rival interpretations and always keeping in mind the central question of the following research. (Yin,2014, p.20-25).

During my comparative analysis and cases description, at Chapter IV, I adopted chronological research, analysing events during the reported periods for both banks' events, and connecting them with Academic theory, as announced at Alston (2008).

Comparative Analysis

BES used the “box-ticking” approach, which means they were following regulators recommendation but only on paper. They presented several problems that were outside the suggestions.

Thus, it is difficult to define this as good corporate governance.

(Pereira Gomes, 2017. Corporate Governance at BES: (...))

3.1 Regulatory Context

In Portugal, the financial sector is regulated by the European Central Bank (ECB); the European Banking Authority (EBA); the Bank of Portugal; and the CMVM (Comissão de Mercado de Valores Mobiliários, the capital market regulator and overseer) (Livro Branco (...), 2016, p.15). ECB is the first regulator in what concerns to financial authority over banks operating within the European Union. Member States are bounded by its decisions, being the supervisor and creditor for the entire European banking industry (Idem, p.37). The EBA is the competent legislator, and regulator for the financial area of the EU. It is responsible for creating and maintaining a single market regulation to the entire agency’s union. At a national level, the Bank of Portugal is the Portuguese representation of the European Bank regulation system (Ibidem). Finally, the CMVM organization is a reporting and intermediary entity, responsible for certifying the security of investors and the Portuguese financial market (Idem, p. 38).

However, it is impossible to understand how this complex system works, without referring the Agreement behind it. The “Single Rulebook” (or, the Basileia Agreements, as it is also known), embodies the fundamental law of the European Banking Industry (Idem, p.40). Created in 2009 by the EBA institution, these regulations settle on the harmonization of the Capital Requirements Directive (CRD) with the Bank Recovery and Resolution Directive (BRRD), orienting the different banking Executive Board’s work, and requiring an obligatory response over a non-satisfactory behaviour, accordingly to the regulations. This mechanism is composed by three Agreements: Basileia I, Basileia II, and Basileia III (Ibidem). Basileia I, created in 1988, was the first step taken towards credit controlling and risk measurement in Europe. With this agreement, it was supposed to start preventing financial institutions of bankruptcy. (Idem, p.40-41). However, once it revealed itself to be insufficient when acting alone, there was the necessity of reaching two more agreements (Idem, p.41). Based on accounting and supervision principles, Basileia II, (2006-2007) consisted into the division of directives into three different pillars: Minimal Requirements for shareholders capital (which is essential to preview the credit’s risk that a bank can take , as well as for monitoring the rest of the Market’s risk, with all its exchange rates and different assets sets); Supervision and Risk Management Process (giving EBA and Bank of Portugal the opportunity to regulate and authorize or deny the measurement taken

by banks in order to prevent bad risk management), and Market's Discipline, (which establishes the public character of information made available to the Market) (Ibidem). The Basileia Agreement III is the most recent one of all. Created with the purpose of minimizing consequences for difficult times, by controlling liquidity phenomena, and banking profits (Idem, p.41-45).

3.2 BES & Novobanco: The “Bad” & the “Good” Banks

3.2.1 Banco Espírito Santo (BES), or the “Bad Bank”

Banco Espírito Santo (BES) was part of a large holding company, the Grupo Espírito Santo (GES), which collapsed in 2014. Being majorly owned (plus than 50%) by the Espírito Santo Financial Services (ESI) incorporated in Switzerland, it compromised its results based on bad management decisions, and mostly because of not acting accordingly to its governance principles (Relatório e Contas BES,2013, p.7). Analysing the BES Society Govern Repertory (2014), we have a detail of what composed the internal structure of the bank:

- Legal capital was supported on common shares certificates, mainly held by listed companies, around 53% of them operating in some business owned by the Espírito Santo Group (ESG, BESPARG; Crédito Agricole; Bradesco and Portugal Telecom), composing a universe of 33 million investors and shareholders. (Idem, p. 4 and 5).

- The group ensured the inexistence of differences and privileges among different shareholders, so that, there would not occur any differentiation or distinction, when investing and selecting shares. Note that, at BES, the investors' right to be represented was given by vote, to those who had at least one hundred shares, in a universe of more than 4 million thousand ones. Each one hundred shares correspond to one vote, but shareholders owning less than one hundred shares may group together, to make up the required number, or a greater number, and be represented by one of the group members. (p.10)

- The power was apparently distributed among the different internal Committees of directors and executives, Internal Auditing and Executive Committee (and their respective subdivisions, Compliance, Risk, and the Auditing Department), being this entire structure under remit of the supervision of the General Assembly. (p.12 and 13). The same elected members for each of the committees and councils were well distributed (there was a general conscience of which were the positions occupied by each member, in more than one company related to the bank), having to reach an agreement of votes to act in concern. However, all these security measures did not prevent BES from having bad results after the European Financial crisis years, starting from 2010. The reason for this negative return and profit was discovered when the financial collapse finally came into light, in 2014 (Gago & Paula, Jornal de Notícias, 2014).

3.2.1.1 Investor Relations / The Agency (Shareholder) Conflict

The investor relations inside BES were numerous and complex. Carvalho (2015) refers how it was supposed to work such a complex holding through a chained structure, which main advantage should be avoiding takeovers, and ensuring transparency inside the business relations once the holding extended to outside Portugal. Also, the privacy of small investors seemed to be guaranteed by the expansion of the various businesses, as well as the risk mitigation among the different companies (Idem): “However, in the case of BES, rather than sharing the risk, what happened was to enhance this risk, with cross-financing within the various companies of the group, instead of the different companies subsidising each other under market logic” (p.8). Last but not the least, the contracted debt of BES, coming from money laundering, is a crucial point to understand the falling of this financial entity. This phenomena can't be found here in the same terms previewed by Jensen in the last century, among shareholders and managers, (once a major part of them, in this case, were also detainer of stock options), but instead, it could be detected among creditors and shareholders. The absence of liquidity inside BES, due to the faults committed inside the GES group, made the bank fall into a conflict of interests among what was due to the party who borrowed value, and the other one, who wanted to capitalize and enrich the BES stock options in the market (Idem). Such occurrence would be confirmed by the hidden amount of passive value, driven throughout the years 2008-2013:” The first concealment of liabilities, he reported, occurred in 2008, with a hidden debt of 180 million euros. The aim was to do it only that year. It ended up occurring in the following years, until 2013” (Cavaleiro, Jornal de Notícias, 2014).

3.2.1.2 Board's dimension and neutrality

As any other great company, BES also had a board functioning based on well-established procedures in accordance with the CMVM recommendations. The BES Society Govern Repertory (2013) shows how a specific Committee was defined for the Internal Auditing process, which was to deal also with the bank's external auditor (p.22). This same Committee was also responsible to review and report (next with the Executive Commission) on Compliance, Risk and Assurance issues (Idem). The Administrative Council should be composed around 11-31 members of the regulatory range, with 4-year terms, although possible to be re-elected (p.330). By the year 2013, the independent board, was composed by a total of 25 directors: 10 executive and 15 non-executives, which would also fit into the Portuguese recommendation for the board's composition (p.15). Although the referred structure would easily fit the CMVM recommendations for the board's composition, if one could know the identity of each one of the contemplated executives, that would reveal to not respect the neutrality's

principle. The Republic Assembly's Report (2013), reveals how there were an excessive number of familiar relations inside the GES corporation, despite they were not clearly exposed:

Some significant changes were introduced, including: i) the end of the accumulation of functions regarding a vast number of people, namely from the Espírito Santo family, who were simultaneously directors of companies in the financial and non-financial branches of GES; ii) the creation in BES of the Committees of Control of Transactions with Related Parties and of Monitoring the Execution of the Business Plan of the GES non-financial branch; iii) the introduction of changes to the code of conduct; iv) the reinforcement of the powers of the Governance Committee;(p.319, c.298).

Regarding this, also Kim, Nofsinger and Mohr (2010), referred to the real incompatibility behind the "apparently perfect" board scheme. Carvalho (2015) also refers how strange was the Commercial Organisational Model followed by BES and finishes by comparing it, with the recommended standard, present at the Portuguese Commercial Societies Code, and at the European model. Both, idealising a maximum number for board members was of approximately 10 (Kim, Nofsinger and Mohr (2010), as mentioned at Pereira, Márcia (2017, p.7-8). Turning again into the General Assembly's Report, we have that some of the critics raised at the meeting, were that GES allowed the Espírito Santo family and social relations, to decide the course of their businesses, comparing the entire structure of the holding, to a truly "arranged marriage" (2015, p.262), having considered a priority to dissolve the ruling familiar system (Idem, p.141). Of course, this same familiar scheme was even reflected on the long term (and renewable) career for Director's roles. After being investigated, BES revealed to have the same directors and non-executive staff, occupying the same functions since 2002/2003, being these individuals, at the same time, the larger shareholders at the top of the Executive Board (Carvalho, 2015, p.5). Finally, this truly "neutrality crisis", collided with the exchange of high value presents between the members of the board, as well, as the payment of company's shares to almost every member of the direction (Castanho, O Observador, 2014).

3.2.1.3 Compensation

As the BES 2013's General Assembly's Report indicated, packages for the board's remuneration and salaries were a doubtful issue. In it, there was referred the existence of both fix, and variable income (RVA), which should be paid in cash (Atividade, Custos, Risco e Qualidade, p.97-98). The RVPM (Medium-term Variable Remuneration) was also a possibility, although, this kind of salary payment was never practiced since 2010 (Idem, p.99).

3.2.1.4 Internal and External Auditing

Other fault hidden by the BES organization, was related with the supervision of results and external and internal auditing areas, having this specific situation been publicly known, because of the scandal relation created with the famous KPMG consulting firm. At the time of the BES collapse, KPMG was the external auditor firm, responsible to report results to the competent authorities (in this case, the Banco de Portugal and CMVM). However, once the defaulted bank's results started to appear, it came to light how the internal auditing committee failed its mission, once internal reports were not being truly evaluated by the established team (Comissão Parlamentar de Inquérito, 2015, p.29). Regarding the KPMG's representation in Portugal at the time, we have:

The external auditor is not physically present permanently at the audited company to analyse all and any documentation that enters and leaves the various departments. They are not with the company's professionals every day, observing in real time - I repeat, observing in real time - all the operations that are carried out. This is not our role. On the contrary, work relating to the annual financial statements and limited review work in relation to the half-yearly financial statements is carried out on pre-defined review dates and schedules. (...) (Idem, p.111-114).

With this testimony, we know that BES was supposed to define measures for its own risk, compliance and internal auditing management and evaluation. This seemed not have been a successfully accomplished task, being the internal reports over the diversified areas, not been correctly disposed to the correspondent committee and external entity (BES, Relatório de Governo da Sociedade, 2013, p.53).

3.2.1.5 Corporate environment and Leadership style

Finally, it is important to highlight the corporate environment in which this situation happened. In opposition to what the CEO of the Espírito Santo Holding referred during the judicial inquiries taken by the Portuguese Parliament, many other workers and executives defended the idea of centralization of power, as well as the existence of autocratic management inside BES (Comissão Parlamentar de Inquérito, 2015, p.101). Despite the public statements of equality and division of powers inside GES, many executives and board members denounced the abuse of power and authority from the part of some members (Lusa, 2014).

3.2.2 Novobanco, or the “Good Bank”

Novobanco started its short life, by trying to correct the mistakes of its forerunner, Banco Espírito Santo. However, this utopic dream is still far from a happy ending.... (Albuquerque, as mentioned in Caetano, O Observador, 2021). Although the internal structure of the bank has been changed since the BES Resolution (O novobanco: Estrutura Acionista,2022), the reformulation measures taken until now, still need to be proved as adequate. The reasons for such incongruence, are easy: the new bank has presented, since its beginning, a constant need for liquidity, never reaching positive values. Besides all these attempts and diverse sponsors, (from its main owner and investor, the Lone Star Fund, to the Government and individual taxpayers), the until now reached amount of more than 11.263 million euros, seem not to be enough (Dinheiro Vivo, 2020). Such sentence can be confirmed by what Banco de Portugal wrote at its Communication about the Novobanco’s stress test, conducted through using the same variables of 2014, accordingly to the BCE’s EU Supervision Unique Mechanism (Banco de Portugal, 2015). In this document, it is represented the beginning of the NB entity, being the obtained results from the stressing situations, found to be positive, as well as the eventual loss incurred, among other nine European institutions.

Besides the public opinion, and the mediatic doubts, the restructuration was authorized. Since this, divergent ideas, based on diverse criteria emerged, and a consensus seems to be faraway to be reached. Some of them, agreeing with the necessity of saving what remains from BES, and others, questioning the major decision (Carlos Costa as mentioned in Caetano & Suspiro, O Observador, 17 of May of 2021) & (Alves, O Jornal Económico,18 of October of 2021). Following a chronological guideline, indicated by the already referred Banco de Portugal Communication (2015), we have that, due to no experience, the government found a better solution to try to save the reputation and “healthy” assets. By separating the “bad” from the “good”, it could help save taxpayer’s contributions (Idem). Still here, the financial regulator defended the idea, how the new banking organization was receiving expected results over the stress tests, demonstrating to be available to receive the Portuguese State’s financial help: “In the baseline scenario, Novobanco managed to exceed the minimum required. The ratio achieved by the bank under normal economic conditions, in the view of the ECB, was 8.24%. Which, although with a small margin, manages to exceed the required minimum of 8%.” (Banco de Portugal, 14 of November of 2015).

3.2.2.1 Dimension

As we can see, by the Novobanco’s new and reformulated webpage, this isn’t anymore a familiar business, owned and ruled majorly by a familiar hierarchy. This time, the main shareholder and capital investor are the Nani Holdings, company which assumes also, a place at the bank’s Presidency.

However, occupying a CEO position, we have now a specific and elected Portuguese representant. As expectable, we still have an internal division, composed by two main committees. Are they two: the General and Supervisory Board (GSB), composed by: the Financial Matters, Risk, Remuneration, Nominations; and the Compliance Committee; ... and the Executive Board Direction (EBD), divided into the following committee: Product & Compliance; Internal Control; Digital Transformation; Financial and Credit Council; Risk; Asset and Liability Capital Management Committee; Charges & Investments; and finally, the Enlarged Impairment one (Novobanco, Modelo de Governo da Sociedade). Despite the fact of having similarities, in true, they are hierarchically subordinated to each other: "The EBD members are appointed by the General and Supervisory Board, which also appoints the Chairman of the EBD (CEO)" (Conselho de Administração Executivo,2022). By this way, the bank intends to control and adapt its own activity in each pillar and sector that composes it. Every of the referred EBD's committee, have their own president and representant, having some of these contemplated executives, more than one charge inside Novobanco (Modelo de Governo da Sociedade,2021).

Accordingly, to the bank's webpage chapter about the Supervisory Board, we also may know that, 6 from the 10 members of the Supervisory Board are considered to be independent, being just one of them, Portuguese. All the non-independent staff executives are related to the non formal "owner", the Lone Star entity (Conselho Geral de Supervisão, October of 2020). Also, thanks to the past holdings and experiences, the internationalization of business seems to have still be maintained since the BES times, having Novobanco, now, foreign headquarters in Spain and Luxembourg, and different representation offices established at Switzerland Other institutions which cooperate with this bank, are financial banking firms from Cape Verde, Macau, Mozambique, Italy, and Angola (Presença Internacional, 2021). The accounts of the society are defined and audited by an independent society. By this time, Ernest and Young (EY) have been elected as the controller for the results obtained during for the last four years (2017-2020) (Nani Holdings, Relatório e Contas, 2020). After this period, new options will be made, and as usual, the auditor entity will be changed. The same company auditor is also the responsible to perform the accounts revision for the Nani Holdings firm (Idem). Over the Governance issue, the adopted Compliance Policies are divided into four different pillars that compose the business, to know: 1) the Institution's integrity as well as, the fair sale of financial products; 2) to ensure that, the Novobanco's collaborators act accordingly to the Ethics and Behaviour established procedures, avoiding interest conflicts (based on the famous "Agency Theory"); 3) to protect the transparency of relations among all the sectors, preventing so, some prejudicing situations, as the abuse of Market by the brand, the lack of information among members, and their eventual excess of power, and 4) to avoid frauds and money laundering (Novobanco, Compliance).

Some regulatory statutes have also been established by this department, as: the Code of Conduct, the Conflicts of Interests Policy; Policy on Related Parties Transaction, the Whistleblowing Policy and Anti-Bribery and Anti- Corruption Policy (Idem). As usual, other more specific instructions have also been regarded by the new bank, contemplating any European banking legislation, when concerning with other non-European countries and continents policies (Ibidem). However, over this matter, the feedback is still, the business oscillations felt, including at other representations and countries (Paula Gramaça as cited at Observador, May of 2021). It is obvious that the BES case had a great impact in the mediatic and financial fields, causing anxiety and sensationalism all over the Banking area. Many other opinions and articles have been written about this topic and are still, being evaluated (Pedro Cerqueira Machado as cited at Jornal de Negócios, 29 March 2017) & (Duarte Pitta Ferraz as cited at Jornal de Negócios, 27 of March 2017).

3.2.2.2 Compensation

There is more than just one remuneration policy inside Novobanco, these days. Besides it has a remuneration legislation to control the staff and Executive's earnings, the new financial company also has a specific committee to the present effect. Through the most recent Employing Remuneration Policy from 2019, (3.0 Version), we have a detailed explanation of this legislation, integrated by the entire institution's departments and areas. The present document seems to have been produced in the light of a diverse role of standards, and in compliance with what is supposed to Financial Institutions, accordingly to the law (Idem). By this way, this kind of measure intends to "maintain equal treatment of customers, best remuneration practices remuneration practices relating to the sale of products and the avoidance of conflicts of interest with customers" (p.3). It is also controlled by the Remuneration Committee and the Executive Board of Directors, among the cooperation and action of many other banking Departments, to know: the Risk Committee; the Global Risk, and the Compliance, Human Capital, Internal Auditing, and the Legal Affairs Departments (p.4-8).

As it is recommended by the Governance Principles, the same protocol defines a fixed and a variable component for the staff salaries, having also being defined limits for the payable values. The fixed income is stipulated to show honesty and transparency, when attributed to professionals. For example, based on the established recuperation plan for the new entity, until 30 of June of 2020, any kind of values which were ten times higher than the average salary of the bank's collaborators, would not be paid to any kind of occupied position. After this date, these values could be given, unless there was any kind of contradiction/unviability based on the plan scenario. (p.9) Next to this, and with the purpose of prevention, it is also defined that, the General and Supervision Board members will not receive more than a fixed part remuneration from each of the worked months, being any eventual

extra value, only paid after the end of the current year, and adjusted accordingly the same Recovery Plan (p.14). It is also important to refer, that inside this definition of working staff, are comprehended charges from the Senior Management to other inferior categories (p.12). Contemplating now, the variable portion for income, we have that this is a not certain gain, being only conquered by the bank's staff when the specific conditions are accomplished: depending on the collaborator's performance and bank's possibilities as much as the previewed qualitative and quantitative criteria (p.16).

Finally, this kind of values area paid into cash (around 50%), and the other half into assets and wage units. (p.19) The bank also presents a system by which it is possible to recover the variable remuneration through two risky managed methods: 1) Reduction (Malus), and 2) Reversion (Clawback). The first, consists into partially or totally reduce the variable component, before being given, and the second, occurs by recuperation of amounts already paid to any collaborator. As it is normal, these episodes only can happen when there are reasons to justify that, for example, because of bad behaviour presented by the member, or any kind of violation being committed by the own collaborator (p.21-22). Any kind of violation of the existing regulations and standards for the bank's good procedures, may be also penalized as well (p.23-25). Attending to the Remuneration Policy, directed to the Directors and Supervisory Bodies of Novobanco (2019) (Version 3.0), in this case, the Members of the General and Supervisory Board; Members of the Executive Board of Directors, and the Statutory Auditor or "ROC (p.4), we have similar measures to control the executive team's earnings. At this stage, the adopted internal policies will be availed by the General Shareholder Meeting, and the Remuneration Committee (p.8). Both executive groups (the Supervisory Body, and the EB), have also variable and fixed remuneration components, having these kinds of payable amounts, already defined quantitative, and qualitative limits. Also, these values must contemplate the Restructuration Plan defined for the bank, and do not interfere with the established goals for this crucial period (p.9-10). For example, it was established as mandatory that, during the Restructuration period, the EB members variable remuneration, needed to be deferred for a minimum period of 3 years (Idem), being the correspondent remuneration for the next previewed years, proportionally distributed, only being considered a right, after the end of the desired stabilization. Note that the bank's Restructuration was previewed to finish by the end of 2021. (p.11.(4.3.2.1)). Next to this, payments into remuneration units have been also contemplated, being retribution paid accordingly to the predefined KPI for each one of the executives. These evaluation mechanisms were created and chosen by the Remuneration Committee, being this the responsible organ by the executive's evaluation process itself (p.12). Finally, it is also possible to the competent Direction, to reduce and adjust the risk involved into the variable percentage calculation (the before referred malus and clawback systems) (p.12-13). Contemplating also, the Interests Conflict, the suggested regulation adopted at Novobanco, consists into dividing

supervision, and neutralizing evaluation relations among administrators and them. The mission of the Remuneration Committee is specifically related with this case once it will be the main “inspector” and controller of any kind of conflict generated among Presidents and their correspondent teams.

Also, the Compliance sector is here implicated as another “consulting body” for such type of events, being purposely isolated from the rest of the Supervisory members, each time a situation occurs (p.14). Concerning now, specifically the Supervisory Board type of conflicts, it competes to the Shareholders to validate any situation (p.14). The complete process of double validation and control by more than one entity, it is called the four-eyes principle (p.14.(5)). The Remuneration Committee has also a Procedure guideline (date of last update: 31 March 2021) inside Novobanco, defining that, this specific entity inside the bank, is composed by 3 members, who are elected by the General and Supervisory Board. All the elected members for this committee, must be neutral and independent, being represented by another neutral person, the Chairman. Also, at least one of the members of the Remuneration Committee, must be specialized with risk and management activities (p.1.(1)). Some of the bank’s financial subsidiaries will be submitted to the action and influence of this same referred committee (to know, BEST – Banco Electrónico de Serviço Total, S.A., Novobanco dos Açores, S.A., GNB - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A., GNB -Sociedade Gestora de Fundos de Investimento Imobiliário, S.A., GNB -Sociedade Gestora de Fundos de Pensões, S.A., GNB – Gestão de Ativos and SGPS, S.A. and GNB – Sociedade Gestora de Patrimónios, S.A.) (p.1 (2)). Other roles of this organ, still contemplate: the report of the year’s remuneration annual review of remuneration policies, so it can be presented to the rest of the administration entities, (such as, the General Supervisory Board, Shareholders Meeting and Executive Board of Directors); to define the attributable global bonus to all the collaborators,(through conceiving eventually possible scenarios to this bonus attribution, where both external and internal events are important to consider so the involved risk can be adjusted); to negotiate any contractual terms which may occur at the Executive Board Directors team, (as the prior approval to any hiring, which total annual compensation may be higher than 20.000 euros); to consider the Risk Committee suggestions in what concerns remuneration’s composition (p.3-4. (2)). Next to this, it is elected a chairman’s for this area, whose vote will be decisive in any tie moment, having this member, the possibility to invite any other executive or responsible one, who may be important to any of the committee’s task, more concretely, the Internal Audit representant and respective managers. (p.5.(5)). Last but never the least, it is expected that this same chairman, may report its actions also to the General and Supervisory Board, being these last ones, the responsible for acting in the name of the Remuneration Committee’s, when the defined representant cannot be present (p.5 (5-8)).

The public opinion about this topic, seem to be against the measures considered until now, specially, the variable remuneration attribution. Besides the fact this deferred value have been attributed accordingly to the before quoted evaluation parameters, and not during the Restructuration period, some people contested the decision and affirmed the disadvantages of such plan: “Despite this deferral, the issue has generated controversy, with even Mário Centeno, governor of the Bank of Portugal, saying in parliament that this payment was not an "adequate practice" (Caetano,5 de Maio de 2021). The reasons for such line of thought, consist into management strategies for reaching the expected values and balance. Accordingly, to the BdP (Banco de Portugal), and the Portuguese Finance Minister, the Novobanco institution should have saved its earnings for the present moment, avoiding spending the Resolution Fund’s money injected until then, as well as the next capital injections that would occur. By this way, Novobanco would more easily reach the necessary amount of to finish his debt and present precarious condition (Idem).

This same point of view and criticism seemed also to have conquered similar opinions from some of the Portuguese politic parties, once as they refer, these remuneration values should, in any kind of scenario, never come from the Resolution Fund payments. Instead, and because of these regular capital injections from the Portuguese Government, caused because of the contracted compromise with the Fund, some politicians suggested that the Novobanco entity should gain a public management and interrupt its privatization (Dias, O Observador,5 May 2021).

3.2.2.3 The Statutory Auditor (External Auditor)

At this matter, Novobanco presents a specific and detailed Policy, based not only on the BdP circular - letters, and the Portuguese Statutes of the Order of Chartered Accountants (EOROC) law, as also on the CMVM regulations over this topic, European Council’s requirements and the Commercial Companies Code (CSC) (Novobanco. Policy for Selection, (...) Statutory Auditor and Contracting of Non-Prohibited Non-Audit Services.p1-4). Here, we can find the adopted measures of the Financial Affairs Committee (Internal Auditing team), to choose the Statutory Auditor, also known as the External Auditor. With this, Novobanco allows its subsidiaries and supervisory board’s to manifest their opinion above the preferred choice (Idem, p.6, (4.3.b.iii)), and conducting a confidential process of fit and assessment, until the chosen company is finally decided and divulgated. All the internal Committee, Supervisory Board and Shareholders have also, a vote on the matter (p.6-7).

During this selection, the Internal Auditing Committee has also, a crucial role to play, once it is uncharged of taking “the initiative and direct its best efforts to identify prospective Statutory Auditors, and to prepare the corresponding succession process within an appropriate time frame” (p.7 (5.2.a)). The same process is even told to begin at least 6 months before the presentation of results, and the

contracting of the new Auditing external organism (Idem). With this, a specific person from the Board is also designated for the Fit and Proper Officer charge, being a responsible individual for the selection and recruitment process underway, and to present the proper reports to the Financial Affairs Committee (p.6, (4.4)). A necessary document to be presented at this stage of the evaluation process, is the "Suitability Requirements of the Statutory Auditor, (...) assessing the candidates' compliance with the selection criteria and submitting the conclusions of the selection process" (p.8. (5.2.c)), having the Financial Committee to validate the present information, and reveal it to the General and Supervisory Board, selecting at least two candidates from the search, and justifying the reasons for it. (p.8, (5.2.e)). Finally, it is the Supervisory Board, who must select from the two same referred candidates and present its final decision at the General Meeting of Companies. (p.8, (5.2.f)) The same results are then, finally announced to the BdP "with a minimum of thirty days in advance of the date intended as date for presentation to the Shareholders General Meeting (p.8, (5.2.h)).

However, the Statutory Auditor has a renewable period during its work inside the client: a maximum of 10 years, and a minimum of 2 (p.10, (6. (1.a.i))). At Novobanco, the specified policy defines that, the renovation of the present contract, is dependable of the external auditor performance until the moment. (p.8, (5.3)) The activity of such organism will also be monitored by the entire electing mechanism: Internal Auditing Committee (Financial Affairs), the Fit and Proper Officer, Compliance Department, and even Supervisory Bodies (p.8, (5.5)). A similar channel to the one presented at the election process, will be made, also in case of the Statutory Auditor replacement (p.9). The main criteria to evaluate the External Auditor charge are: duration of audit engagement; experience; reputation; conflicts of interest and independence; availability; human resources; understanding of the Bank's activity and the Companies and of the Group to which it belongs, and costs (p.10, (6.1)). A curious fact for the External Auditor's evaluation, is also the training and experience that he must reveal about the area, being the practical experience preferred over education and academic degree (accounting and auditing standards; legal fields; risk management, etc.). Here the bank reveals to prefer someone who has sufficient practical experience in high and complex organizations such as itself (p.11). Peripheric factors such as the reputation of the External organ, will also play an important role at its performance conduct (p.12,(1.c)), and there is an extra parameter regarding the incompatibility situations for this same Statutory Auditor's election : "The requirement for independence is intended to prevent the risk of subjecting the Statutory Auditor to the undue influence of other persons or entities, and to encourage them to perform their duties in an impartial manner" (p.12-13, (1.d)). As an extra preventive measure, the Novobanco organization, has also defined which kind of activities are allowed to the Statutory organization inside the bank, as well as the procedures to take in case of the non -auditing services rendering (p.15-16, (8)).

3.2.2.4 The Financial Affairs Committee (Internal Auditor)

As a major part of the enumerated Committee, the Financial Affairs one, is composed normally by three members, including an elected Chairman for the Supervisory Board, to representing it. All the persons involved must be independent, having the most of them, to have experience in the auditing area (Novobanco, 2018, Rules of Procedure for the Financial Affairs (Audit) Committee (...), (1)).

As it is expected, the major role of this Committee is to monitor financial control for the banking entity, evaluating risk management and regarding the system's effectiveness, by approving and reviewing accounting policies, and making any pertinent recommendations to the Supervisory and Executive Board, related with the financial statements consolidation, and banking's valuation. The choice and evaluation of the External Auditor Organ is also, one of the most important tasks of this Committee, having to deal with functions such as: "(j) reviewing and discuss external auditors' reports", for example (Idem, (1-2)). Also, to optimize its performance, the Financial Affairs Committee works next to the Compliance and Risk ones, so it can create the necessary synergies to "ensure the necessary exchange of information to capture and assess all relevant risks for the performance of their tasks" (Idem, (2.7)). This group meetings are defined to happen by decision of the respective Chairman, or the General and Supervisory Board's Chairman, having the bank's CFO, the Head of Internal Auditing, and the Bank's Auditor to present the same meetings (p.4 (3)-(4)). Right next with the Executive and Supervisory Bodies, this is the main organ, to which the External Auditor will report the obtained values (p.4, (5)). Once it is an internal structure to the bank, it also can have the representation of its chairman, by the General and Supervisory Board's one (p.5 (6)).

Next to this, a more complex set of functions are expected from the (Internal) Financial Committee. Passing from, defining the annual financial statements, as well as any change of the internal policies for auditing and accounting, this group will also be responsible for discussing half-year and quarterly reports (p.5 (8)). Any question from the External Auditor should be resolved firstly, with the Financial Committee, being this the evaluator structure responsible to communicate with the contracted firm (p.6, (9)). Other fact about the mission of the internal banking auditor, is that it also is engaged at any break of rules situation, that may happen inside the organization, acting as a true internal controller for any uncommon occasion (p.7, (11)). Regarding now the news over this same committee, we have some public evidence of its work, based on an investigation over the internal behaviours performed by the bank's own staff. This same investigation seems to have no time to end, and it is related with a financial scandal caused by a national football club (Caetano & Rosa, O Observador, 12 of July of 2021).

3.2.2.5 Corporate environment and Leadership style

Novobanco was firstly acquired by both the Resolution Fund, and the Lone Star Fund, in 2017. Accordingly, to the own institutional information, around 75% of the new bank, passed for the American entity, being this last one, present since then, at the Novobanco's direction charges. On the other hand, the Portuguese State (represented by the Resolution Fund), would still acquire the remaining 25% of the bank (Caetano,18 Out 2017). The adopted strategy from the Portuguese Government, would pass from having an easy capital injection, saving the devalued assets from the "newborn bank" to an interested and capable investor, who could buy the contracted debt, and credit capital for the quick necessities of the struggled firm. After this, and once reaching more positive values for the debt contractor company, the investor fund would, normally, resell its stake to any other interested party, at a plus favourable value. (Louçã, as cited in Correia,2017).

In fact, since 2017 (exactly 3 years after signing the contract with the Government, and Resolution Fund, and until the present moment), it is the Nani Holdings company who has assumed the Lone Star Fund's position inside Novobanco (Novobanco, Nani Holdings). This is a society who was firstly, owned by some of the members of the Lone Star fund's juridical advice team, and which is presently, administrated by a member of the Lone Star International Finance administration (Gago, *Jornal de Negócios*, 2017). With this same transition, it also came an extra investment from the new owner (around 750 million euros, to rehab the Novobanco's earnings) (Idem). Other important condition inherent to the sale of the bank to an American Fund investor, was the restructuring of the Portuguese Bank team, accordingly to the decisions of its new owner. It is estimated that, with this business reformulation, Novobanco had to make internal changes to its executive board and transformed what was previously established, since its born. Accordingly, to the mediatic coverture, many physical agencies and staff have been dismissed and fired to save money, and do not incur in more prejudice. Also, the granting credit activity had to be reviewed and more regulated (Gago, *Jornal de Negócios*, October of 2017). Mediatic content about the referred resolutions taken ahead by Novobanco, shown that, until 2023, the Novobanco entity will dismiss around 750 collaborators, being this an extreme action based on the necessity of reducing staff, and accomplish the European Union recommendations for dealing with the 2020's pandemic situation. (*Jornal de Negócios*,24 of February of 2021). However, regarding the own Novobanco's National Workers Commission statement, this consists into a more extended action than the admitted by the banking authority, having been until now dismissed more than the accorded number of people: "Our perception is that unfortunately the bank's big concern is not about the workers but about the profitability it wants to give to US shareholders, the big concern seems to be effectively about the bank becoming an attractive bride, (...)" (Rui Geraldes, as quoted at *Jornal de Negócios*.24 of February of 2021).

In matters of leadership, the financial banking entity had constantly passed for several leader exchanges, counting until now, with at least, three different presidents and their respective teams. (Dinheiro Vivo, 5 of August of 2018). Some of the known reasons for this phenomenon, have passed from different perspectives, facing the bank's necessities through times. For example, at the beginning of the Resolution, there was the default on liquidity question, caused from the Banco Espírito Santo transition which created a ruinous impact over the possibilities of the new emerging bank, also allowing other kind of disagreements among executive organs and institutions over the preferred strategies (Vitor Bento, as quoted at Eco, 23 of March of 2021). Adding to this, it came the Novobanco sales negotiation (2014-2016), and with this moment, the necessity for change felt inside the new bank, besides the EU restrictions and exigences. During these years, the second presidency mission, was to make capital and reduce losses: "It has reduced "the costs of Novobanco by 40% and the staff bill by 30% without causing social conflict", as well as having "substantially increased the bank's revenues and liquidity"." (Marques Mendes, as quoted at Diário de Notícias, 27 of June of 2016). Finally, the last presidency, (2016-) which has been the longest until now, it was marked by the long-awaited profit generation (Atalaia, Jornal de Negócios, 28 of October of 2021).

However, this happy event still did not prevent some suspicious events to happen. Namely, its most recent scandal denounced through a mediatic case of debt purchase, where one member of the Administration Board has been accused by the Public Ministry of having informed and cooperated with a scheme to prejudice and circumvent the Resolution Fund parameters (Oliveira et al. Público, 9 of July of 2021). This has been a present constringent, having the Novobanco entity defended its own position and claimed to be innocent, besides the charges imputed and investigations taken ahead by private and public entities, such as: the major owner Lone Star Fund, and the regulator, European Central Bank (Oliveira et al. Público, 9 of July of 2022). Although the reputational status of the president is still being investigated, many other "surreal" discovers have occurred these days, having some of the related parties in this investigation, been already condemned (Expresso, 6 of January of 2022). With this, the internal staff of the bank has suffered losses, from different teams and positions, because of money laundry, and suborns, precisely: "Within the bank, there has already been one dismissal and one disciplinary process to employees (one of them a director) for close links to Vieira (namely for suspected bribes) (Idem).

CHAPTER 4

Conclusion

Banco Espírito Santo debacle started with contradictory decisions over the Governance issue. Contemplating the Parliament's Final Report over the BES and GES management (16 of April of 2015), despite they knew the importance of a well-designed and preserved structure for internal control and having established correct measures for value creation and preservation over the work done at the company (p.187), the bad results revealed the inexistence of application of such mechanisms, (p.378). Having the Portuguese Government early tried to insert its own representatives and controls inside the reformed structure, created through the bankruptcy of the first entity (Idem). Novobanco was originated because of this interest and necessity to reaffirm what has been done until the BES resolution, once the amount lost by creditors was very large, and the country incurred into prejudice next to the European Central Bank (p.345).

Brecht et al. (2011), refer banking internal conflicts as a difficult phenomenon to justify, mainly "because government rescues have masked the true extent of the banks' problems" (p.438), being the aim of my dissertation, to understand how far Corporate Governance policies applied, had a different impact, and result, when comparing both Novobanco and BES performances. The importance of such theme is related with financial crises and economic interests, once big financial companies' bankruptcy cases, have an important role to play in governmental stability (King and Levine, 1993). Due to the nature of the research problem, and the confidential nature of banks, the analysed data and information, comes majorly from qualitative sources, which made me think about the significance of a comparison among these two entities, both historically, temporarily, and financially connected to each other. Focusing on the main Corporate Governance mechanisms, in which the two banks were settled, I got a vision of the *modus operandi* adopted by the two entities, reaching some results in the light of the related Academic Literature.

Regarding the dimension of the board, Brogi (2008) establishes the uncertainty and danger of an excessive larger board, or even, a shorter one. Novobanco showed to have a great dimension, just like as BES did, being divided into the same areas and committee (BES, Relatório e Contas, 2013) & (Novobanco, Modelo de Governo da Sociedade). Neutrality, and independence (as far as other working relations inside the banking environment) probably should have increased, due to the different leaderships that both firms had (Novobanco: Shareholder Structure, 2022) & (Caetano, 18 Out 2017). But the present events, still contradict this theory (Oliveira et al. Público, 9 of July of 2021), having the present bank changed its management team, after this last presidency, once again (Tavares, Dinheiro Vivo, 5 of August of 2018). In what concerns to Internal and external Auditing, these are now considered an important topic of the Novobanco's corporate governance policy (Novobanco, Statutory

Auditor and Contracting of Non-Prohibited Non-Audit Services, 6 of May of 2021,p.1-4), having been registered a stronger relation and partnership among these two partner entities, when compared to the situation of the old BES (Relatório Final: Comissão Parlamentar de Inquérito à Gestão do BES e do GES,2015, p.111-114). This situation follows the Basel Committee on Banking Supervision (1999) recommendations, as well as other regulators ideals of correct Corporate Governance (COSO, 2014), and OECD (2015). However, this is not enough to conclude if, daily, there is usual concordance among internal and external auditing parties, and if the results reached are comprehensible.

Compensation has also been a topic extensively reviewed these days for Novobanco, (Política de Remuneração para Colaboradores do Novobanco, (Versão3.0), 2019), which quickly contrasts with the fragile measures and practices, presented at BES (Relatório Final: Comissão Parlamentar de Inquérito à Gestão do BES e do GES,2015). The standards recommended by the competent authorities and academics (Brecht et al. (2010), Romano et al. (2008), etc.) seem so far, to be in concordance with the actions taken. However, various mediatic and political sources (Caetano,O Observador, 5 of May of 2021) & (Dias, O Observador,5 of May of 2021), doubted about the sincerity of these procedures, having the last scandals launched by the Public Ministry accusation, (Oliveira et al. Público,9 of July of 2021), revealed true “assaults” to the Resolution Fund’s mission.

In the end, I conclude that it is not totally possible to understand if the entire Governance Mechanism adopted by Novobanco, has yield better results over its ancestor firm’s performance. Not only because much relevant data and information, are still missing and not publicly available, but because, regarding the bank’s sinuous path, it seems that, human fail is an unpredictable factor which, continues to interfere on the practices adopted nowadays. Unfortunately, despite that at Novobanco, there may be now differently structured boards, improved control mechanisms and results, then there were at BES, a huge instability is still being felt by the Portuguese people over the present topic, once personal interests seem to be a factor which cannot be contained over the time.

Also, the insecurity of having a government which continually injects funds and public money to save an ever-problematic entity, does not create a credible resolute system, and makes us question the real intention behind such a scheme. In the future, some questions related with this study can be proposed, such as: the role that Human behaviour plays into Corporate Governance performance, and what can be done to improve it. Or even, the role of Governments during firm’s restructuration, as well as which limits does governmental intervention need to know, at these kinds of scenarios.

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