



Press Release of Banco de Portugal on the Novo Banco sale process

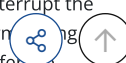
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KEY POINTS

- The Board of Directors of Banco de Portugal has opted to interrupt the sale process of the Resolution Fund's holding in Novo Banco which was launched in 2014, and to terminate the ongoing procedure without accepting any of the three binding offers.
- The Board of Directors deems the terms and conditions of the three binding offers unsatisfactory and considers the sale process to have been constrained by significant uncertainties.
- The sale process has proved that Novo Banco is attractive and has shown unequivocally the serious interest existing in the purchase of the Resolution Fund's equity holding by entities with the means to provide the bank with a solid shareholder structure and to develop the bank's activity in a sustained manner, in line with Novo Banco's importance within the Portuguese economy.
- The sale of the Resolution Fund's equity holding will be resumed when conditions are in place that best promote the submission of offers that meet the objectives set by Banco de Portugal.
- The work undertaken on the sale procedure that has now terminated, and the important and clear progress made in Novo Banco's activity during this period, will facilitate the next steps and allow a private-sector shareholder structure to be found relatively shortly after the relaunch of the sale process.
- Novo Banco will pursue its activity under completely normal conditions and without disruption, and the mandate of Novo Banco's management body, which deserves credit for the recognised progress seen over the last months, will be strengthened so that the initiatives needed to bolster the bank's soundness even further and to develop its business are carried out.

I. SUMMARY

The Board of Directors of Banco de Portugal today decided to interrupt the sale process of the Resolution Fund's holding in Novo Banco, terminating the current procedure without accepting any of the three binding offers to purchase the bank's equity.





Accepting one of the three binding offers would have allowed the sale to take place within the benchmark time-frame of one year from the date the resolution measure was applied to Banco Espírito Santo, set by Banco de Portugal on an indicative basis.

However, after careful consideration, the Board of Directors of Banco de Portugal has concluded that none of the three binding offers presented suitable conditions in terms of price and risk for the Resolution Fund. The Board considered that a set of uncertainties contributed to this outcome, coming to light during the sale process. such uncertainties will be clarified in the near future.

The Board of Directors of Banco de Portugal therefore decided that the sale process will be resumed when the main uncertainties are removed and the sale may proceed in less adverse circumstances that best promote the submission of offers complying more closely with the objectives set by Banco de Portugal.

II. DEVELOPMENTS AND CONSTRAINTS IN THE SALE PROCESS

As was announced at the time Novo Banco was set up, and as results from law, the Resolution Fund's presence in Novo Banco's equity capital is temporary and serves only as a means for selecting a private-sector shareholder structure which defines and executes its own strategy in regard to developing Novo Banco's business, on a sustained basis and in line with the bank's high profile within the Portuguese economy.

In order to obtain this stable shareholder structure in the short term, set at around one year as an indicative timeline, Banco de Portugal has carried out a sale procedure for the Resolution Fund's equity holding over the last few months. This procedure was open, transparent, competitive and non-discriminatory, in full compliance with Portuguese and European law and international best practice. In particular, great care was taken to ensure that all those interested in purchasing Novo Banco had the opportunity to take part, on a level playing field with all the others presenting their offers, and that the offers received were assessed with the highest possible level of objectivity and fairness.

The sale procedure elicited three binding offers for the purchase of the Resolution Fund's equity holding in Novo Banco, along with other serious and repeated demonstrations of interest. This has proved that there is willingness from entities with the means to provide the bank with a solid shareholder structure and to develop the bank in a sustained manner, in line with Novo Banco's importance within the Portuguese economy. Novo Banco is demonstrably an attractive banking group to entities and investors of different profiles and geographies, which recognise significant developmental value and potential in the bank.

Given the unequivocal interest, Banco de Portugal made every effort to reach an agreement under terms and conditions that would allow the Resolution Fund to meet its responsibilities and obligations in appropriate terms. Those efforts included negotiation rounds with each of the prospective purchasers about the conditions of their binding offers and requests to improve the offers received initially. However, it was not possible within the procedure to obtain improvements that would make the offers acceptable to Banco de Portugal, thereby reaching an agreement with the prospective purchasers under terms



and its background, there were other difficulties throughout the procedure that were exogenous to the process and to Novo Banco.

One of the key uncertainties relates to the need to reinforce the bank's own funds, as might be required by the European Central Bank (ECB) / Single Supervisory Mechanism, which became responsible for the supervision of Novo Banco during the procedure.

Although Novo Banco was created with, and still has, an adequate level of own funds, it is known that the bank is undergoing the stress test to which all the credit institutions subject to direct ECB supervision have been submitted as part of the creation of the Single Supervisory Mechanism.

It is also known that – just as with every significant credit institution – Novo Banco will learn for the first time only at the end of 2015 the final result of the overall capital adequacy assessment conducted by the ECB, called the Supervisory Review and Evaluation Process (SREP). This assessment may translate into own funds' requirements in excess to the regulatory minimum, just as with every significant credit institution.

In the current context, it cannot be ruled out and indeed may be legitimate to assume that Novo Banco, possibly along with other EU credit institutions, will be required to have a buffer on top of the minimum regulatory capital adequacy level. It may be possible to address any such requirement, in full or in part, through management measures designed to reduce the capital requirements, but new capital inflows may also be required. The uncertainty around that possibility and its magnitude will be clarified definitely – as for all the credit institutions subject to direct ECB supervision – until the end of 2015. While this constraint is not specific to Novo Banco, it is naturally particularly relevant in a sale context, as from the point of view of prospective purchasers, the amount to be disbursed under the purchase operation becomes uncertain.

In today's decision, Banco de Portugal has taken account of the fact that the sale process proceeded under exceptionally unfavourable circumstances. With the intensification of the Greek debt crisis and the uncertainty it generated over the functioning of the Economic and Monetary Union and the recent turmoil in the Asian financial markets, whose reach and severity are yet to be fully understood, the sale process faced unquestionably unfavourable conditions for attracting investment in a large-scale transaction. It should be reminded that the process had a global scope and the main interested parties were entities from outside the European Union, in particular Asia.

III. NEXT STEPS AND THE RELAUNCH OF THE PROCESS

The work undertaken as part of the procedure launched in December 2014, and ending today, and the progress shown by Novo Banco over that period, will significantly facilitate the next steps.

Indeed, the following should be noted in regard to Novo Banco:

- **(i)** Its activity is normalised and the bank has regained the confidence of its customers with considerable and justified success.
- **(ii)** After an initial period of adapting to the new reality, which included delays in publishing financial information for example, the bank's financial position has now stabilised and is fully disclosed, with two audited financial reports now in existence.



their own due diligence, of extensive breadth and depth, following which the purchasers confirmed to Banco de Portugal the attractiveness of Novo Banco and the value of its franchise.

- **(iv)** Although the bank's financial performance has been negatively affected by high levels of impairment and provisions, those negative effects are not directly related with the bank's performance in its core business and Novo Banco has in parallel deleveraged significantly and has repositioned its activity around that core business.

In sum, compared to the situation it was in when the sale process began in December 2014, Novo Banco has made considerable improvements.

The sale procedure itself also required a very important qualitative leap in regard to organisation and access to information. This has been put in place and will benefit and facilitate the sale process, which is expected to be relaunched in the near future.

Various participants in the sale procedure that the Board of Directors of Banco de Portugal today opted to end – and not only those that submitted binding offers – expressed their ongoing interest and availability to take part in another procedure. It is hoped that this new procedure will take place under better conditions for receiving offers that comply more closely with Banco de Portugal's objectives.

Thus it is Banco de Portugal's aim to resume the sale process after the main uncertainties over Novo Banco have been removed, and more specifically, after the capital adequacy level required by the ECB for each of the Banking Union's significant credit institutions is known. Although the format is not yet defined for the next stage of the sale process, it should follow different lines from the previous procedure, to better ensure its speed, agility and flexibility, always respecting the principles of openness, transparency, competitiveness and equitable treatment between participants, which governed the procedure terminated today.

The relaunch of the sale process will take into account any need on the part of Novo Banco to reinforce its own funds, as required by the ECB under the terms mentioned above. To this end, mechanisms will be deployed that ensure that this is carried out through capital management measures and market and private capital solutions, without affecting the bank's normal activity or credit quality in any way.

Banco de Portugal trusts that the results achieved as part of the procedure that ended today, the improvements made by Novo Banco and the clarification of the exogenous uncertainties will allow a private-sector shareholder structure to be found relatively shortly after the relaunch of the process.

On the other hand, for prudence reasons and in the event it might become necessary Banco de Portugal accepts that there are arguments to justify the extension of the European Commission's two-year time-frame, which is compatible with the framework established by the EU Directive on the recovery and resolution of credit institutions.

For now, the Board of Directors of Novo Banco will continue their successful work on the recovery and development of the bank, and Banco de Portugal will empower it to draw up and present a plan to increase equity capital that includes capital rationalisation and optimisation measures.

Banco de Portugal would like to thank the Board of Directors of Novo Banco



prospective purchasers.

Therefore it is with full confidence that the Board of Directors of Banco de Portugal will strengthen the mandate of the Board of Directors of Novo Banco, with a view to adding to the progress made so far and bolstering the bank's soundness even further.

Lisbon, 15 September 2015

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