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State aid: Commission approves resolution aid for Portuguese Banco Espírito Santo

European Commission

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Brussels, 4 August 2014

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The European Commission has found the resolution plan of the Portuguese Banco Espírito Santo S.A. (BES), including the creation of a Bridge Bank, to be in line with EU State aid rules. The measures notified by Portuguese authorities will allow the orderly resolution of the remaining bad bank and provide the bridge bank with the necessary means to maximise the value of its assets in the sale process, while limiting the distortions of competition created by the State aid granted.

The resolution plan foresees the resolution of BES and the immediate creation and capitalisation of a temporary credit institution, the "Bridge Bank". BES's sound business activities

– all deposits and senior debt and most of the assets - are transferred to the Bridge Bank. This transfer will stabilise the activity that was formerly undertaken by BES while also protecting depositors and other clients.

All shareholders and subordinated creditors will remain in BES, which will be wound-down. Claims by related parties (that is to say significant shareholders or board members) will also remain in BES.

As a result, the full contribution of shareholders and of subordinated debt holders to the losses of BES will be ensured in accordance with the burden sharing rules set out in the Commission's 2013 Banking Communication (see [IP/13/672](#) and [MEMO/13/886](#)). EU state aid rules do not require any contribution from depositors or other senior debt holders.

Portugal's Resolution Fund will provide EUR 4.9 billion as capital to the Bridge Bank. To this end, the Resolution Fund will receive a EUR 4.4 billion loan from the Portuguese State. This loan will be primarily reimbursed by the proceeds of the sale of assets of the Bridge Bank.

The adoption of this resolution measure is adequate to restore confidence in financial stability and to ensure the continuity of services and avoid potential adverse systemic effects.

The Commission assessed the plan under its rules on State aid to banks in the context of the financial crisis ('2013 Banking Communication' see [IP/13/672](#)). In its assessment, the Commission acknowledged that a disorderly resolution of BES could create a serious disturbance in the Portuguese economy and that the creation of the Bridge Bank is suitable to remedy that disturbance. The measure allows for the maximisation of the value of the assets and minimises the cost for the Resolution Fund. Furthermore, in order to limit distortions of competition, the new business by the Bridge Bank will be limited and a prudent pricing policy will be implemented.

The Commission therefore concluded that the resolution aid was in line with EU state aid rules, in particular the 2013 Banking Communication.

Background

Banco Espírito Santo S.A. is the third largest Portuguese banking group, with EUR 80.2 billion of assets, EUR 36.7 billion in customer deposits and EUR 5.8 billion in resources from other credit institutions, as of 30 June 2014. Being present in four continents and in 25 countries and employing almost 10 000 people, Banco Espírito Santo Group. is currently the second largest Portuguese banking private group by total reported net assets.

Banco Espírito Santo S.A. is a universal bank incorporated and domiciled in the Republic of Portugal. Banco Espírito Santo S.A. serves all segments of clients: retail, corporate and institutional, offering a wide range of products and financial services through a diversified network.

The common EU rules on state support in favour of banks in the context of the financial crisis encourage the exit of non-viable players, while allowing for the exit process to take place in an orderly manner so as to preserve financial stability. Moreover, the rules ensure that the aid is limited to the minimum necessary and that the distortions of competition brought about by the subsidies, which give aided banks an advantage over their competitors, are mitigated.

The non-confidential version of this decision will be made available under the case number [SA.39250](#) in the [State Aid Register](#) on the [competition](#) website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the [State Aid Weekly e-News](#).

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