Portugal’s central bank took control of Banco Espirito Santo SA, once the country’s largest lender by market value, in a 4.9 billion-euro ($6.6 billion) bailout that will leave junior bondholders with losses.

The Bank of Portugal’s Resolution Fund will move Banco Espirito Santo’s deposit-taking operations and most of its assets to a new company, Novo Banco, which it will own outright. The fund will finance the rescue with a Treasury loan to be repaid by Novo Banco’s eventual sale. Espirito Santo shareholders and junior bondholders will be left with the most “problematic” assets, including loans to other parts of the Espirito Santo Group and the lender’s stake in its Angolan operation, according to a central bank statement yesterday.

“Shareholders, subordinated debt holders as well as board members or former board members directly involved in the more recent events, and not the taxpayers, will be called to shoulder the losses incurred by a banking business they failed to adequately oversee,” the Finance Ministry said in a statement.

Banco Espirito Santo has been forced to take public money after regulators uncovered potential losses on loans to other companies tied to Portugal’s Espirito Santo family and ordered the lender to raise capital. Bank of Portugal Governor Carlos Costa had sought to find private investors to inject the cash, and said government funds would only be a last resort. The Portuguese government has about 6.4 billion euros remaining from its European Union-led bailout in 2011 to fund the capital injection.

‘Full Contribution’

European equity-index futures climbed. Contracts on the Euro Stoxx 50 index added 0.7 percent by 7:50 a.m. in London.

“The government has been prompt in acting and that’s certainly a positive, that there’s quick intervention without much disruption,” David Costa, dean of faculty at Robert Kennedy College in Zurich, said in an interview with Bloomberg Television’s Mark Barton. Still, “the evolution of the banking sector...
isn’t over yet, there may be some other surprises.”

Shares of the lender plunged 73 percent in Lisbon last week to 12 euro cents, for a market value of 675 million euros, before the stock was suspended on Aug. 1.

The bank’s 750 million euros of 7.125 percent subordinated bonds plunged 18.9 cents on the euro to 16.9 cents to yield 44.7 percent at 7:53 a.m. in Lisbon, according to data compiled by Bloomberg. Its senior, unsecured 4 percent notes surged 9.6 cents to 98.6 cents on the euro, to yield 4.36 percent.

“The full contribution of shareholders and of subordinated debt holders to the losses of Banco Espirito Santo will be ensured in accordance with the burden sharing rules” set out in 2013, the European Commission said in a statement yesterday as it approved the plan.

**Family Companies**

Subordinated bonds have been hit by European regulators seeking to share the cost of resolving distressed banks with bondholders, with losses inflicted on holders of junior debt of lenders including Britain’s Co-Operative Bank Plc and Spain’s Bankia SA (BKIA).

Banco Espirito Santo has 457 million euros of Tier 1 bonds, its most junior debt securities, and 853 million euros of more-senior Tier 2 bonds, making a total of about 1.3 billion euros, according to data compiled by Bloomberg. The lender has 13.5 billion euros of senior bonds and 4.63 billion euros of secured notes outstanding. All in all, it has 20.4 billion euros of bond debt outstanding, the data show.

Banco Espirito Santo is 20 percent owned by Espirito Santo Financial Group, part of a chain of companies linked to the bank’s founding family. The lender’s largest outside shareholders include France’s Credit Agricole SA (ACA), owner of a 14.6 percent stake, as well as Brazil’s Banco Bradesco SA (BBDC4), which has a 3.9 percent holding.

Banco Espirito Santo shares slumped 67 percent in July as three parent companies linked to the Espirito Santo family requested protection from creditors and concern grew that the bank may have to inject additional capital into its Angola unit.

Novo Banco’s managers, led by chief executive officer Vitor Bento, will seek to find private investors to buy “significant” stakes in the bank in “an adequate time horizon,” according to the central bank.

Bento said in a statement that yesterday’s move removes key uncertainties around the bank and the lender is now stronger and safer than before.