

GOOD SAMARITAN

When Banco Espírito Santo was split up and its toxic assets jettisoned, **EDUARDO STOCK DA CUNHA** was parachuted in to rescue the “good” bank. Then things got complicated...

Interview by Brunswick’s **ALEXANDRA ABREU LOUREIRO**

When Eduardo Stock da Cunha came to the aid of a teetering institution in his native Portugal, he didn’t bank on that good deed turning into an intense long-term commitment.

In September of 2014, at the invitation of Portugal’s central bank, Stock da Cunha took temporary leave from his position at Lloyds Banking Group to be interim Chairman and CEO of the fledgling Novo Banco, formed out of the collapse of one of Portugal’s largest lenders, the family-led Banco Espírito Santo, or BES.

In July the same year, under a cloud of suspicious accounting practices, the bank had reported a 2014 first-half loss of \$4.8 billion. BES, a linchpin of the nation’s economy, seemed about to go belly up.

The central bank stepped in and organized a bailout to salvage the retail operation – the so-called “good bank.” The family leadership was forced out and a separate entity, the Resolution

Fund, became the sole shareholder. The “bad bank,” containing the company’s most toxic assets, was left to existing shareholders and junior bondholders.

If BES had been allowed to fail and go into liquidation, it could have had a “devastating systemic effect” on the whole banking sector, José Berberan Ramalho, a Deputy Governor of the Bank of Portugal, told a parliamentary hearing late in 2014.

BES’S FIRST MANAGEMENT team post-bailout resigned after only two months, citing a shifting mandate. Stock da Cunha was tapped to lead the good bank, named Novo Banco, until it could be sold.

A year later, the expected sale fell through and the search for a buyer ground to a halt. Stock da Cunha was left in a kind of limbo, steering the huge retail bank toward an uncertain goal, unsure if, or for how long, his term would be extended.

In the meantime, a socialist-leaning government came to power in Portugal and another domestic bank collapsed, throwing more shadows on to Novo Banco’s future.

As interim CEO, Stock da Cunha needs to provide stability and grow the business’s value despite these stormy conditions, fighting each day to deliver for both customers and regulators.

“It’s a 26-hour-a-day job, I can tell you,” he says. Here, he discusses leading a bank under siege, the pressure of serving many stakeholders, and the personal sense of duty that drives him.

Why did you take the job at Novo Banco? You must have known you were stepping into a hornets’ nest.

I’m attracted to challenges and this is the kind that happens once in a lifetime. And it was a mission, something I could do for my country.

Basically, I was asked to rescue a bank that was tremendously important

MILESTONES ON THE ROAD TO RUIN – AND RECOVERY



Banco Espírito Santo is founded in **1920** and has roots in the mid-19th century businesses of patriarch José Maria de Espírito Santo Silva

THE WALL STREET JOURNAL

DECEMBER 2013
A *Wall Street Journal* article questions “financial gymnastics” within the family-led Espírito Santo group of companies

MAY 2014
An independent audit finds serious problems at Espírito Santo International, a BES sister unit. Finances of the whole group are thrown into doubt

JUNE Family members, including the CEO of BES, Ricardo Espírito Santo Salgado (right), give up leadership roles

JULY Shares continue to fall. BES reports record loss of €3.6 billion (\$4.8 billion) for the first half of 2014. Respected economist Vitor Bento named CEO and Chairman

to the Portuguese financial system and still on the brink of collapse. It is one of the most prominent banks for retail and commercial customers in Portugal.

Before moving to Lloyds in London in 2014, I spent 20 years at Santander Group, the final five as COO and member of the board at Sovereign Bank, Santander's retail unit in the northeast of the US, based in Boston. I took on that role when the bank was also in a very difficult situation. We had to radically change the bank by cutting costs and headcount by more than 30 percent.

What attracted you to Lloyds?

Lloyds is an amazing institution – a retail bank in one of the largest financial markets in the world, with more than 20 percent market share in personal current accounts and almost 20 percent share in small companies and business banking. When the opportunity arose at Lloyds, I jumped at it.

What is your role now, at Novo Banco?

My job is to manage the bank and to preserve or to increase the value of the franchise. Given the failed sale and other public challenges, it is not easy. But we are sure that the bank is on the right track and will continue to regain value.

When I took the job, I had a discussion with the folks at the Resolution Fund – the sole shareholder of the bank. We agreed that I was in charge, but that they would handle the sale

of the bank. It seemed best to separate those roles.

Your position was supposed to last only a few months. Are you still determined to see it through?

The sale did not succeed initially, and we all have had to accept that. As long as I can, I will continue to have this active role in helping the bank continue on the right track. To the very last minute, my focus will be on creating value for this bank.

Novo Banco is now undergoing a restructuring and a recapitalization plan. What will the new bank look like?

The way I think it should have looked a long time ago. This bank can only survive – and it *will* survive – if we keep our competitive advantages or make them stronger. That means we need to take care of families' savings and lend money when they need it; we need to help Portuguese companies build exports and reach the appropriate international markets.

We are a Portuguese bank, based in Portugal, mainly working for Portuguese companies and households. That is where our competitive strength lies, not in other markets, where local competition may have the advantage. Our strength is in community banking, US-style.

But you have had some foreign bidders for the company?

Ownership should and must be independent. This is a local bank, in

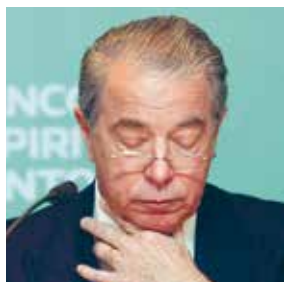


EDUARDO STOCK DA CUNHA

Eduardo Stock da Cunha is interim CEO and Chairman of Novo Banco in Lisbon, Portugal. He is on leave from his position as a Director at Lloyds Banking Group in London. Previously he was with financial group Santander in Portugal and its US unit, Sovereign Bank.

NOVO BANCO

Novo Banco was created in 2014 as part of the Portuguese government-led effort to resolve the collapse of former Banco Espírito Santo. Novo Banco is the country's third-largest bank by net assets and has almost 2 million clients. Its domestic network has some 580 retail branches and around 6,000 employees. The group serves households, Portuguese exporting companies and the emigrant community.



AUGUST

Bank of Portugal discloses that more losses at BES were hidden in deals with Swiss group Eurofin Holdings. A \$6.6 billion bailout is unveiled and "good bank" Novo Banco is born



SEPTEMBER

Vitor Bento and his team resign. Eduardo Stock da Cunha is named interim CEO and Chairman of Novo Banco by Bank of Portugal

MAY 2015

Bank of Portugal starts proceedings against former BES executives, including Salgado, suspected of "malicious acts" and "ruinous management"

this space and with these types of customers. As long as the new owners understand that and support our mission, it doesn't matter as long as they comply with the criteria defined by the authorities.

You have said before that the CEO and chairman roles should be separate, but you hold both at Novo Banco. Does this bother you?

This is a "bridge bank" arrangement, designed to end with the sale of the business, so I'm not that concerned. A bridge bank is temporary by law, even though it would be preferable to separate the CEO and chairman roles.

The government's handling of the collapse of BES set a precedent in the European banking system. Are there lessons to be learned?

It's too soon to tell. It would be wise to wait until the situation with Novo Banco is resolved and then calmly, after a lot of discussion, change whatever needs to be changed.

Probably one area that needs to be analyzed very carefully is whether there is any conflict of interest between the central bank, acting as a regulator and supervisor, and the Resolution Fund, acting as the lead shareholder, especially if you have people working at both the Bank of Portugal and at the Resolution Fund.

But again, I think it is very early to judge how things were handled. I would wait for this to be resolved and then look at it again.

The recent Portuguese elections have opened a new wave of criticism about the bank bailout. Could that impact Novo Banco's future?

Simply put, we don't know. We Portuguese tend to punish ourselves by being very self-critical and slow to acknowledge our achievements.

BES was one of the largest institutions in the system, representing between 16 and 20 percent of retail and commercial banking in Portugal. It collapsed. Imploded. Yet the banking system continued to work normally. I wonder what would have happened in other countries in a similar situation? In this case, because of the authorities, the employees, the customers, nothing calamitous happened; no branches were closed. So we should really celebrate that.

It's true, some events combined to make 2015 more difficult. The bank had more problems than initially thought. The Chinese stock market crisis

"To the very last minute, my focus will be on creating value for this bank"

may have influenced the bidders, two of whom were Chinese.

What are some of the other hurdles?

The European Central Bank stress test was an important one, determining how much additional capital was required for the bank. Bidders knew the stress test results would be disclosed in November 2015, so it seemed best to wait for those results before continuing with the auction of the bank. The restructuring plan demanded by EU authorities is another factor. But those uncertainties have been clarified now.

How will you measure success at Novo Banco?

The first measure of success is that the bank survives and the second is that it remains a valuable franchise. I really think we've achieved both of those. That's not my victory, but a victory for Portugal and its financial system, for the bank's employees and its customers.

Third is profitability, which is taking longer than expected. Success here depends on how we implement the restructuring and the capital plan.

Over the long term, we need all three: survival of the bank, protection of the franchise to ensure its value, and implementing the restructuring and capital plan to make the business profitable.

You are at Novo Banco on professional leave from Lloyds. Will it feel dull going back?

No. The important things you bring to work – seriousness about what you're doing, acting responsibly with your colleagues, your shareholders, your customers – those things are common to everything you do.

It has been said that investment banking is about a few people. It's like a military strike force: the level of organization is relatively small, but there is a lot of creativity and ingenuity.

By contrast, retail banking requires an army, with all the corresponding institutional standards, rules and discipline. Yes, you also need creativity, but you need to apply it in a rigorous way that rewards all your customers and, by consequence, your employees and shareholders.

That is just as true at Lloyds' banking operations as it is at Novo Banco.

ALEXANDRA ABREU LOUREIRO is a Senior Adviser for Brunswick in the Portuguese-speaking world. She previously served as spokesperson and media adviser to the Portuguese government on defense and foreign affairs.