Banks

Iceland jails former Landsbanki chief

Arnason found guilty of market manipulation ahead of lender's collapse

RICHARD MILNE – OSLO

Iceland secured a conviction against the last of the former chief executives of its three largest banks as the country at the heart of the financial crisis continues to take a lead in prosecuting top bankers' misdeeds.

Sigurjon Arnason, the former chief executive of Landsbanki, was sentenced to 12 months in prison, nine of them suspended, for market manipulation.

Two other former Landsbanki executives were convicted and one was acquitted in a case about whether they manipulated the bank's share price in the months leading up to its collapse in October 2008.

Arnason joins Larus Welding, the former chief executive of Glitnir, another of Iceland's failed banks, Hreidar Mar Sigurdsson and Sigurdur Einarsson, the ex-chief executive and chairman of Kaupthing, a third lender, in receiving convictions. Arnason's lawyer said he would appeal against the verdict, according to Icelandic media.

The Icelandic record stands in sharp contrast to the US and UK where the former leaders of the biggest failed banks have not faced criminal charges.

The three largest Icelandic banks imploded in the autumn of 2008 after amassing assets equivalent to 10 times the size of Iceland's economy as they funded a buying spree by local businessmen abroad. Iceland has aggressively investigated alleged crimes committed in the run-up to their collapse.

But the special prosecutor's office, which faces swingeing budget cuts from a new government from the same centre-right party that was in power when the banks collapsed, has bemoaned the length of the sentences.

Welding was sentenced to nine months in jail for fraud, six of them suspended, while Sigurdsson and Einarsson received the harshest sentences of five-and-a-half and five years respectively for fraud and market manipulation. The special prosecutor has suffered several high-profile setbacks. In June, a Reykjavik court cleared Jon Asgeir Johannesson, the corporate raider who used to own Hamleys, the London toy store, and House of Fraser, the UK department store, of breaching fiduciary duty.

Welding was also cleared in that case while on the same day Arnason, the former head of Landsbanki, was acquitted in a different market manipulation trial.

Iceland, one of the countries hardest hit by the financial crisis, protected its domestic banking industry by transferring the local assets of Glitnir, Kaupthing and Landsbanki to new lenders.

Those new lenders – largely owned by the creditors of the failed banks – are now at the centre of a political intrigue as Iceland debates lifting the capital controls it imposed after the crisis that limit the exchange of foreign currencies.

Iceland could impose a so-called exit tax on Icelandic krona assets converted into foreign currency with bank creditors the main target, according to local media reports. But there is uncertainty about the timing of the lifting of any controls.

Reykjavik also needs to resolve the financial links between the old and new versions of Landsbanki. The government is now the largest shareholder in the new bank.

One or more of the three new banks, now known as Arion, Islandsbanki and Landsbankinn, could be sold as well.

Banks. Portuguese fire sale

Investors pick over the Espírito Santo carcass

The conglomerate's carve-up is viewed as a means of helping unlock the economy

PETER WISE – LISBON

The suggestion was meant as a provocative joke.

One of the best things for the country that Portugal's international lenders could do, EU and International Monetary Fund officials heard at a breakfast with economists in the summer of 2011, would be to dismantle the Espírito Santo empire.

As Portugal embarked on a punishing three-year adjustment programme, the country's most powerful banking dynasty was held up as a symbol of everything that was wrong with the economy: overly cosy relations between business and government, growth based on borrowed money not capital, and short-term, dividend-focused management.

The economist's facetious wish came true this summer when the Espírito Santo conglomerate unravelled catastrophically and collapsed in one of Europe's biggest financial failures. Hedge funds, banks and other investors are picking over the debris in what has become a multibillion-euro fire sale of the group's prize assets.

Novo Banco, the "good" bank created in August out of a €4.9bn bailout of Banco Espírito Santo, is the biggest item on the sales list.

Other Espírito Santo businesses sold or potentially up for sale include an insurer, a healthcare group, luxury hotels, real estate developers, energy companies, Latin American plantations and several small banks across four continents.

"We're seeing capitalism in action," a Lisbon-based corporate lawyer involved in potential deals said. "The sudden break-up of the Espírito Santo group is helping unlock the economy. Zombie companies that were too heavily indebted to invest are being sold to firms with the necessary capital to nurture growth."

By far the most controversial dealmaking triggered by the collapse centres on the future of Portugal Telecom. The Espírito Santo family did not control PT, once the flagship of the country's international business ambitions, but its management was seen as strongly influenced by the banking group through a 10 per cent shareholding.

"The destruction of value at PT has been massive," a senior Lisbon banker said. "A few shareholders with a minority stake effectively controlled the board in what was a clear case of poor management and crony capitalism."

Espírito Santo unravelled catastrophically and collapsed in one of Europe's biggest financial failures

Rafael Marchante/Reuters

Over the past four years, PT's share value has fallen from €10 to less than €1.50.

The group's stake in a planned merger with Oi, the Brazilian telecoms group, has also been lowered from 38 per cent to 25.6 per cent after it was revealed that the Espírito Santo group had defaulted on an €897m loan from PT, of which Oi had been unaware.

Rival bids have been launched for Oi's Portuguese assets, effectively PT's domestic operations before the former state-owned monopoly invested in the Brazilian group in 2010. A €7.025bn offer by Altice, the European cable group founded by billionaire Patrick Drahi, was topped last week by a €7.075bn joint bid from private equity companies Apax Partners and Bain Capital.

Isabel dos Santos, daughter of Angola's president and Africa's richest woman, last week also launched a €1.2bn takeover bid for PT SPGS, the holding company that owns PT's stake in Oi.

The prospect of PT being broken up and sold off to foreign groups has sparked anger in Lisbon. Aníbal Cavaco Silva, the head of state, said the country had a right to ask "what the shareholders and managers of this company have been doing". A group of politicians has launched an appeal to "rescue" PT for the nation, saying its future could not be left to the market.

But Pedro Passos Coelho, the prime minister, has stated that his centre-right government will not in any way interfere. Mr Passos Coelho abolished the state's "golden share" in PT, which a previous Socialist government had used to block an earlier takeover bid.

In other potential deals, Apollo Global Management, the US private equity fund manager, has begun talks on a €200m deal to acquire Tranquilidade, a Portuguese home and car insurer previously owned by Espírito Santo Financial Group but now controlled by Novo Banco.

In October, Fosun International, China's largest private sector conglomerate, won a bidding battle for Espírito Santo Saúde, paying €460m to acquire the private hospital group, which had also been targeted by UnitedHealth, a US medical insurer, Mexico's Grupo Angeles and José Mello Saúde, a Portuguese competitor.

> 'Zombie companies that were too heavily indebted to invest are being sold to firms with the necessary capital to nurture growth'

Investors from China, Mexico and Dubai are understood to be among potential bidders for Espírito Santo Investment Bank, which is owned by Novo Banco and could be worth up to €600m. Tivoli Hotels and Resorts, a chain of 14 luxury hotels in Portugal and Brazil with a potential value of €300m, is also up for sale.

Tivoli belongs to Rioforte, an Espírito Santo holding company, which like ESFG, has had its application for creditor protection turned down by a court in Luxembourg. The impending liquidation of the two holding companies means more assets could come up for sale.

"To the extent that an egregious example of bad management practices like the Espírito Santo group is gone, I think we are left with a healthier economy," Pedro Santa-Clara, a professor of finance at Lisbon's Nova School of Business and Economics, said. "But at the same time, a great many shareholders and creditors have suddenly found they are much poorer."

Banks

BBVA eyes controlling stake in Garanti

TOBIAS BUCK – MADRID
DANIEL DOMBEY – ISTANBUL

BBVA has agreed to pay €2bn to raise its stake in Turkey's Garanti Bank to 40 per cent, in a deal that gives the Spanish lender control of the board and marks a vote of confidence in Turkey after a period of economic and political volatility.

Madrid-based BBVA bought the additional 14.89 per cent stake in Garanti from Dogus Holding, leaving the Turkish group with just a 10 per cent stake. The Spanish lender will now have the right to nominate seven of the bank's 10 board members, but will be under no obligation to make a mandatory offer to remaining shareholders in Garanti.

BBVA bought 25 per cent of the Turkish lender in 2010, and currently controls four seats on the board.

"We believe that Turkey is a very exciting market where we can achieve strong long-term growth. We are maximising economic exposure to Garanti at a very good price," said Jaime Saénz de Tejada, BBVA's chief financial officer.

The deal will be financed through a capital increase of up to €2.6bn, by way of an accelerated bookbuilding procedure. Bank of America Merrill Lynch and Morgan Stanley are joint bookrunners on the transaction.

BBVA is in talks to buy an extra 15% stake in the Turkish lender in a deal that would be worth about €2bn

The deal marks the second large investment by BBVA in less than four months – and offers further evidence of a shift in sentiment within Spain's financial services industry.

In the case of BBVA, a desire to increase market share has trumped concerns about political risk. In July, the Madrid-based lender agreed to pay close to €1.2bn to take over Catalunya Banc, shrugging off the rising clamour for secession in the bank's home region of Catalonia.

Turkey's banking market has also gone through a turbulent year. A sharp interest rate rise in January ate into margins, although rates have edged down since, while state authorities have restricted banks' increases in lending – particularly in the case of lucrative consumer loans.

Irakli Pipia, an analyst at Moody's Investors Service, said the measures reflected the fact that the loan to deposit ratio in Turkey is weaker than in other emerging markets. "Very fast loan growth was not supported by the rate of deposit creation, which necessitates external funding," Mr Pipia noted. He said there were now lower profitability expectations for the sector as a whole.

At the same time, Turkey's political debate has become more highly charged. Turkish misgivings about foreign banks were highlighted in a newspaper column in August by Yigit Bulut, the chief economic adviser to Recep Tayyip Erdogan, then Turkey's prime minister and now its president. Mr Bulut complained that the banking sector "seems to have been abandoned to the control and mercy of both foreigners and 'foreigners within'".

Despite these tensions, BBVA has frequently cited Turkey a key target for expansion.

According to BBVA's own estimates, Turkey's economy is on course to grow by an average 4.6 per cent every year over the next decade.

Banks

BNP officials drawn into insider trading probe

MICHAEL STOTHARD – PARIS

Three of the most senior figures at BNP Paribas, Baudouin Prot, Michel Pébereau and Philippe Bordenave, are being investigated as part of a preliminary inquiry by the French prosecutor into suspected insider trading at the bank.

The inquiry relates to shares sold by senior management in the year before France's largest bank took a $1.1bn legal provision in February in preparation for a fine for breaching US sanctions rules. The eventual fine, imposed on the bank in June, turned out to be $8.9bn.

Mr Prot was chief executive of BNP from 2003-11. He has been chairman since 2011 but will step down on December 1. Mr Pébereau is honorary chairman while Mr Bordenave is co-chief operating officer. A person close to the inquiry said the financial prosecutors were in the early stages of their investigation and it was not yet clear how many people at the bank would come under scrutiny or if those three men would in remain part of the probe.

Under French law, a preliminary investigation does not mean that any evidence of wrongdoing has been found or that charges will necessarily be brought. BNP Paribas declined to comment, along with the French stock market regulator, the AMF.

In 2013, Mr Prot sold shares valued at €9.25m in eight transactions, while Mr Pébereau sold €2.46m worth and Mr Bordenave sold €1.32m, according to regulatory filings by the bank.

French prosecutors are examining share sales by BNP Paribas management before its US fine

These were the only substantial transactions made by senior officials in 2013. Christophe de Margerie, a board member and the former Total chief executive sold shares worth €55,000 and director Marion Guillou bought a small number.

One person close to the probe said that none of the three figures in question had sold any shares in 2014, when negotiations between BNP Paribas and US authorities began in earnest.

Regulatory filings show it is not unusual for directors at BNP to buy and sell large numbers of shares. In 2011 Mr Prot sold €1.7m worth personally and €3m through a third party. Mr Pébereau sold €4.5m worth in 2010 and €7m in 2011.