



(Reuters) - Portuguese prosecutors are investigating the Espirito Santo family's business empire as investors prepare to file a lawsuit over the unpaid debt of one of its companies.

Recent disclosures of financial irregularities at a web of family-held holding companies have raised questions about potentially destabilising losses at Banco Espirito Santo (BES), Portugal's largest listed lender, in which the family is the largest shareholder.

"The public prosecutor's office is accompanying the situation, from the very start collecting all elements that have become public and analysing their penal relevance," it said in an emailed statement to Reuters on Friday.

"There are inquiries under way related to this matter that even pre-date the reports of the past few weeks."

This week, a family holding company called Rioforte failed to repay over \$1 billion in debt to Portugal Telecom (PT) forcing the telecoms group to take a cut in its share of a merger with Brazil's Grupo Oi.

Executives at Portugal Telecom, in which the Espirito family has a significant stake, knew the clan had problems before it lent them the \$1 billion in April, people familiar with the talks have told Reuters.

Asked specifically about any investigation of Portugal Telecom's investment in Rioforte, the prosecutor's office would not comment, saying only it was following the Espirito Santo group situation as a whole.

Sources told Reuters PT was considering suing BES due to the non-payment as the debt was bought with funds deposited at BES bank accounts, and was considered risk-free by the telecom firm. Such lawsuits could potentially increase BES' liabilities.

PT in its turn also faces a lawsuit by several minority investors, expected to be filed on Friday, over its alleged failure to properly gauge the risks of the debt.

Octavio Viana, the head of investor association ATM and a representative of the shareholders, said Portugal Telecom's exposure to the commercial paper was "suicidal".

"The executive board had to observe the correct distribution of risks, a precaution that they failed to take, which resulted in a suicidal exposure," Viana told Reuters.

Portugal Telecom has declined to say why it invested so much of its liquidity in one firm's commercial paper. Its merger partner Oi has sharply criticised the Lisbon-based group for not disclosing the loan earlier. Oi's representatives quit the Portugal Telecom board when told of the debt.

BES shares fell 3.5 percent on Friday, adding to losses of nearly 60 percent in the past month, while PT shares plumbed new record lows at 1.72 euros, 2.3 percent lower on the day.

The government and the central bank have said BES has enough capital to face the risks stemming from family debts, but there are still many unanswered questions about the bank's total exposure. Bank of Portugal chief Carlos Costa is speaking to a parliament committee on Friday about the BES situation.

(Writing By Andrei Khalip. Editing by Carmel Crimmins)



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