

Advisory
Corporate Finance & Recovery

**Banco Privado Portugues (Cayman) Limited
(In Liquidation) (“BPP Cayman” or “the
Company”)**

Joint Official Liquidators’ First Report to Creditors

26 August 2010

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1. Glossary of Terms and Abbreviations

Term	Definition
AR Strategy	Those Absolute Return investment strategies offered by BPP SA and BPP Cayman which included a guarantee of principal and, in many cases, return to customers
the Company or BPP Cayman	Banco Privado Portugues (Cayman) Limited (in Liquidation), a Cayman Islands registered company which formerly held a Class B Banking license issued by CIMA in 1997
the BoP	the Bank of Portugal
BPP Group	A Portuguese based private banking group ultimately owned by Privado Holding
BPP SA	Banco Privado Portugues, S.A., a Portuguese private bank which was placed into liquidation on 29 April 2010 and is the immediate parent of the Company.
CIMA	The Cayman Islands Monetary Authority
Close Brothers (Cayman) Limited	Provider of statutory agent and trustee services to the Company in the Cayman Islands
CMVM	The Portuguese securities market commission
the Controllers	David A K Walker and Ian D Stokoe, of PwC Corporate Finance & Recovery (Cayman) Limited ('PwC Cayman') appointed Controllers of the Company on 27 May 2010 by CIMA
Counter-guarantee	Purported guarantee and pledge provided by BPP SA to the Portuguese Republic on 5 December, 2008
the FEI	A special investment fund established on 31 March 2010 as an independent vehicle for the purpose of ring-fencing AR Strategy assets and liabilities from the BPP Group and enabling an orderly realization
FEI Units	Equity units in the FEI allocated to former AR Strategy customers in accordance with their AR Strategy deposit claims
Republic Guarantee	Guarantee provided by the Portuguese Republic to a syndicate of six Portuguese banks on 5 December 2008, to support a €450m refinancing loan for the BPP Group
the JOLs	David A K Walker and Ian D Stokoe, of PwC Corporate Finance & Recovery (Cayman) Limited ('PwC Cayman') appointed Joint Official Liquidators of the Company on 9 July 2010
the Liquidation Commission	Commission appointed by BoP to oversee the liquidation of BPP SA, comprising Luis Maximo Dos Santos, Antonio Silva Ferreira, and Manuel Martins Mendes Paulo
Privado Holding	Privado Holding, S.G.P.S., S.A. the Portuguese based ultimate holding company of the BPP Group
the SIVs	Special investment vehicles, corporate entities established by the BPP Group to act as offshore holding companies for customer investments

2. Basis of Preparation and Disclaimer

2.1. Basis of Preparation

This report has been prepared solely for the purpose of providing a first report of the Joint Official Liquidators' ('JOL's') to the creditors of Banco Privado Portugues (Cayman) Limited ('the Company' or 'BPP Cayman'), in accordance with Order 10 Rule 1 of the Cayman Islands Companies Winding Up (Amendment) Rules, 2010.

2.2. Disclaimer

This report is strictly confidential and must not be provided to or made available, by any means, to any person other than the intended recipients, the Creditors of the Company. This report should not be copied or disclosed to any third party or otherwise be quoted or referred to, in whole or in part, without the prior written consent of the JOLs. In the event that this report is obtained by a third party or used for any purpose other than in accordance with its statutory purpose, any such party relying on the report does so entirely at their own risk and shall have no right of recourse against the JOLs, PricewaterhouseCoopers ('PwC'), PricewaterhouseCoopers Cayman Islands ("PwC Cayman"), PricewaterhouseCoopers Portugal ("PwC Portugal"), their partners, directors, employees, professional advisors or agents. None of the JOLs, PwC, PwC Cayman, PwC Portugal, their partners, directors, employees, professional advisors or agents accept any liability or assume any duty of care to any third party (whether it is an assignee or successor of another third party or otherwise) in respect of this report and any such party who receives a copy of this report whether from PwC, or any other source shall have no right of recourse against PwC, its partners, directors, employees, professional advisors or agents.

In preparing this report the JOLs must stress that they have relied upon information provided to them by the Company, its directors, its service providers and its parent company Banco Privado Portugues SA ('BPP SA'). The JOLs note that at this stage in the liquidation they have only received relatively limited information relating to the material matters discussed in this Report and as such the position stated may be subject to material revision on receipt of further information. The JOLs have not performed an audit examination on this information. Except where specifically stated, the JOLs have been unable to establish the reliability of the sources of information presented to them by reference to independent evidence. Accordingly, no representation or warranty of any kind (whether express or implied) is given by PwC as to the accuracy, completeness or fitness for any purpose of this report.

3. Introduction

3.1. Appointment of the Liquidators

Messrs David A K Walker and Ian D Stokoe, of PwC Corporate Finance & Recovery (Cayman) Limited ('PwC Cayman') were appointed Joint Controllers (the 'Controllers') over BPP Cayman on 27 May 2010 by the Cayman Islands Monetary Authority ('CIMA') pursuant to its powers under the Banks and Trust Companies Law (2009 Revision).

The Grand Court of the Cayman Islands subsequently granted the Controllers powers in an Order dated 4 June 2010, which were predominately limited to those powers required to gather information to report to CIMA on the current financial position of the Company and report on matters impacting the Company's depositors, and, to recommend a course of action to CIMA.

On 15 June, 2010, the Controllers submitted an interim report to CIMA setting out the current financial position of BPP Cayman, the restructuring efforts undertaken to date by the Banco Privado Portugues banking group ('BPP Group') directors appointed by the Bank of Portugal ('BoP') and to set out the Controllers' preliminary conclusions and recommendations. In light of the clear insolvency of the Company, the Controllers recommended that CIMA petition for the winding-up of BPP Cayman as soon as practically possible in order that the affairs of the Bank might be fully investigated and assets realised for the benefit of depositors and creditors.

CIMA subsequently determined to petition for winding-up and on 9 July 2010 David Walker and Ian Stokoe were appointed Joint Official Liquidators ("JOLs") of the Company by the Grand Court of the Cayman Islands. As set out in Section 5.3, the JOLs intend to seek the appointment of Vijay Chopra's, a partner and head of advisory at PwC Portugal.

3.2. Purpose of the JOLs' First Report to Creditors

This first report of the JOLs to the creditors of the Company ('the Report'), has been prepared in order to provide background to the events leading to the insolvency of the Company, a preliminary summary of the likely key issues in the winding-up, a summary of the actions carried out to date by the JOLs and the official liquidation accounts and supporting information, as prescribed under Order 10 Rule 4 of the Cayman Islands Companies Winding Up (Amendment) Rules, 2010.

The Report shall be presented to the Company's creditors at the first meeting of creditors, scheduled for 26 August, 2010 in Lisbon, Portugal.

4. Background

4.1. The Company

The Company is a Cayman Islands registered bank, which operated under a Category B Restricted license under the Bank and Trusts Law (2009 Revision) and was incorporated in the Cayman Islands on 21 November 1997. BPP Cayman's parent company is Banco Privado Portugues, S.A. ('BPP SA'), and both the Company and BPP SA are part of a Portuguese based private banking group comprising a number of onshore and offshore entities (the 'BPP Group'). As a private banking group, the BPP Group's main activities involved wealth management and the Company was established principally for the purpose of facilitating investments in securities, mainly relating to credit institutions, by BPP Group clients via various offshore domiciled investment funds, which were controlled and managed by the wider BPP Group.

According to the most recent balance sheet prepared by the Company's management, dated 30 April, 2010, depositor liabilities totalled c.€363m. Reported depositor liabilities include substantial related party positions relating to BPP Group entities. The remaining depositor base is relatively fragmented, and comprises a large number of smaller private clients.

The Company's registered office and other statutory services were provided by Millennium bcp Bank & Trust up until 1 December 2009 after which Close Brothers (Cayman) Limited acted as statutory agent and registered office, up until liquidation. While the Company had a separate board of directors, administrative and management functions of the Company appear to have been principally carried out by BPP SA management and personnel.

At the time of the BoP intervention the directors were António Paulo Araújo Portugal de Guichard Alves, João Oliveira Rendeiro, Salvador Fezas Vital, Tiago Pimenta Henriques Ferreira and Rui Manuel Guedes Domingues all of whom were Portuguese based. António Paulo Araújo Portugal de Guichard Alves, João Oliveira Rendeiro and Salvador Fezas Vital resigned on 19 March 2009. On 29 June 2010, following the commencement of the Controllorship, the two remaining directors, Tiago Pimenta Henriques Ferreira and Rui Manuel Guedes Domingues, also resigned.

As required under its banking license, the Company produced audited financial statements for the year ended 31 December 2008, and Deloitte & Touche, Cayman Islands acted as auditor. Maples and Calder, a Cayman Islands law firm, acted as Cayman Islands legal counsel to the Company.

4.2. The BPP Group

As noted above, the BPP Group is a Portuguese based private banking group, which has five separate operating divisions:

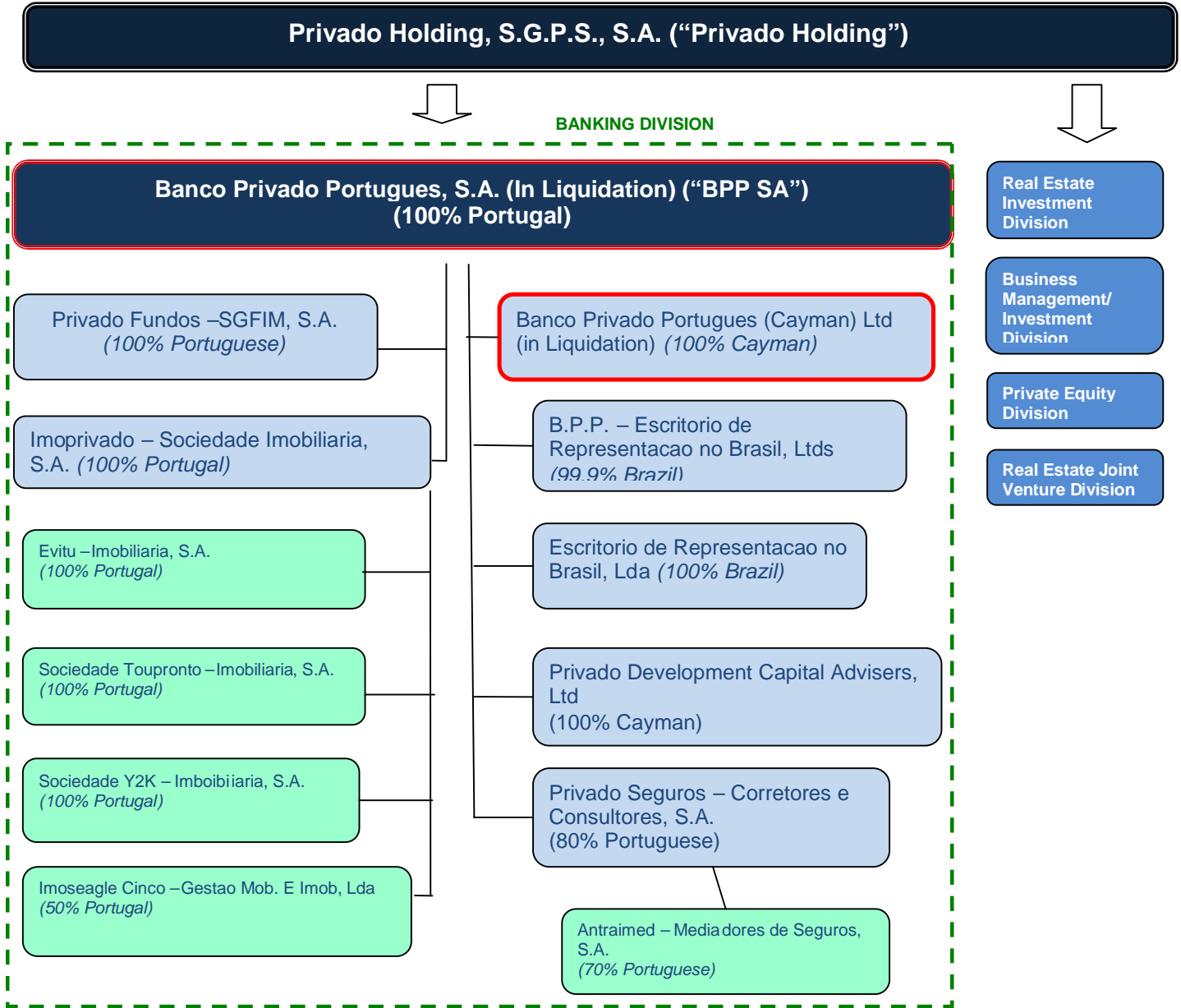
- Real estate;
- Private banking;
- Business and financial advisory;
- Private equity; and,
- Real estate joint ventures.

The principal operating division of the BPP Group was private banking which includes wealth management, both through onshore and offshore banks. The BPP Group also had indirect control over numerous Special Investment Vehicles ('SIVs') incorporated in offshore jurisdictions for the purposes of facilitating clients' investment strategies. In addition the BPP Group also actively managed financial assets and investment funds, rendered financial services and carried out various other banking services.

As discussed in further detail in Section 4.3 below, on 16 April 2010, **BoP placed BPP Cayman's** parent company, BPP SA, into liquidation and appointed a Liquidation Commission comprising Luis Maximo Dos Santos, Antonio Silva Ferreira, Tiago Pimenta Henriques Ferreira and Manuel Martins Mendes Paulo, all of whom are experienced ex-central bankers ('the BPP SA Liquidation Commission').

The ultimate holding company of the group is Privado Holding, S.G.P.S., S.A. ('Privado Holding'). However, since BoP's intervention in BPP SA in December 2008, Privado Holding has effectively had no control over the bulk of the BPP Group entities. Figure 1 below provides a summary of the BPP Group structure.

Figure 1: Illustrative Summary of BPP Group Structure



4.3. Events Leading to the Insolvency of BPP Cayman

As noted above, the Company's financial position, affairs and management were wholly interlinked with those of its parent company, BPP SA. As a result, the liquidity crisis experienced by BPP SA in late 2008, the subsequent attempts to restructure, and the eventual liquidation of BPP SA all had a direct impact on the financial position of the Company and its ability to operate. Importantly, the core operational issues which had jeopardized BPP SA's solvency, namely the obligations undertaken under Absolute Return Strategies ('AR Strategies'), were also experienced in the Company, for which AR Strategies comprised a substantial portion of its business.

Figure 2 below illustrates the key events during the period since late 2008, which eventually led to the insolvency of both the Company, and the wider BPP Group.

Figure 2: Key Events Leading to the Insolvency of BPP Cayman



4.3.1. Liquidity Crisis Exposes AR Strategy Issues

In late 2008, the rapid reduction in credit availability in the financial markets put unprecedented strain on the BPP Group's liquidity position, in particular through a reduction in availability of wholesale funding. As the BPP Group's sources of liquidity reduced, a review of its assets showed that a substantial portion of the BPP Group's loan assets, namely those related to AR Strategies, were potentially impaired.

AR Strategies involved the BPP Group offering clients the opportunity to invest in underlying securities held by Special Investment Vehicles ('SIVs') via either BPP SA or BPP Cayman. Each investment was initially financed by a deposit into either BPP SA or BPP Cayman, which was then used to purchase loan notes issued by the relevant SIV. These AR Strategies included guaranteed principal repayment to the client and, in some cases, a guaranteed level of return.

Prior to December 2008, the Company valued the SIV loan notes related to AR Strategies based on the contractual terms; that is, assuming principal value was intact and that the guaranteed return was capable of being delivered. However, in late 2008 it became clear that the underlying asset value of the SIVs was insufficient to meet the guaranteed returns and, in many cases, also insufficient to cover the initial principal investment.

Accordingly, the Company was obliged to restate its financial accounts for 2007 and 2008, and recognized new provisions for loan and financial asset impairment totalling €141.3m in the year ended December 2008, the majority of which related to AR Strategies.

4.3.2. Notification to Bank of Portugal

As the responsible financial regulator, BoP was notified of the severe financial stress facing BPP SA on 24 November, 2008. Specifically, the Board of Directors of the BPP SA advised that BPP SA ran a risk of being unable to fulfill its obligations, and that in order to prevent a total collapse in liquidity the Board had decided to temporarily suspend payments to creditors.

In response to this notification, on 25 November 2008 the BoP demanded that BPP SA prepare and present a financial recovery and reorganization plan.

4.3.3. Bank of Portugal Intervention

Following this notification, an extraordinary meeting of BPP SA was convened on 1 December 2008, and at this meeting the BoP used its powers under the provisions of the General Regime for Credit Institutions and Financial Companies ('RGICSF') to appoint temporary members to the Board of BPP SA and to suspend all payments to creditors for a three month period to March 2009 in order to enable a potential reorganization of the bank.

From this point onward BPP SA, and consequently BPP Cayman, were effectively under the control of BoP's new appointees to the BPP SA Board.

4.3.4. €450m Refinancing

On 5 December 2008, a syndicate of six Portuguese banks provided a six month € 450 million liquidity loan to BPP SA in order to fund a period during which the bank could seek to reorganize. This loan was in turn guaranteed by the Portuguese Republic under state guarantee ('the Republic Guarantee').

In its role of guarantor to the liquidity loan, the Portuguese Republic sought a counter-guarantee from BPP SA, which was purportedly provided on 5 December 2008 ('the Counter-guarantee'). The Counter-Guarantee was purportedly secured by a pledge of the assets of both BPP SA and BPP Cayman, with an estimated value at that time of €672m.

The JOLs understand that this Counter-guarantee was entered into by the Board of BPP SA on behalf of both BPP SA and BPP Cayman.

The JOLs note that at present they have received only limited information with regard to the €450m loan and associated guarantees. However, the JOLs current understanding of these transactions and their implications will be discussed in further detail in Section 7.2 of this Report.

4.3.5. Solvent Restructuring Plans

An initial Recovery and Reorganization Plan was submitted to BoP by the Board of BPP SA on 26 December 2008. This plan was amended and resubmitted in February 2009, but failed to obtain BoP or Portuguese Government approval. During the following six months there were a number of further proposals put forward by the BPP SA Board and also separate proposals brought by Orey Financial, a private investor.

In early 2009, a restated financial position as at 30 November 2008 was prepared and audited. This restated financial position indicated substantial over-valuation of AR Strategy assets and confirmed the insolvency of BPP SA and BPP Cayman.

As a consequence, it was apparent that any restructuring proposal would require substantial capital injections, both from the Portuguese Republic, and major creditors.

In May 2009, BoP reported to the Portuguese Government on the restructuring proposals, advising that the current solvent restructuring plans, as presented, were unworkable.

4.3.6. Processing of Repayments and Transfers

During the period following the injection of the €450m loan and the commencement of BPP SA insolvency on 16 April, 2010 a suspension of payments from BPP SA remained in effect. However, the JOLs have been advised that, notwithstanding the suspension, during this period certain payments were made. According to the notes to the restated Financial Statements of the Company for the year ended December 2008, while all AR Strategy repayments remained suspended, other payments were processed where considered necessary to safeguard the clients of BPP SA and to safeguard BPP SA's capital under management.

While the JOLs are yet to receive a detailed analysis of the use of the BPP Group liquid assets during the period following the €450m refinancing, it is understood that the majority of liquid assets, including the proceeds of the refinancing, were expended in creditor and depositor payments during the period prior to commencement of the liquidations. Payments and transfers are discussed further in Section 7.3 of this Report.

4.3.7. Winding-up Plan

Noting the BoP's advice regarding the various solvent restructuring plans proposed, around mid-2009 the Portuguese Government determined that there were insufficient public interest grounds for state-funded solvent restructuring. Accordingly, the Portuguese Government, BoP and BPP SA determined to develop a wind-up plan involving the separation and ring-fencing of AR Strategy assets and liabilities, and a winding-up of the remainder of BPP SA's assets and liabilities.

4.3.8. Development of the Special Investment Fund ('FEI')

On 11 December 2009, the Portuguese Government publically released details of a proposed Special Investment Fund ('FEI'), into which the assets and liabilities relating to AR Strategies were to be transferred in order to enable an orderly realization of the assets and thereby preserve value.

The key elements of the FEI proposal included:

- Creation of an independently managed fund, focused on orderly realization of the underlying assets over a five year period;
- FEI participation to be offered to all AR Strategy customers, including those of BPP Cayman;
- The value of AR Strategy net assets transferred to be independently assessed on commencement of FEI scheme, with participating AR Strategy customers able to claim for any shortfall against guaranteed principal & returns in their respective deposit taking banks; that is, BPP SA or BPP Cayman; and
- Participating AR Strategy customers to benefit from €250,000 Portuguese guarantee.

On 1 February 2010, the constitution of the FEI was approved by the relevant regulatory body, the Portuguese Securities Market Commission ('CMVM'), and the FEI was duly registered as a fund. Over the period 12 February - 19 March 2010, each of the AR Strategy customers was consulted by BPP Group representatives to determine participation in the FEI scheme. The JOLs understand that approximately 98% of AR Strategy customers consented to the scheme. The dissenting AR Strategy customers retained their previous interest in the SIVs and BPP SA / BPP Cayman respectively.

4.3.9. Valuation of FEI Net Assets

AR Strategy assets to be transferred into FEI were valued as at 1 March, 2010 at €800m in a report commissioned by BPP SA and prepared by Deloitte & Touche Portugal. AR Strategy liabilities (excluding customers' loan notes) were valued at €223m. The resulting net assets for FEI of €577m were apportioned among consenting Absolute Return customers in the form of Units issued by the FEI fund. The valuation of FEI Units was then used as basis for determining AR Strategy customers' residual shortfall claims against BPP SA and BPP Cayman.

4.3.10. Establishment of FEI Fund

The FEI was constituted on 30 March, 2010, and ratified by board approval from BPP SA. The JOLs understand that BPP SA also sanctioned the FEI on behalf of BPP Cayman, under a power of attorney from the Company.

4.3.11. Transfer of FEI Liabilities to BPP SA

The AR Strategy liabilities which were transferred into the FEI of approximately €223m principally comprised Repo debt of approximately €117m and Overdraft debts of approximately €105m, with an additional amount of management fees payable totaling approximately €0.7m. The JOLs understand that all of these liabilities transferred into the FEI from the AR Strategy related SIVs were payable to BPP Cayman as a result of historical financing transactions between BPP Cayman and the SIVs.

However, on formation of the FEI, the JOLs understand that BPP SA transferred the Repo and overdraft debt receivables from BPP Cayman to BPP SA. This transfer is discussed further in Section 7.4 below.

4.3.12. Liquidation of BPP SA Commenced

Following establishment of the FEI, BoP and the Board of BPP SA resolved that BPP SA should be wound-up. Accordingly, on 15 April 2010, BoP revoked BPP SA's banking license and subsequently, on 16 April 2010, BoP placed BPP SA into liquidation.

Utilizing its powers under RGICSF, the Lisbon Court of Commerce appointed a Liquidation Commission, at the recommendation of BoP, to oversee the winding-up of BPP SA.

4.3.13. BPP Cayman Controllershship Commenced

Throughout the restructuring period up to the commencement of the BPP SA liquidation, CIMA had been monitoring the progress of BPP Group restructuring process through communications with BPP SA, and directly from BoP communications.

On formation of the FEI and subsequent commencement of the BPP SA liquidation, it became clear that CIMA intervention in the affairs of BPP Cayman was now appropriate, given that the remainder of BPP Cayman assets and liabilities was unlikely to represent a viable independent business, and is discussed further in Section 4.4 below.

Accordingly, David A K Walker and Ian D Stokoe, of PwC Corporate Finance & Recovery (Cayman) Limited ('PwC Cayman') were appointed Controllers (the 'Controllers') of BPP Cayman on 27 May 2010 by the Cayman Islands Monetary Authority ('CIMA') pursuant to its powers under the Banks and Trust Companies Law (2009 Revision). The principal role of the Controllers was to enquire into and report to CIMA on the financial position and viability of the Company.

4.3.14. BPP Cayman Placed into Liquidation

On 15 June 2010, the Controllers submitted an interim report to CIMA which set out an analysis of the current financial position of BPP Cayman and concluded that the Company was insolvent. On the basis of the insolvency of both the Company and its parent, BPP SA, the Controllers recommended to CIMA that they petition for the winding-up of BPP Cayman as soon as practically possible in order that the affairs of the Company might be fully investigated and assets realised for the benefit of depositors and creditors.

On 9 July 2010 David Walker and Ian Stokoe were appointed Joint Official Liquidators ("JOLs") of the Company by the Grand Court of the Cayman Islands.

4.4. Controllership of BPP Cayman

The Controllers were appointed by CIMA on 27 May 2010, and this appointment was subsequently ratified by Court Order on 4 June 2010, which also granted the Controllers the powers to fulfill their mandate.

The primary purpose of the Controllership was to gather information and report to CIMA on the current financial position of the Company and matters impacting the Company's depositors, and, to recommend a course of action to CIMA. In a subsequent Court Order on 18 June, 2010, the Controllers were given additional powers to open bank accounts in order to collect in and realize the Company's property.

On 8 June 2010, David Walker, and a colleague from PwC Cayman, Simon Conway, travelled to Portugal to meet with the Liquidation Commission of BPP SA and the former Directors of BPP Cayman in order to initiate a collaborative working relationship with the parent company, obtain up to date summary financial information, and establish the key facts relating to the affairs of BPP Cayman.

The findings from these meetings informed the basis of the Controllers' report to CIMA, dated 15 June 2010, which recommended the winding-up of the Company.

On 25 June 2010, the Controllers wrote to Banif – Banco de Investimento S.A. ('Banif'), which acts as depository bank for the FEI, requesting payment of the outstanding management fees due from FEI to the Company. On 5 July 2010, the Controllers received €610,577 in partial settlement of the management fees due, and this payment was coordinated by Privado Fundos (Management Company of the FEI), which is 100% owned by BPP SA.

The fees of the Controllers and their costs and disbursements are summarized below. These expenses are payable from the assets of the Company and are subject to the approval of CIMA.

PwC Cayman	Hours	USD	*Euros
Partner - JOL	30.60	20,234.00	15,780.50
Director - JOL	40.10	23,060.00	17,984.49
Senior Manager	100.50	49,494.00	38,600.37
Senior Associate	55.40	15,587.00	12,156.30
Administrator	1.95	308.50	240.60
Total	228.55	108,683.50	84,762.26

*PwC Cayman fees have been converted from USD to Euros at the exchange rate on 12 August 2010 (\$1: €0.77990), this exchange conversion will be subject to fluctuation depending on when the fees are approved by CIMA and drawn by the JOLs.

In fulfilling their obligations, the Controllers drew upon the services of their colleagues in Portugal and these costs are set out below:

PwC Portugal	Hours	EUROS
Partner	10.00	6,000.00
Senior Manager	76.00	21,280.00
Manager	21.00	6,300.00
Corporate consultants	17.00	4,760.00
Total	124.00	38,340.00

A full analysis of time costs has recently been submitted to CIMA for approval.

5. Company Records and Cross-Border Considerations

5.1. Company Books & Records

The JOLs have obtained the Company's statutory and regulatory records from the Company's statutory agent in the Cayman Islands, Close Brothers Cayman. However, the Company's operational and accounting records were maintained in Portugal and aggregated with those of BPP SA, with no separation of accounting or IT systems.

As such, the bulk of the Company's records are held by BPP SA, and, as discussed in Section 5.2 below, the JOLs have prioritized obtaining these records from BPP SA.

5.2. Cooperation with BPP SA & BPP Cayman Directors

On 8 June 2010, David Walker and Simon Conway, met with the Liquidation Commission of BPP SA and the former Directors of BPP Cayman in order to initiate a collaborative working relationship with the parent company, obtain up to date summary financial information, and establish the key facts relating to the affairs of BPP Cayman.

The former Directors and the Liquidation Commission advised that they intended to cooperate fully with the JOLs and to provide all the information they have available on the financial position and affairs of BPP Cayman. However, it was noted by the BPP SA Liquidation Commission that given the two banks were effectively treated as one entity from an operational perspective, the vast majority of financial and operational information regarding BPP Cayman is comingled with information pertaining to BPP SA. Accordingly, it would be necessary for this information to be reviewed and segregated prior to it being provided to the JOLs. Unfortunately, due to the quantity of information and limited staff resources of BPP SA, this segregation process has been prolonged.

Therefore, in order to expedite this process, the JOLs are in the process of agreeing a collaboration protocol with BPP SA, which will provide the Liquidation Commission with comfort on matters such as client confidentiality. This collaboration protocol will in no way fetter or restrict the JOLs' rights and obligations.

Following that initial meeting, there have been a number of update teleconference calls both with the Liquidation Commission, and the former Directors of BPP Cayman. In addition, the PwC Portugal office has been in regular contact with BPP SA staff and the Liquidation Commission during the course of their assisting the JOLs' investigation work. At present, the JOLs are satisfied that they are receiving full cooperation from the former Directors and the Liquidation Commission.

5.3. PwC Portugal

Given that the operational and administrative control of the Company was based in Lisbon, and also noting that a large proportion of the depositor base and most creditors and stakeholders are based in Portugal, the JOLs recognize the need to utilize the expertise of the PwC office in Portugal in order to conduct an effective winding-up process.

PwC Portugal has a well established advisory team, led by Mr Vijay Chopra, who has experience in similar cross-border insolvency cases. Accordingly, the JOLs have worked with PwC Portugal from the start of this process, utilizing Mr Chopra's local experience, as well as the wider PwC Portugal business recovery team, which is heavily involved in the investigation and asset realization process. PwC Portugal has also acted as a first point of contact for the former Directors of BPP Cayman and the Liquidation Commission Portuguese depositor queries.

In order to formalize PwC Portugal's role, and ensure that Mr Chopra has sufficient powers to act, the JOLs are in the process of applying to the Grand Court in the Cayman Islands for Vijay Chopra to be appointed as the joint third liquidator of the Company.

6. Financial Position

6.1. Estimated Financial Position as at 30 April 2010

Table 1 below provides a summary of the estimated financial position of the Company at 30 April, 2010, the most recent comprehensive balance sheet available. The figures included below are based on financial information provided by the Company's Directors to the JOLs in June 2010. These figures have not been audited or otherwise verified by the JOLs and the JOL's have been unable to establish the reliability of the sources of information presented to them by reference to independent evidence. Accordingly, no representation or warranty of any kind (whether express or implied) is given by PwC as to the accuracy, completeness or fitness of this estimated financial position.

Table 1: Estimated Financial Position of the Company as at 30 April, 2010

BPP Cayman - Balance Sheet at 30 April, 2010					
EUR Millions	Gross	Impairment	Net	Adjustments	Total
Assets					
Cash deposits	43.0		43.0	(43.0)	0.0
Credit institutions	0.0		0.0		0.0
Loans to customers	185.0	(36.7)	148.3		148.3
Financial assets held for trading	9.8		9.8		9.8
Financial assets at fair value	1.3		1.3		1.3
Financial assets available for sale	0.3		0.3		0.3
Debtors	113.2		113.2	(113.2)	0.0
Other tangible assets	0.1	(0.1)	0.0		0.0
Other intangible assets	0.6	(0.6)	0.0		0.0
Total Assets	353.3	(37.3)	316.0	(156.2)	159.8
Liabilities					
Deposits from other credit institutions	(127.2)		(127.2)		(127.2)
Deposits from customers	(236.1)		(236.1)	113.2	(122.9)
Liabilities, held for trading	(3.1)		(3.1)		(3.1)
Provisions	0.3		0.3		0.3
Subordinated debt	0.2		0.2		0.2
Other Creditors	(0.8)		(0.8)		(0.8)
Total Liabilities	(366.8)	0.0	(366.8)	113.2	(253.5)
Total Net Liabilities	(13.4)	(37.3)	(50.7)	(43.0)	(93.7)

Source: Management Information

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It is noted that the 30 April 2010 Balance Sheet post-dates the establishment of the FEI and therefore excludes all former AR Strategy related assets and liabilities of BPP Cayman, which were transferred to the FEI on 30 March 2010, with the exception of the AR Strategy customers' residual shortfall claims.

It should also be highlighted that the 30 April 2010 Balance Sheet does not reflect the potential liability relating to the Portuguese Republic Counter-Guarantee of €450 million which represents an additional potential liability secured over a large portion of the assets of BPP Cayman.

Sections 6.1.1 – 6.1.6 below discuss the more material balances contained in the 30 April 2010 balance sheet.

6.1.1. Cash Deposits

The JOLs understand that the cash deposit balances shown above are held with BPP SA, and as such are subject to the liquidation process of BPP SA. Given the insolvency of BPP SA it is likely the eventual return, if any, will be substantially below the book value of the deposits. At this stage, the JOLs have assumed nil return from the deposits for the purpose of determining the current financial position of BPP Cayman. However, the JOLs will clearly pursue any future recoveries from the BPP SA insolvency.

6.1.2. Loans to Customers

It is understood that many of the Loans to Customers comprise loans to investment companies which are owned or controlled by Privado Holding, the ultimate holding company of the BPP Group.

Further, the JOLs have been advised that the Loans to Customers assets may, in many cases, be potentially subject to the Counter-Guarantee and pledge. The loans are mainly in the form of overdrafts, and hence callable at any time; however, the JOLs understand that these balances are likely to be relatively illiquid given the apparent illiquidity of the underlying investment companies.

The substantial impairment of €36.7m against this category relates to a 100% write-down of loans to one specific related private equity investment company.

6.1.3. Financial Assets

The JOLs understand that these are principally securities held by BPP Cayman on a proprietary basis. The JOLs are currently working with BPP SA to identify and obtain control of these assets from the current custodian accounts. It is understood that while many of these assets are relatively illiquid, some may be capable of being realized in the relatively near term for the benefit of the liquidation estate.

6.1.4. Debtors

The debtor asset principally (i.e. >99%) comprises an intercompany receivable balance due from BPP SA. The JOLs have been informed that this receivable relates to the residual shortfall claims of BPP SA clients who were transferred into the FEI on 31 March 2010. Under the terms of the FEI, all depositors who agreed to participate were able to claim an amount equal to the shortfall between the assessed value of their Units in the FEI and their guaranteed deposit due. Originally BPP Cayman recognized a provision for all such shortfall claims, (including those for BPP SA and BPP Cayman), and the corresponding liability for such claims is included within Deposits from Customers. However, the BPP Cayman Directors subsequently noted that BPP SA shortfall claims do not represent liabilities of BPP Cayman. As such, an intercompany receivable was established between BPP Cayman and BPP SA.

In practice, it is likely that these BPP SA guarantee obligations would be directly due from BPP SA to the clients and hence there would be no involvement of BPP Cayman. Accordingly an intercompany adjustment has been made in Table 1 above to remove the contra balances.

6.1.5. Deposits from Other Credit Institutions

These deposits relate to intercompany amounts due to BPP SA in relation to sums advanced to BPP Cayman in order to fund BPP Cayman's operations.

6.1.6. Deposits from Customers

The JOLs understand that the majority of the deposits from customers, relate to residual shortfall claims by AR Strategy customers who chose to transfer their position into the FEI, but retain the right to claim for the shortfall between their FEI Unit value and their guaranteed deposit amount, as determined on creation of the FEI on 31 March 2010, As discussed above, this balance also includes BPP SA depositor shortfall claims, which have been reversed out in the adjustment column.

With regard to the remaining deposit balances, the JOLs understand that these relate to non-FEI depositors who, in many cases, may have collateral rights over other assets held in the custody of the Company.

6.2. Historical Financial Information

Establishing the historical financial position of the Company over the period leading up to insolvency will be critical in determining the actual point at which the Company became insolvent, for the purposes of examining historical transactions. As discussed above, the JOLs are currently in the process of agreeing a collaboration protocol with the Liquidation Commission of BPP SA, and on completion of this protocol the JOLs expect to be able to progress the analysis of historical financial information, including cashflows, payments to depositors and intercompany transactions.

7. Historical Transactions

7.1. Liquidators' Investigations

Liquidators are obliged to investigate the affairs of companies in liquidation and to scrutinize any historical transactions which may have potentially prejudiced stakeholders. When conducting these investigations, liquidators will principally focus upon the period during which the company was, or may have been, insolvent.

Accordingly, the JOLs have conducted preliminary investigations to identify the material transactions entered into by the Company and its parent, BPP SA, during the period leading up to the commencement of the Company's liquidation. At this initial stage of the liquidation the JOLs have not made any conclusions regarding the validity of the historical transactions. However, the JOLs have requested a large volume of background information pertaining to these transactions from BPP SA, and on receipt of this information will aim to determine the validity of these transactions as a matter of priority.

The following Sections 7.2 – 7.5 discuss some of the more material historical transactions which have been identified by the JOLs as meriting investigation.

7.2. €450m Refinancing

As discussed in Section 4.3 above, BPP SA received a refinancing loan of €450m from a syndicate of six Portuguese financial institutions in December 2008. The JOLs understand that, in broad terms, the rationale for the loan was to provide much needed liquidity and stabilize the position of the BPP Group in order to provide a platform for a restructuring process.

In providing this refinancing loan, the syndicate of banks was supported by a Republic Guarantee for the full amount of the loan by the Portuguese Republic. In the absence of this Republic Guarantee it is unlikely that the refinancing would have been possible. The JOLs understand that the EU Commission initially approved this Republic Guarantee on the basis that it was provided in order to provide a platform for attempts to effect a solvent restructuring of the BPP Group. However, the JOLs also understand that the EU Commission recently determined that, given no restructuring plan was actually presented, the Republic Guarantee had not supported a realistic effort to restructure and was also significantly underpriced with reference to market pricing of credit risk at that time.

Notwithstanding the EU Commissions determinations, the JOLs understand that the syndicate of banks has received settlement from the Portuguese Republic of the amount under the Republic Guarantee.

In its role of guarantor to the refinancing loan, the Portuguese Republic sought a counter-guarantee from BPP SA, which was provided on 5 December 2008 ('the Counter-guarantee'). The Counter-Guarantee was secured by a pledge of the assets of both BPP SA and BPP Cayman, with an estimated value at that time of €672m. The JOLs understand that this Counter-guarantee was entered into by the Board of BPP SA on behalf of both BPP SA and BPP Cayman.

The JOLs understand that the validity of this Counter-guarantee is currently subject to legal challenge in Portugal.

However, irrespective of the outcome of the Portuguese legal challenge, the JOLs will need to further investigate the rationale under which the Company purported to incur significant additional secured liabilities during a period in which it was apparently insolvent. In considering this rationale, the JOLs will focus on what net benefit the Company derived from participating in the transaction, including how the proceeds of the refinancing were expended, and what factors were considered at the time the transaction was entered into.

7.3. Depositor and Creditor Repayments

The JOLs understand that both during the period leading up to the BoP intervention, and in the period following the €450m refinancing, the liquid assets of the BPP Group were largely expended in creditor and depositor repayments.

The JOLs further understand that AR Strategy customer repayments were suspended for the period since December 2008 and other creditor and depositor repayments were only made where these payments were considered indispensable to safeguard clients and/or the BPP Group's capital under management.

While maintaining essential payments is not unusual during a period of restructuring, the JOLs are obliged to investigate all material payments, including intercompany transfers, made during the period of potential insolvency of the Company in order to determine whether there has been any prejudice to the remaining creditors. In investigating these payments, the rationale for each significant payment and the relationship of the recipient to the Company will be considered.

7.4. Establishment of the FEI & Transfer of FEI Liabilities

As noted above, the FEI was established under the supervision of both the BoP and CMVM in order to provide a stable platform for the realization of the AR Strategy assets, with all AR Strategy related assets and liabilities ring-fenced from the remainder of the BPP Group. Given the high level of customer participation in the FEI, there appears to have been wide support for the scheme.

Notwithstanding the above, the JOLs will still need to consider the impact of the FEI on the Company and also the process under which the FEI was established and approved by the Company.

Similarly, the JOLs will investigate the rationale for the transfer to BPP SA of Repo and Overdraft receivables due from the FEI to BPP Cayman.

8. Asset Management Role and Related Assets

8.1. Potential Custody Assets

A major element of the Company's banking activities was its asset management role. The JOLs have been approached by a number of customers of the Company with requests for transfers of assets, which the customers consider to have been held by the Company in a custodial capacity. The JOLs are in the process of examining these initial 'Custody' claims to determine the beneficial ownership of the assets and the appropriate resolution of the transfer requests. At this stage, principally due to incomplete documentation of the original transactions, the JOLs have been unable to conclude on these 'Custody' asset claims.

In considering such 'Custody' claims, the JOLs note the following:

- There are a large number of potential 'Custody Clients', approximately 322, and related assets valued at approximately €407m. These assets typically comprise equities, fixed income securities and investments in SIVs;
- Due to incomplete documentation of custody agreements and associated loans, pledges and set-off provisions, each 'Custody' asset will need to be reviewed on a case-by-case basis, often with the support of Portuguese and/or Cayman legal counsel; and
- The situation is further complicated by interaction with the parent company, BPP SA, as the JOLs are aware of a number of situations where cross-collateral and transfer of accounts and 'Custody' assets may impact on the beneficial ownership of 'Custody' assets.

The JOLs recognize the urgency of dealing with these assets, particularly given that many of the customers have been waiting for a prolonged period for resolution.

8.2. Protocol for Dealing with Potential Custody Assets

In order to review and, if appropriate, return these assets to clients the JOLs will require sight of all the related documentation. As noted earlier, the parent company, BPP SA, holds all of the Company's operational records. In light of the severe resource constraints on BPP SA, the JOLs intend to request that any client with a claim for custody assets also supports their claim with all relevant documentation, including any custody agreement, account opening documentation, recent account statements, loan agreements and related pledges.

This documentation will then be reviewed by the JOLs and their legal counsel and clients will be informed of the outcome of this review as soon as possible. The JOLs must caution that at this preliminary stage in the liquidation resolution of custody claims will take some time, particularly given the limited documentation and the consequential legal issues that are likely to arise.

8.3. Pre-emptive Cost Order

Given the importance of resolving custody asset claims, the JOLs recognize the need to devote considerable investigatory and legal resource to the matter. In order to do so, a practical arrangement for recovery of costs

must be put in place, particularly given that the unsecured creditors of the Company cannot reasonably be expected to finance the resolution of custody claims.

Accordingly, the JOLs intend to apply to the Grand Court of the Cayman Islands in order to obtain a pre-emptive cost order. If this order is granted, it will enable the JOLs to deduct reasonable legal and administrative expenses incurred in reviewing a custody claim from the realized value of those assets.

9. Conduct of Liquidation to Date

9.1. Statutory

Since their appointment the JOLs have completed the filings and notifications detailed below in respect of the Company:

- Notified the Registrar of Companies in the Cayman Islands of their appointment and filed a copy of the winding up order;
- Sent notice of their appointment for publication in the Cayman Island Gazette;
- Sent notice of their appointment and a copy of the winding up order to the directors of the Company;
- Sent notice of their appointment and a copy of the winding up order to the shareholder of the Company;
- Filed form 13 with the Grand Court in the Cayman Islands advising that the JOLs believe each of the Company to be insolvent;
- Filed form 28 with the Grand Court in the Cayman Islands advising that the currency of the liquidation will be Euros;
- Sent notice of their appointment, a copy of the winding up order and notice of the creditors meeting to all know creditors of the Company; and
- Advertised notice of their appointment and notice of the creditors meeting in 4 international newspaper's, being the Cayman Compass (circulated in the Cayman Islands), BVI Beacon (circulated in the British Virgin Islands), Correio da Manhã and Publico (both circulated in Portugal).

The JOLs have transferred the registered office from Close Trustees (Cayman) Limited, PO Box 1034, Harbour Place, 103 South Church Street, Grand Cayman, Cayman Islands to PwC Corporate Finance & Recovery (Cayman) Limited PO Box 258, Strathvale House, George Town, Grand Cayman KY1-1104, Cayman Islands. All of the books and records formerly held by Close Trustees (Cayman) Limited are now in the possession of the JOLs.

9.2. Legal Counsel

There are a number of legal issues that the JOLs are currently in the process of reviewing both in Portugal and in the Cayman Islands and as such they have engaged legal counsel in both jurisdictions, being Maples and Calder in the Cayman Islands and AAA Advogados in Portugal.

9.3. Bank Accounts

The JOLs have opened three bank accounts for the purposes of collecting and segregating potential trust monies and monies held on behalf of the Company.

9.4. Receipts and Payments

An analysis of receipts and payments from commencement of the liquidation to 12 August 2010 is set out below.

Receipts	USD	EURO
Funds held on behalf of BPP Cayman by Maples and Calder	52,124.20	-
Banif - Banco de Investimento, SA	-	610,557.45
Payments		
Maples and Calder fees	(52,124.20)	-
Net funds available	Nil	610,557.45

9.5. Fees incurred to date

The JOLs costs and disbursements for the period from 10 July 2010 to 31 July 2010 are summarized below. These costs are subject to the approval of any Liquidation Committee that is appointed as well as the Grand Court of the Cayman Islands

PwC Cayman	Hours	USD	*Euros
Director - JOL	15.90	9,222.00	7,192.24
Senior Manager	64.70	32,350.00	25,229.77
Senior Associate	65.60	19,024.00	14,836.82
Total	146.20	60,596.00	47,258.83

*PwC Cayman fees have been converted from USD to Euros at the exchange rate on 12 August 2010 (\$1: €0.77990), this exchange conversion will be subject to fluctuation depending on when the fees are approved and drawn by the JOLs.

PwC Portugal	Hours	EUROS
Partner	18	10,800.00
Manager	185	55,500.00
Corporate consultants	214	32,025.00
Total	417	98,325.00

10. Liquidation Committee

10.1. Role

The JOLs propose that a Liquidation Committee be formed at the creditors meeting. The role of Liquidation Committee will be to act as representatives for the general body of unsecured creditors. The JOLs intend to liaise with the Liquidation Committee regularly and intend to use the Liquidation Committee as a confidential sounding board regarding issues which may arise in the liquidation of the Company. One of the Liquidation Committee's functions will be to consider and, if appropriate, approve the JOLs fees prior to the JOLs obtaining court approval.

The Liquidation Committee must consist of between three and five creditors. Any creditor is eligible to be a member of the liquidation committee so long as he has lodged a proof of debt and the proof has not been wholly rejected. A corporate member of the liquidation committee must be represented by an individual who is duly authorized in writing.

Members of the liquidation committee will be asked to sign confidentiality undertakings as much of the information provided to them will be commercially sensitive and/or legally privileged and will not be made available to all creditors.

10.2. Constitution and voting

Should more than 5 nominations to sit on the liquidation committee be received by the JOLs, creditors will be asked to vote for the 5 representatives they wish to sit on the liquidation committee. Creditors' votes are weighted in proportion to the value of their claim.