



MEMO

Regarding the non-confidential version of the documents related to the resolution of Banco Popular

In order to be as transparent as possible, as previously communicated, the Single Resolution Board ('SRB') is publishing further documents related to the resolution of Banco Popular Español S.A. ('BPE') of 7 June 2017. As time has elapsed since the resolution action and noting that financial stability has been preserved in the meantime, the SRB is able to reconsider its initial stance and disclose additional information. This is also in line with the assessment of its review body (the SRB Appeal Panel) of 28 November 2017.

The SRB has decided to disclose most information in the relevant documents, however, some parts must remain confidential since they contain elements whose disclosure could 1) undermine the protection of public interests as regards the financial, monetary or economic policy of the Union by giving rise to financial instability, or 2) undermine the commercial interests of BPE and/or its purchaser, or 3) affect the still on-going valuation process which is carried out for the purpose of determining whether former shareholders or creditors of BPE would have received a better treatment under normal insolvency proceedings ('Valuation 3'). In order to identify these parts, it was necessary to hold consultations with all stakeholders concerned.

It must be recalled that the information contained in these documents relates to the point of resolution of BPE and may not reflect its current situation. Furthermore, it is important to emphasize that every resolution case is different and the assessment of whether, and when, confidential documents, or parts thereof, can be accessed by the public has to be made in accordance with the specific circumstances of each case.

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Public access is granted to non-confidential version of the following documents:

(I) **Decision on the marketing of BPE ('Marketing Decision')**

On Friday, 2 June 2017, the SRB had decided to request all information from BPE relating to the private sale process. As part of such process, BPE had already provided confidential information to potential buyers through a Virtual data room ('VDR'). Therefore, the SRB also requested the bank to stand ready to give access to the VDR to any potential purchasers identified by the resolution authority.

On 3 June 2017, following the receipt of information about the private sale process, the SRB decided, by means of the Marketing Decision, to instruct FROB, the Spanish national resolution authority, to initiate the marketing procedure in view of a potential resolution decision.

The Marketing Decision set out the terms and conditions under which the marketing procedure had to be conducted by FROB, as required by the applicable legal framework. It authorised FROB to approach the potential purchasers who had previously shown interest in the context of the private sale process and to design a fair, transparent, and competitive process for the purpose of obtaining the best possible price for the bank, taking into account the circumstances of the case.

Still on the same day, FROB instructed an independent advisor to approach the identified potential purchasers with a request to sign non-disclosure agreements ('NDAs'). This was done before any information with regard to BPE was shared in the context of the marketing procedure, in order to preserve strict confidentiality.

(II) **The Sale Process Letter**

The Sale Process Letter describes the terms, the process, the timeline, and the conditions for making a binding offer for the purchase of BPE. On 5 June 2017, the Sale Process Letter was provided by FROB to two of the five potential purchasers, i.e. Banco Santander and BBVA. In light of BPE's imminent failure, on 6 June 2017, an amended Sale Process Letter was provided to Banco Santander and BBVA, providing for the shortening of the bidding deadline and inviting them to submit a binding offer for the acquisition of BPE that same night.

Banco Santander was the only entity that submitted an offer. Based on this offer which constituted commercial terms for the sale of BPE, the SRB instructed FROB to exercise the power to write-down the existing shares of BPE and Additional Tier 1 instruments and to convert Tier 2 instruments into new shares of BPE, which were then sold to Banco Santander for €1.

(III) **The decision on the resolution of BPE ('Resolution Decision')**

The Resolution Decision was adopted in the early hours of 7 June 2017 by the SRB in its Executive Session. FROB and Banco de Portugal were involved in the decision-making process of the SRB and participated in the respective deliberations as member of the SRB's Executive Session. The Resolution Decision was then endorsed by the European Commission. By its Resolution Decision, the SRB instructed FROB to apply the 'sale of business tool', and accept the offer made by Banco Santander, following the exercise of the write-down and conversion power. On the same day, FROB implemented the Resolution Decision.

The Resolution Decision includes several important elements. In particular, the Resolution Decision establishes that the three conditions necessary to adopt the resolution scheme were satisfied. Furthermore, it reflects the analysis undertaken to

ensure that the resolution objectives at stake would be preserved, namely: (i) ensuring the continuity of critical functions performed by the bank, i.e. provision of deposit taking services, lending services to small and medium-sized companies, and payment and cash services; and (ii) avoiding significant adverse effects on financial stability.

Finally, the Resolution Decision elaborates on the selection of the resolution tool. In particular, it provides for the application of the sale of business tool in the form of transfer of shares to Banco Santander, following the exercise of the power to write-down and convert BPE's capital instruments.

The SRB is now publishing a non-confidential version of the Resolution Decision which includes further parts compared to the text published on 11 July 2017. Several parts of the Resolution Decision that derive from the ECB's failing or likely to fail assessment remain redacted, given that the ECB as originator of this information has objected to their disclosure.

(IV) **The Valuation Report prepared by the SRB ('Valuation 1 Report')**

The purpose of Valuation 1 Report was to inform the SRB's determination of whether BPE was failing or likely to fail. The Valuation 1 Report, which was finalized on 6 June 2017, was based on information that was available to the SRB as of 5 June 2017.

(V) **The Valuation Report of the independent expert ('Valuation 2 Report')**

As part of the preparation for potential resolution, the SRB hired Deloitte as independent expert. The purpose of the Valuation 2 Report was to inform the SRB's understanding of what may constitute commercial terms for selling the bank through the 'sale of business' tool. The Valuation 2 Report comprises three documents: the valuation report itself, its annexes, and an addendum which provides a preliminary assessment of the treatment that shareholders and creditors would have received if BPE would have been wound up under normal insolvency proceedings.

The assessment of the economic value of BPE's equity under the 'sale of business' resolution tool required a valuation of the business, assets, rights, and liabilities to be sold on commercial terms. That equity valuation resulted in a range between €1.3bn, in a best-case scenario, and €-8.2bn, in a worst case scenario, with Deloitte's best estimate being €-2.0bn. The economic valuation seeks to provide an estimate of the value which may be offered for the whole bank by a potential purchaser, following an open, fair, and competitive auction process.

Deloitte adopted a category-by-category approach by making adjustments to the book values of each class of assets and liabilities on BPE's balance sheet. For each category, Deloitte produced a valuation range and indicated its best estimates within these ranges. This was supplemented by an assessment of other sources of value adjustments, both positive and negative, in order to arrive at a range of reasonable estimates of the



disposal value of the whole bank. When performing its independent analysis, Deloitte had access to all the information in the VDR, which had also been provided to the potential buyers. The majority of information in the VDR represented data of 31 March 2017, which was therefore used as the valuation date. The valuation was conducted on a consolidated basis, as this was the basis on which the entity was intended to be sold.

In light of the rapidly deteriorating liquidity position of BPE, the Valuation 2 Report was prepared on a provisional basis, in accordance with Article 20(10) of Regulation (EU) No 806/2014, and must not be confused with Valuation 3, referred to in Article 20(16) of Regulation (EU) No 806/2014, which is the ex-post valuation carried out for the purpose of determining whether a shareholder or creditor would have received a better treatment under normal insolvency proceedings. The Valuation 3 Report is currently being prepared by Deloitte.

(VI) **The Banco Popular Group Resolution Plan of 2016**

Resolution plans are confidential documents which are drafted on an individual basis for banks and banking groups by the SRB and the national resolution authorities in the Banking Union. They outline, *inter alia*, the preferred resolution strategies in case of a crisis. However, the resolution strategy chosen in an actual crisis shall take into account the circumstances of the case at that point in time and, therefore, may deviate from the preferred strategy outlined in the resolution plan. It should also be noted that resolution planning is an on-going process and that the methodology to be applied for the preparation of such plans is evolving every year.