Deloitte.

Single Resolution Board

Project Hippocrates

Sale of Business scenario - Appendices

Madrid, 06 June 2017

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Provisional valuation

The preliminary adjustments identified bring equity to a negative position

The best estimate, amounting to ca. €3.8 bn, is less than 3% of total assets

Adjustments are not reflective of an accounting basis

Valuation outcome

Group balance sheet at 31 March 2017	€m	Adjustments Low	Adjustments High	Best estimate
Cash and cash balances at central banks	6,177			
Financial assets held for trading	2,259			
Financial assets designated at fair value through profit or loss	586			
Available-for-sale financial assets	13,219			
Loans and receivables:	94,480			
Deposits at credit institutions	3,213			
Loans and advances to other debtors	90,723	(2,704)	(6,962)	(3,542)
Performing loans	82,618			
Valuation adjustments for impairment- Performing	*(448)*	*(2,194)*	*(2,588)*	*(2,588)*
Non-performing loans	18,242			
Valuation adjustments for impairment Non-Performing	*(9,689)*	*(510)*	*(4,374)*	*(954)*
Fixed Income	544			
Held-to-maturity investments	7,360	(398)	(491)	(491)
Derivatives – Hedge accounting	248			
Fair value changes of the hedged items in portfolio hedge of interest rate risk	260			
Investments in subsidaries, joint ventures and associates	1,908	70	(561)	(256)
Assets under reinsurance and insurance contracts	18			
Tangible assets	2,229	(363)	(548)	(508)
Intangible assets	2,611	(2,199)	(2,606)	(2,202)
Tax assets	5,199	(2,881)	(2,966)	(2,681)
Non-current assets and disposal groups classified as held for sale	8,780	(2,056)	(2,619)	(2,338)
Other assets	1,780	(201)	(256)	(229)
Inventories	737	(201)	(256)	(229)
Rest of other assets	1,043	-	-	
Total assets	**147,114**			
Financial liabilities held for trading	1,553			
Financial liabilities designated at fair value through profit or loss	610			
Financial liabilities measured at amortised cost	131,199			
Liabilities of credit institutions	35,904			
Deposits from other creditors	78,885			
Debt certificates including bonds	13,121			
Subordinated liabilities	2,031			
Other financial liabilities	1,258			
Derivatives – Hedge accounting	1,046			
Liabilities under insurance and reinsurance contracts	470	[redacted]		
Provisions	449			
Tax liabilities	400			
Share capital repayable on demand	-			
Other liabilities	611			
Liabilities included in disposal groups classified as held for sale	-			
Net intersegments financing	-			
Total liabilities	**136,338**			
Capital, reserves and retained earnings	11,205			
Accumulated other comprehensive income	(304)			
Profit attributed to the controlling company	(137)			
Minority interests (non-controlling interests)	12			
Total equity	**10,776**			
Total equity and liabilities	**147,114**			

Assets at fair value

It includes real estate portfolio

Other key areas

Provisional valuation

Loans and receivables

Methodologies applied

Sale of Business

Valuation Methodology

A buyer considering the acquisition of a PL or NPL book will typically go through a due diligence and negotiation process that includes the following:

a) Analysis of detailed data tapes as at the cut-off date including a debtor tape, facility tape (including pricing details), account tape, collateral tape and guarantee tape

b) As above for the account tape as at various historic dates to allow derivation of prior default and cure rates

c) Detailed commercial and legal review of individual loan files

d) Conduct of sample collateral valuations (especially for NPL); often by multiple valuation firms

e) Analysis and negotiation of the sales & purchase agreement ("SPA")

In this instance, although a data tape has been provided to us (and prospective buyers):

a) The details contained therein are limited, e.g. no loan-by-loan pricing

b) No historic tapes provided

c) No commercial or legal DD is possible

d) Collateral valuations have been carried out only on a selection of REO assets

e) No SPA negotiations possible and, we assume, no recourse or protections (reps and warranties) are provided.

As a result, it is not possible to carry out a full Discounting Cash Flows (DCF) modelling approach to the book that would be supportable. Instead, with the data, the time available, and according to the article 2 of the *Draft regulatory technical standards on valuation for the purposes of resolution*, we have estimated: (i) a best case value; (ii) a worst case value and; (iii) a best estimate value. The approaches considered for each range valuation are:

1. **Worst case valuation**: For this valuation, we have followed a "bottom-up" Expected Loss (EL) approach for both PL and NPLs, taking the bank's underlying EAD, PD and LGD data and adjusting the parameters based on market benchmarks, Deloitte analysis and conservatism.
2. **Best case valuation**: For this valuation, we have considered: (i) the worst case valuation amended by the average LGD of the sector of PL for the Individuals-mortgage portfolio; (ii) a market comparison approach for NPLs where we utilise data on recent NPL transactions to provide an alternative "top-down" viewpoint of the price that market participants may be willing to pay.
3. **Best estimate valuation**: For this valuation, we have considered the worst case valuation amended by: (i) the average LGD of the sector of PL for the Individuals-mortgage portfolio and (ii) the LGD increased by 500 b.p. for the NPL Construction portfolio, considering the potential impact of replacing our collective methodology by an individual one

Provisional valuation

Loans and receivables

The NPL ratio as of 31 March is 14.91% with a coverage ratio of 51.4%

Overview

The book value of loans and receivables at 31 March 2017 was €90,723m disaggregated as follows:

Distribution of credit risk (DCR) by purpose of the contract

€m	Performing	Non Performing		Total Book value	Contingent Commitments	Guarantees
Construction and property development	4.083	8.844	A	12.927	439	69
Civil engineering construction	1.065	547	A	1.612	74	-
Large Corporates	8.739	1.062	A	9.802	1.946	421
SMEs and sole proprietors	27.546	6.004	A	33.551	2.416	373
Individuals - Mortgage	20.246	1.478	A	21.724	24	-
Individuals – Other collateral	133	22	A	155	5	7
Individuals - Other	2.068	284	A	2.352	65	11
Total - Spanish Private sector	**63.881**	**18.242**	B=ΣA	**82.123**	**4.969**	**881**
Other (1)			C	13.792	1.358 (2)	16
Subtotal Gross value			D=B+C	**95.915**	**6.327 (2)**	**897**
Repurchase agreements			E	4.945		
Total Gross value			F = D + E	**100.860**		
Valuation adjustments for impairment	-448	-9.689	G	-10.137		
Total			H = F + G	**90.723**		

[1]Others – subsidiaries, Public entities and other

[2]Without 31 March 2017 information, we have used as *proxy* the information at 31 December 2016

*Source: DRC, 31ST March 2017

Distribution of the portfolio:

Of the €90,73m, €82,12m correspond to the Spanish private sector, while the rest of the exposure corresponds to Repos, Subsidiaries and public sector. Of the Spanish private sector:

- 41% of the portfolio is SMEs counterparties, 26% is Individual Mortgages and 16% is Construction and property development.
- More than 35% of the portfolio is non collateralized
- Loan commitments and guarantees represent the 7% of book value.
- The interest rate of the loan portfolio is 2,44% based on the management information.

The distribution of the LTV is shown the following table:

	LTV					
DRC by purpose of the contract	**<80**	**80-100**	**>100**	**No collateral**	**Rest**	**TOTAL**
Construction and property development	5,369	2,080	3,604	1,725	149	12,927
Civil engineering construction	219	109	674	567	43	1,612
Large enterprises	672	582	1,592	6,631	326	9,802
SMEs and sole proprietors	9,422	3,147	4,132	16,562	323	33,551
Individuals - Mortgage	17,312	2,257	2,155	-	-	21,724
Individuals - Other collateral	34	48	74	-	-	155
Individuals - Other	259	51	59	1,490	493	2,353
Total	**33,287**	**8,274**	**12,290**	**26,939**	**1,334**	**82,123**

*Source: Information disclosed in the Virtual Data Room

Provisional valuation

Loans and receivables

Our approach to calculate the economic value is to estimate the Expected Credit Loss

Valuation Outcome

1 . Reconciliation of the Exposure (Data quality)

We have taken the DCR inventory and have disaggregated the amounts by contract. From more than 1 million contracts, 323 of them have incomplete information (necessary data missing). We have disaggregated the loan portfolio into two samples: (1) where we have the complete contract information required, we have been able to estimate the expected loss by contract and (2) where we have incomplete information, we have applied loan portfolio averages.

Distribution of credit risk (DCR)	Compl. Info[1]	Partial Info	Total	% cover.
Construction and property development	12,743	183	12,927	99%
Civil engineering construction	1,569	43	1,612	97%
Large Cororates	9,265	536	9,802	95%
SMEs and sole proprietors	33,037	513	33,551	98%
Individuals - Mortgage	21,724	0	21,724	100%
Individuals – Other collateral	152	4	155	98%
Individuals - Other	1,854	499	2,353	79%
Total – Private Sector – Business in Spain	**80,345**	**1,779**	**82,123**	**98%**

[1]Information considered completed for the purposes of expected loss analysis, except for the maturity date, explained below, critical in the estimation of PDs lifetime

2. Worst case valuation

As previously mentioned, we have followed an **Expected Loss approach** for both, performing and non performing portfolios.

In this sense, we have **estimated the related cash flows** of both portfolios on the basis of the continuation of the business.

According to the Article 8 of the EBA paper, in order to consider the counterparty´s ability, we estimate the expected loss of each loan:

Expected loss= EAD x PD x LGD

Being:

- Exposure at default (EAD): On balance exposure + (Off balance exposure x 50%)
- Probability of Default (PD): Lifetime probability of default on each operation
- Loss Given Default (LGD): Estimated severity of each contract, which corresponds to the estimated Loss Given Loss adjusted by a sectorial benchmark

The distribution of the exposure is as follows:

€m	Total	Stage 1	Forebone	>30 days	Watchlist	Non Performing
Construction and property development	12,743	2,437	720	8	761	8,817
Civil engineering construction	1,569	923	65	0	33	547
Large Corporates	9,265	7,763	161	1	283	1,056
SMEs and sole proprietors	33,037	23,043	2,055	50	1,867	6,021
Individuals - Mortgage	21,724	18,882	649	68	647	1,478
Individuals – Other collateral	152	122	4	0	4	21
Individuals - Other	1,854	1,336	123	5	113	276
Total – Private Sector – Business in Spain	**80,345**	**54,508**	**3,778**	**133**	**3,708**	**18,217**

2A. Exposure at Default

EAD includes the on Balance Sheet and part of the off Balance Sheet undrawn commitments.

The inventory received contains information on the contingent commitments and the guarantees. We have adjusted the amounts recorded in the Off balance sheet items (contingent commitments and guarantees) with a 50% Credit Conversion Factor (CCF). We have performed sensitivity analysis to consider alternatives for CCF. The difference if using 0% or 100% is ca. €696 m.

	A	B	C = A + 0,5 x B
Distribution of credit risk (DCR) by purpose of the contract	On Balance	Off Balance	EAD
Construction and property development	12,927	508	13,181
Civil engineering construction	1,612	74	1,649
Large enterprises	9,802	2,367	10,985
SMEs and sole proprietors	33,551	2,789	34,946
Individuals - Mortgage	21,724	25	21,737
Individuals – Other collateral	155	12	161
Individuals - Other	2,353	75	2,391
Total – Private Sector – Business in Spain	**82,123**	**5,850**	**85,050**

*Source: Deloitte Analysis.

Provisional valuation

Loans and receivables

The PD point-in-time data in the virtual data room is aligned with our internal benchmark

2B. Probability of default

The inventory on the virtual data room includes the probability of default for 12 months Point in Time (hereafter, "PD PiT").

i. We assess the "PD PiT" based on an internal benchmark from the banking industry.

ii. We then converted the "PD PiT" into a lifetime PD.

[redacted]

[redacted]

Provisional valuation

Loans and receivables

As a base case, we use a sectorial haircut proposed in the Circular 4/2016 by Bank of Spain to calculate the loss given default

[1]In case we had used the Real Estate valuations instead of the sectorial benchmark the deviations would have not been significant

In this process, the pulling effect has been applied to the corporate portfolio (where a corporate client has defaulted on one facility, with a risk exposure greater than €500, it is considered to have defaulted on all facilities).

2C. Loss Given Default

The data room contains two data tapes with collateral information.

- DCR Inventory – Collaterals inventory: "Detalle de garantías con tipología de garantías".
- DCR Inventory – Collaterals inventory: "CCIRT_garantías_DCR_marzo 2017"

We conducted a reconciliation of the guarantees of the inventory DCR, and adjusted the values of the appraisal information in the file "Detalle de garantías con tipología de garantías", to obtain the recovery value of each collateral in a hypothetical recovery process.

In order to calculate a LGD, we used the following formula:

LGD = LGL x (1-Cure rate), where:

LGL is "Loss Given Loss" representing the difference between the EAD and collateral recovery value

Cure rate is the probability of a loan "curing" from default to performing. We have use an internal benchmark as an estimate.

LGL information has been calculated from contract level information in the Virtual Data Room: EAD – [Appraisal Value x (1- *Haircut of Bank of Spain*)]

We used sectorial references proposed in the Circular 4/2016 by Bank of Spain. These percentages reflect: (i) the uncertainty associated to the latest available appraisal value, (ii) the uncertainty associated to the future evolution of the collateral (until the moment of its foreclosure and sell), (iii) foreclosure, maintenance, and selling costs in the recovering process.

We consider this benchmark is the best approach because of the methodology and knowledge of the national supervisor.

Our Real Estate department has developed an internal model using the information available in the VDR to validate the haircuts (see the specific part of this report). We considered that we had to make the following adjustment based on the lack of information about collaterals and their appraisal dates[1]

- We amended the LGD for Individual Mortgages of our Benchmark, as shown below
- We amended the LGD for Non Performing Construction and property development based on the result of the information of individual analysis provided by Hippocrates
- We compare the LGD of our approach with the internal benchmark of he LGDs from the banking industry.

[redacted]

Provisional valuation

Loans and receivables

Best case valuation

In our best case for Non Performing portfolio we have obtained a shortfall of allowances of €4,283m

[redacted]

[1]The LGDs for Performing Individual Mortgages were from 7% to 14%

Provisional valuation

Loans and receivables

We have made a proxy for the EL to the Branches based on PD and LGD average

4. Adjustment for other contracts

A. Contracts in the data tape with partial information (€1,779m)

We have considered the below estimates:

1. To the performing EAD, the average PD for performing contracts and the average LGD for all the contracts that have complete information in the DCR inventory of its portfolio (considering the worst case value estimation)
2. To the non-performing EAD, a PD of 100% and the average LGD for all the contracts that have complete information in the DCR inventory of its portfolio (considering the worst case estimation)

B. Contracts in "Other" - Branches, Public Administration and Others

In this section, information was not as granular as in the Spanish private sector business. We applied the following proxies:

Public Administration – €4,703m of available risk

We have considered as proxy the legal criteria set by the Bank of Spain for incurred losses (NIC 39). The Supervisory Authority categorises this segment as "Low Default", i.e. not having associated loss.

Although we understand that the new IFRS 9 will imply an increase in provisions, this will not change the calculations done here.

Branches // Others – €9,090m of risk available (Totalbank €1,974m, Hippocrates Portugal €6.288m , others €828m)

We have applied a proxy to the PD and the obtained average LGD (worst case estimation)

Provisional valuation

Loans and receivables

In our collective estimation we have obtained a shortfall of allowances of €2,704m in the worst case, €6,962m in the best case and €3,541m as our best estimation

[redacted]

Provisional valuation

Loans and receivables

Sources of uncertainty

1. A relevant number of registers (27% of the total) don't have due date information. We have used an average to approximate the corresponding portfolios.
2. The severity has been estimated considering: (i) industry cure rates and (ii) appraised value informed by the entity in the DCR inventory (with their value adjusted). In the DCR inventory, key concepts relevant to the estimation of future losses were not included in the file available (i.e. internal and external shared value between contracts).
3. The inventory given to calculate the adjustment of the recoverable value does not include information for the complete portfolio, for which we had to make an approximation to the missing data and we were not able to update the appraisal value of all the collaterals.
5. A collective methodology has been applied to the entity's credit portfolio. In our experience, the estimation of individual allowances for significant debtors could result in substantial differences.
6. Industry averages have been used to estimate variables (i.e. regulatory haircuts to obtain the collateral's recovery value) and we have been unable to discuss this with the entity's Management.
7. We have performed no analysis of: (i) Data Quality of the information used in our estimation; (ii) segmentation criteria applied by Hippocrates (financial assets / collateral)
8. Data on interest rates of the portfolios was not included in the database

Next steps

1. Obtain and understand the individual provisions that Management has determined.
2. Independently assess the level of individual provisions and recalculate the collective provisions.

Provisional valuation

Real Estate Assets

General Overview

Main differences between virtual data room and balance sheet structure lies in the classification of Investment Properties and Inventories.

Real Estate exposure breakdown per VDR structure

1 Classification (€m)	NBV Assumed	NBV Financial Statements	Dif(€m)
Foreclosed Assets	**10,897**	**10,897**	**-**
Non-current assets held for sale	**8,814**	**8,780**	**(34)**
Hippocrates Bank	*3,136*	*2,943*	*(193)*
Banco Pastor	*99*	*99*	*(0)*
Inv. Inm. Canvives	*1,842*	*1,923*	*81*
Aliseda	*2,898*	*2,971*	*73*
Hippocrates Portugal, S.A.	*576*	*576*	*(0)*
Other	*261*	*267*	*6*
Investment property	**1,380**	**1,380**	**(0)**
Hippocrates Bank	*546*	*546*	*(0)*
Banco Pastor	*14*	*14*	*0*
Inv. Inm. Canvives	*244*	*244*	*(0)*
Aliseda	*210*	*210*	*(0)*
Other	*366*	*366*	*-*
Inventories	**699**	**737**	**38**
Inv. Inm. Canvives	*191*	*212*	*21*
Aliseda	*362*	*408*	*46*
Other	*146*	*117*	*(29)*
Non Reconciled Difference	**4**	**-**	**(4)**
Tangible Assets	**849**	**849**	**-**
Buildings	**398**	**447**	**49**
Others	**289**	**188**	**(101)**
Furniture	**162**	**162**	**-**
Non Reconciled Difference	**-**	**52**	**52**
Total RE	**11,746**	**11,746**	**-**

Source: Information disclosed in the Virtual Data Room

Real Estate exposure breakdown per Balance sheet structure

2 Classification (€m)	NBV Assumed	NBV Financial Statements	Dif(€m)	
Non-current assets held for sale	**8,814**	**8,780**	**(34)**	i
Other Assets	**1,780**	**1,780**	**-**	
Inventories RE	*699*	*737*	*-*	ii
Other (1)	*1,081*	*1,043*	*-*	
Tangible Assets	**2,229**	**2,229**	**-**	iii
Investment property	*1,380*	*1,380*	*-*	
Own Use	*849*	*849*	*-*	
Non Reconciled Difference	**4**	**-**	**(4)**	
Total RE	**11,746**	**11,746**	**-**	i+ii+iii

Source: Information disclosed in the Virtual Data Room

(1) - Out of Real Estate analysis scope

General RE Assets Overview:

The Real Estate analysis has been conducted following the structure provide in the Virtual Data Room that matches with the structure of table 1. This has been reconciled to the financial statements to the left.

Real estate owned assets are in three different places on the balance sheet according to their nature:

- Non-current assets held for sale include foreclosed assets and should be held at fair value on the balance sheet.
- Tangible assets include investment properties and own use properties. Own use properties include branches and offices. Investment properties are properties held and managed with a rental income stream.
- Other assets include inventories which are properties held by subsidiaries that conduct real estate development as part of their core business and on consolidation are recorded in other assets in line with Bank of Spain rules. Note there is €1,043m of "other" in other assets.*

*Other assets were not assessed due to data and time limitations. As at 31 December 2016 the majority of the balance related to: accounts receivable from third parties (30%); cash in transit (20%), prepayments (19%), and pension scheme assets (18%).

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

The data tape covers 87% of NBV and has detailed information which we have reconciled to the financial statements information

Financial Statements Information (NBV)

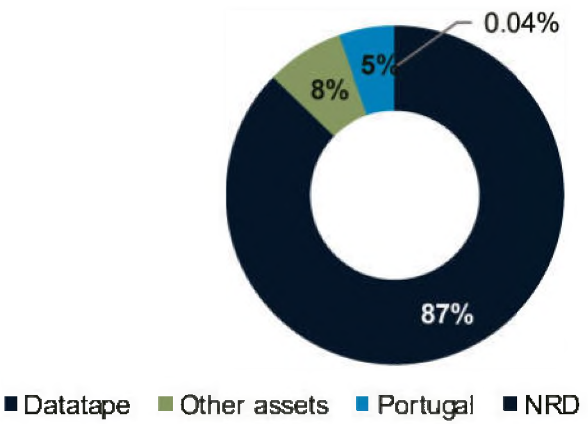
Financial Statements (€m)	Dec-16	Mar-17
Non-current assets held for sale	8,856	8,780
Investment property	1,350	1,380
Inventories	791	737
Total	**10,997**	**10,897**

Source: 31March 2017 and 31December 2016 Financial Statements

Datatape & other info PBC (NBV)

Datatape (€m)	Data Tape	
Non-current assets held for sale	8,018	
Investment property	933	
Inventories	556	
Total	**9,507**	i
Assets not- included in the Datatape (€m)	**Mar-17**	
Ajuste Ali SGI	11	
Ajustes consolidado	(18)	
Inv. Inmob. Bancos	83	
Mercancías	29	
Hercepopular	86	
Taler	206	
GAC 40	109	
Platja Amplaries	72	
Tiffany	6	
Deseados Pastor	215	
Gestoras Fondos Titulización	10	
Resto (Finespa)	0	
EEUU	0	
Total	**809**	ii
Portugal	**577**	iii
Non Reconciled Difference (NRD)	**4**	iv
Total	**10,897**	i+ii+iii+iv

Breakdown of sources of information



Overview:

The valuation work has been focused on the information provided in the data tape (VDR) (€9,507m). For the assets that we have not been provided with information, the valuation results have been extrapolated (€809m of assets not included in the data tape, €577m of assets located in Portugal and €4m of non reconciled difference).

- The data tape provided comprises a NBV of €9,507m, 87% of the total.
- 13% of the total NBV corresponds to properties owned by subsidiaries and other epigraphs related to this asset typology.
- Portugal represents 5% of the foreclosed assets NBV.
- €4.2m (0.04% of the total value) has not been reconciled.

The classification of the foreclosed assets not in the data tape has been extrapolated based on the characteristics in the data tape as follows

Assumptions	NBV	NCAHS	Invest. P.	Invent.
Ajuste Ali SGI	11	11	-	-
Ajustes consolidado	(18)	(18)	-	-
Inv. Inmob. Bancos	83	-	83	-
Mercancías	29	-	-	29
Hercepopular	86	53	30	2
Taler	206	35	171	-
GAC 40	109	17	92	-
Platja Amplaries	72	72	-	-
Tiffany	6	-	6	-
ISSOS	-	-	-	-
Deseados Pastor	215	41	62	112
Gestoras Fondos Titulización	10	9	1	-
Resto (Finespa)	0	-	0	-
EEUU	0	0	0	-
Total	**809**	**220**	**446**	**143**

NBV: Net Book Value
NCAH S: Non-Current Assets Held for Sale
Invest P.: Investment Property
Invent.: Inventories

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

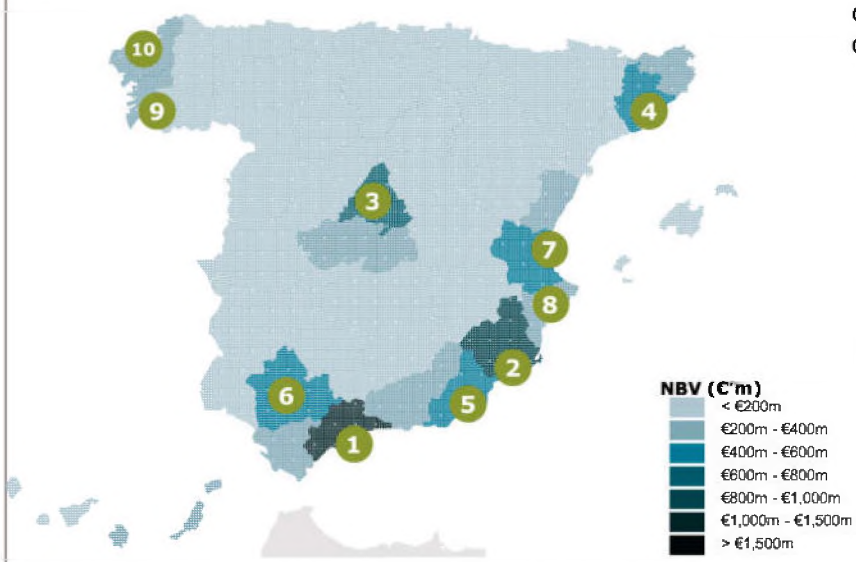
The bank Real Estate exposure is significant in areas impacted by the latest property bubble, possibly due to Banco Pastor branches network

REO distribution by location (number of units and €'m)

	Units	GBV	NBV	Appraisal Value
Málaga	*8,031*	1,579	1,015	1,355
Murcia	*5,766*	1,533	831	1,101
Madrid	*3,317*	1,313	789	1,013
Barcelona	*3,841*	821	517	685
Almeria	*5,097*	901	499	658
Sevilla	*3,729*	823	461	584
Valencia	*4,363*	732	428	572
Alicante	*3,707*	612	369	526
Pontevedra	*3,072*	494	355	466
A Coruña	*3,009*	516	351	471
Top 10 regions	***43,932***	***9,325***	***5,615***	***7,431***
Other regions	*36,562*	6,215	3,892	5,260
Total in datatape	***80,494***	***15,540***	***9,507***	***12,692***
Other REOs not included in datatape	*n.a.*	2,187	1,390	n.a.
Total	***n.a.***	**17,727**	**10,897**	**n.a.**

Source: Datatape provided in the VDR

REO distribution by location according to NBV



1. Málaga, 2. Murcia, 3. Madrid, 4. Barcelona, 5. Almeria, 6. Sevilla, 7. Valencia, 8. Alicante, 9. Pontevedra, 10. A Coruña

REO portfolio distribution by location

Top 10 regions account for 59% of total NBV included in the data tape and 52% of the total NVB of Foreclosed assets portfolio.

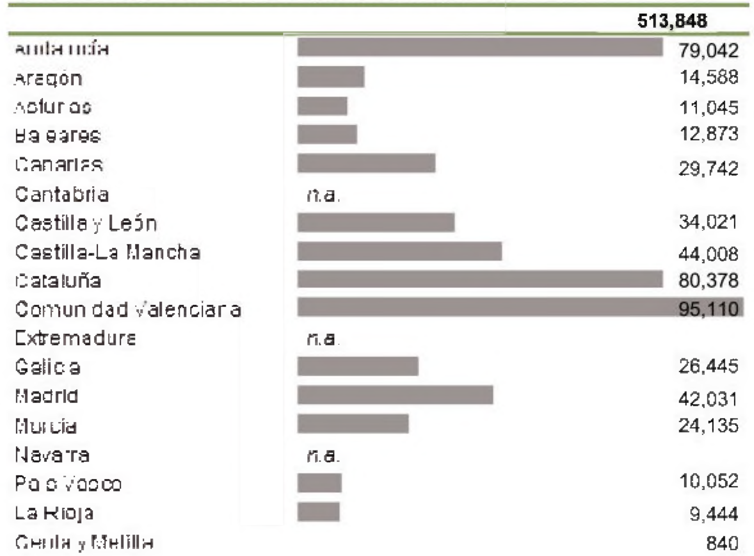
Top 5 regions (Malaga, Murcia, Madrid, Barcelona and Almeria) account for 23% of the total NVB within the data tape provided, amounting to €3,651m.

Regarding the southern regions of Spain it is important to highlight the high real estate exposure in these areas, which could be affected by the current oversupply of finished product and land.

According to public information Andalusia's region (including Málaga, Almeria and Sevilla) presents one of the highest stock of unsold residential units accounting for (79k units 2016), together with Murcia (24k units 2016). In terms of residential density Andalusia region presents 9.4 residential units / 1,000 inhab, while Murcia region accounts for 16.5 residential units / 1,000 inhab.

In this regard it is noteworthy to mention that Hippocrates REOs portfolio competes with a high volume of stock which could affect both finished product and lands which will have difficulties for development until the unsold stock is sold.

TOTAL unsold new residential housing stock (units) (2015)



Sources: INE and Ministerio de Fomento

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

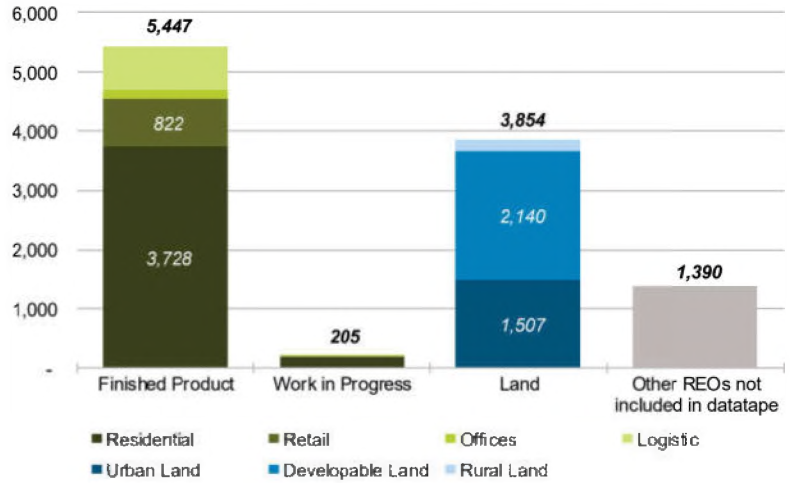
The relative size of the exposure to land is key to understanding the limited liquidity of the Real Estate portfolio

REO distribution by type of asset (number of units and €'m)

	Units	GBV	NBV	Appraisal Value
Residential	*50,665*	5,211	3,728	4,733
Retail	*5,473*	1,161	822	1,088
Offices	*1,041*	200	147	189
Logistic	*2,546*	961	750	1,010
Total Finished Product	***59,725***	***7,533***	***5,447***	***7,021***
Residential	*2,312*	293	193	251
Retail	*59*	7	5	7
Offices	*3*	7	4	6
Logistic	*29*	6	4	5
Total Work in Progress	***2,403***	***313***	***205***	***268***
Urban Land	*7,699*	2,808	1,507	2,139
Developable Land	*7,651*	4,497	2,140	2,970
Rural Land	*3,016*	389	207	294
Total Land	***18,366***	***7,694***	***3,854***	***5,403***
Total in datatape	***80,494***	***15,540***	***9,507***	***12,692***
Other REOs not included in datatape	*n.a.*	2,187	1,390	n.a.
Total	***n.a.***	**17,727**	**10,897**	**n.a.**

Source: Datatape provided in the VDR

REO distribution by type of asset according to NBV (€'m and %)



REO portfolio distribution by type of asset

REO portfolio distribution is mainly concentrated within finished product (€5,400m NVB and 60k units) and Land (€3,854m NVB and 18k units) accounting for the 98% of the total datatape provided and 85% of the total REO portfolio.

As previously mention, it is important to highlight, the high presence of residential assets both in finished product and work in progress products accounting for 41% of the total NBV, since the relevant presence of unsold residential properties stock in Spain can be decisive for the absorption of this type of assets.

Furthermore, it is important to note the significant percentage of Land assets accounting for 41% of the total NVB of the datatape, from which 25% of the total NBV is concentrated in Developable land and Rural land. According to the Spanish land regulation law, those aforementioned are considered in a very early stage which has an implicit risk and uncertainty of development in order to be urban land.

The smallest percentage is comprised within Work In Progress assets accounting for 18% of the total GBV of the REO's portfolio (2k units), in spite of comprising the lowest percentage among the total REO datatape provided it is important to mention that Work in Progress assets according to the Spanish market performance this type of assets present the lower liquidity and a loss of gradual value due to construction works stagnation.

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

Hippocrates has made provisions on land and finished product of 49,9% and 27,7%

The land typology haircut is 28% higher that finished product given its low liquidity

REO distribution by type of asset (€'m)

Type of Asset	GBV	NBV	Provision	Provision (%)	Appraisal Value	NBV vs Appraisal
Finished Product	7,533	5,447	2,086	27.7%	7,021	(22.4%)
Work in Progress	313	205	108	34.4%	268	(23.4%)
Land	7,694	3,854	3,840	49.9%	5,403	(28.7%)
Total in datatape	**15,540**	**9,507**	**6,033**	**38.8%**	**12,692**	**(25.1%)**
Other REOs not included in datatape	2,187	1,390	797	36.4%	n.a.	n.a.
Total	**17,727**	**10,897**	**6,830**	**38.5%**	**n.a.**	**n.a.**

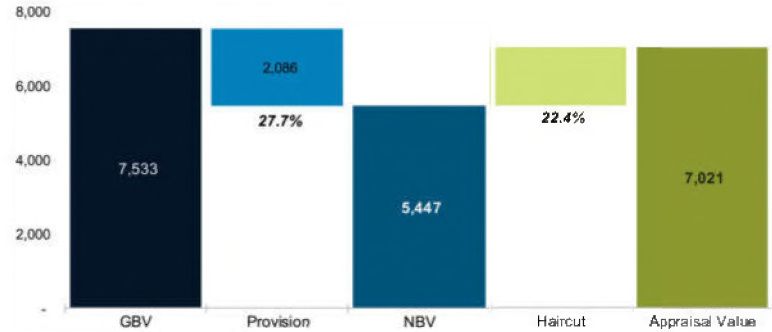
Source: Datatape provided in the VDR

Individual appraisal reports review (Bottum-up)

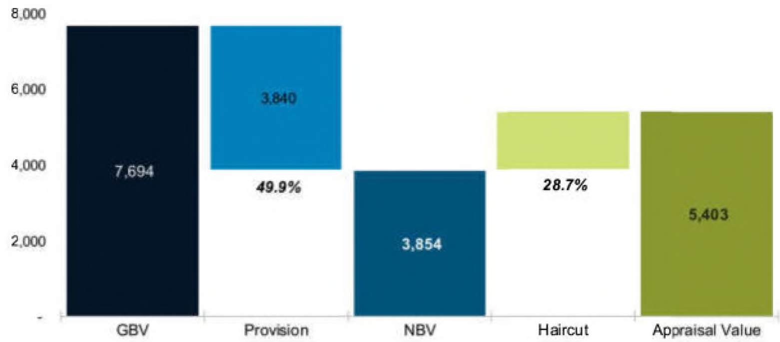
Total Bottom-up	**1,918**	**987**	**931**	**48.5%**	**1,366**	**(27.7%)**
% Bottom-up (1)	12.3%	10.4%	15.4%	125.0%	10.8%	n.a.

(1) - Over the information included in the datatape

Finished product (€'m)



Land (€'m)



REO portfolio distribution by type of asset

NBV is 25% below the total Appraisal value comprised within the datatape provided.

It is noteworthy the scarce difference of the appraisal value adjustment between the finished product and land assets.

As aforementioned, the low liquidity of land assets makes foreseeable the need for an additional provision in this typology.

It is also important to note that Work in Progress assets construction works have been stagnated for short medium term periods, having a significant impact on this type of assets liquidity, therefore additional provision is estimated.

Therefore an individualized in depth analysis will be required in order to provide an accurate value adjustment.

Currently, the individual appraisals reviewed represent 12.3% of the NBV provided in the data tape.

Note: Appraisal values are above the NBV, but as below sample testing has identified weaknesses and lack of consistency in the appraisals

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

Top Down vs Bottom Up approach

Top Down
(1st Output) Massive Valuation

Bottom-up
(Individual Contrast / Fine Tunning)
Asset by Asset Appraisal

Top – Down
(2nd Output) Massive Valuation

FINAL OUTPUT

Valuation approach

Consideration of valuation approach in line with the preferred resolution options of a bank sale:

Type	Basis of approach	Summary of approach
Non-current assets held for sale	Held at fair value on the balance sheet. They are likely to be non-core for any purchaser. Market sales prices is therefore been determined on the most appropriate valuation basis.	**Massive Valuation** Overall valuation method of the whole portfolio in order to correct the value of the last available appraisal value provided
Inventories (Other assets)	Held by subsidiaries as part of RE development business. Part of the non-core book of the Group and therefore market value considered appropriate.	**Individual valuation** Methodologies accomplished all the requirements and specifications recommended within the International Valuation Standard's (IVS) methodology regulated by RICS such as, DFC, Residual Method, Comparison Method, etc...
Investment Property (Tangible assets)	Properties held with a strategy of generating income. The most appropriate valuation on any basis may be a DCF approach. However considering that a purchaser may consider this to be non-core and take a similar market approach. Further no data was provided on the income stream for this RE	
Own use (Tangible assets)	Headquarters were valued using a market approach on the basis that a purchaser will not keep it.	
	Assets used in the course of business (eg. branches) so a disposal value would not be appropriate in the sale of the business. The book value (amortized cost) is also not likely to be appropriate. Therefore we used a comparable benchmark of offices and branches spaces.	**Alternative Valuation** This methodology determines an estimated market value of the branches portfolio through the application of an estimated average value of a retail units with similar characteristics of a bank branch.

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

Top Down vs Bottom Up approach

Top Down
(1st Output) Massive Valuation

Bottom-up
(Individual Contrast / Fine Tunning)
Asset by Asset Appraisal

Top – Down
(2nd Output) Massive Valuation

FINAL OUTPUT

Valuation approach

Our methodology has consisted of two valuation approaches :

Top-Down Approach – (Massive Valuation)

Top Down approach consists on an overall valuation method of the whole portfolio in order to correct the value of the last available appraisal value provided.

This methodology is based on a series of macroeconomic variables and the real estate market.

This approach provides an overall adjustment in accordance with market sales price of all the types of assets, sustainable average effort rates in a country (30% - 33% Spanish average income available per household).

Bottom-Up Approach (Individual Contrast / Fine Tunning)

This approach is a contrast conducted through the individual valuations (asset per asset) of a sample of real estate assets. In order to provide a consistent and accurate outcome.

This approach is based on:

Market approach: The comparison method provides an indication of value by comparing sales information of the properties with identical or similar assets with sales data available and recently sold.

Income approach: Dynamic residual method / Discounted Cash Flow / Rent Capitalization. This method is based on the principle of the residual value and the "higher and better use". This method is dynamic and takes into account the market situation, the volume of the development and the market forecasts in the surrounding area. In Dynamic Residual Method, the income approach is complete with the cost approach.

Cost approach: Replacement Costs: Gross / Depreciated. This method is based on the estimation of the costs if the Asset would be replaced to date by a similar one according to the same use.

Third parties valuation vs best market practice according to international valuation standards (IVS)

In general terms, the valuation methodology of REO assets conducted by third parties appraisers may not accomplish all the requirements and specifications recommended within the International Valuation Standard's (IVS) methodology.

IVS is considered as the best international practice for valuation due to its consistency and transparency regarding all valuation approaches and methods used.

	Valid / Not valid
1. Appraisal date	✓
2. Valuation Method used	✓
3. Compliance with ECO(*) rule	✗

* ECO Rule 805/2003 is mandatory for the whole Spanish banking system regarding Real Estate Loans and Real Estate reposesment.

Inconsistencies have been identified regarding the compliance with ECO rule for banks, specially concerning the valuation of town planning expectations and work in progress development status among others.

In this regard, the portfolio could be subject to an **impairment between 20-40% on the assets NBV.**

Therefore, an alternative and more accurate Real Estate Valuation approach should be conducted to contrast the adjusted value

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

The assumptions considered are consistent with the Spanish Real Estate momentum

The initial top-down analysis through the massive model was approximately in line to the NBV

The bottom-up samples tested to date show weaknesses in the appraisal reports, leading to refinements in the assumptions

Top-down assumptions considered:

In the Top-down valuation some assumptions have been considered.

Price per unit

Price per unit is sourced from "Sociedad de Tasación" (Real Estate appraisal company), by region.

Mortgage payment

To determine the mortgage payment we have considered the price per unit and the average household income per region source from INE (Instituto Nacional de Estadística).

Debt to Income Ratio (DTI)

Defined according to the generally accepted local market standards not only in Spain but also internationally (Source: CFA Institute).

Marketing Cost and Maintenance Cost

Defined according to the generally accepted local market standards.

Assets are managed by servicers companies (Aliseda). We note that the 6% marketing fee is above industry benchmarks.

Time to sale

It has been defined through a local benchmark of Spanish Financial Institutions.

Bottom-up approach:

For due diligence projects we would normally test appraisal reports covering 30 to 40% of the NBV, which for Hippocrates would represent about 300 samples.

To date, in the 5 day timeframe, we have sampled 60 appraisal reports. Based on the sample tested we have modified the industry benchmarks used, in particular the results about individual reviews has led to the following assumptions:

- DTI has been assumed at 30%, when market practices are between 30 to 33%.
- Discount rate we have assumed the range of 10 to 12%, where practice can range between 8 and 15%

Further sample testing may identify further changes.

General Assumptions

Concept	Max	Min
Long run Euribor	2,0%	2,0%
Spread	1,5%	1,5%
Additional Spread (CRE) (1)	2,3%	2,3%
LTV	80,0%	80,0%
Term (years)	30	30
DTI (Spanish average)	30,0%	30,0%
Discount Rate	10,0%	12,0%

Specific Assumptions

Type of asset	Marketing Costs (%) (1)	Maintenance Costs (%) (1)	Time to sale (yrs)
FP Residencial	3,0% - 6,0%	0,5% - 0,25%	4,3
FP Industrial	3,0% - 6,0%	0,5% - 0,25%	4,3
FP Local Comercial	3,0% - 6,0%	0,5% - 0,25%	2,3
FP Oficinas	3,0% - 6,0%	0,5% - 0,25%	2,3
WIP	3,0% - 6,0%	0,5% - 0,25%	7,3
Urban land	1,5% - 6,0%	0,5% - 0,25%	6,3
Developable land (sectorized)	1,5% - 6,0%	0,5% - 0,25%	7,3
Developable land (not sectorized)	1,5% - 6,0%	0,5% - 0,25%	8,3
Rustic land	1,5% - 6,0%	0,5% - 0,25%	9,3

FP - Finished Product WIP - Work in Progress

CRE – Commercial Real Estate

(1) - Range between market standards and Servicing aggremen

Provisional valuation

Real Estate Assets

Foreclosed Assets

REOs

There is a potential shortfall from €2,494 M to €3,192 M in foreclosed assets which is focused on land typology.

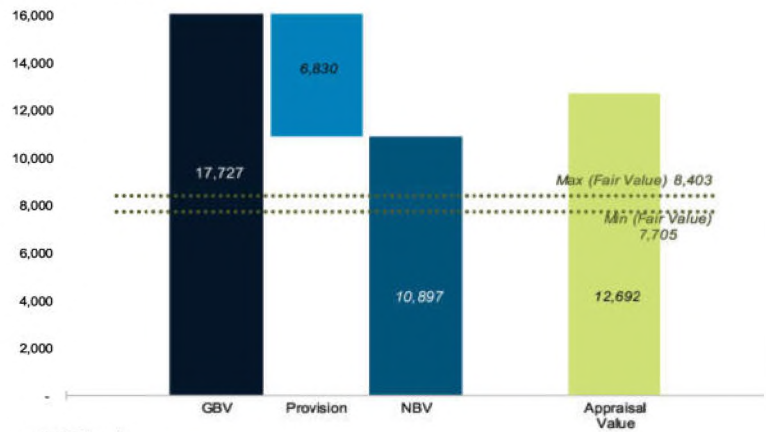
Valuation Outcome

Hold Value and Haircut distribution by type of asset (€'m)

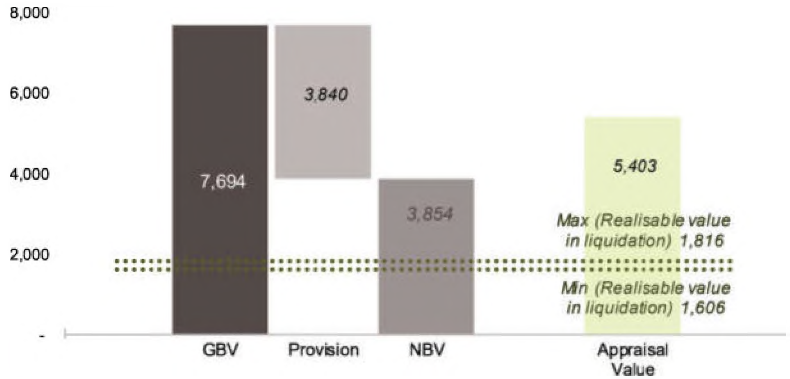
	GBV	NBV	Provision	Appraisal Value	Max (Fair Value)	Haircut over Appraisal Value (%)	Min (Fair Value)	Haircut over Appraisal Value (%)
Finished Product	7,533	5,447	2,086	7,021	4,731	(32.6%)	4,434	(36.8%)
Work in Progress	313	205	108	268	136	(49.3%)	120	(55.2%)
Land	7,694	3,854	3,840	5,403	2,464	(54.4%)	2,168	(59.9%)
Total in datatape	***15,540***	***9,507***	***6,033***	***12,692***	***7,331***	***(42.2%)***	***6,722***	***(47.0%)***
Other REOs not included in datatape	2,187	1,390	797	n.a.	n.a.	n.a.	n.a.	n.a.
Total	**17,727**	**10,897**	**6,830**	**n.a.**	**8,403**	**n.a.**	**7,705**	**n.a.**

Source: Datatape provided in the VDR

Value estimate(€'m)



Land (€'m)



Value estimate

Fair Value estimate implies a haircut between 42% and 47% over the Appraisal Value provided by the bank.

There is a potential shortfall from €2,494m to €3,192m in foreclosed assets, being our best estimate at the middle range.

Its remarkable that most of the appraisal reports were conducted by third party independent appraisers by the end of 2016. Therefore, there is no-issue with appraisal dates on a general basis and; consequently, the haircut estimated is not as relevant as initially expected.

Most of the inconsistencies identified were explained by the inadequate consideration of the ECO rule (which is mandatory for the Spanish banking sector).

Value estimate - Land

The haircut over the appraisal value provided ranges from 54% to 60%. The reason why this segment appears to be so overvalued is because most of the appraisal reports are not compliant with ECO rule as they overestimate the town planning development on a general basis.

Provisional valuation

Real Estate Assets

Tangible Assets

92% of the total NBV excluding furniture has been provided in the Virtual Data Room

Financial Statements Information (NBV)

Financial Statements (€m)	Mar-17	Dec-16
Buildings	409	398
Other	271	289
Subtotal	**680**	**687**
Furniture	163	162
Total	**843**	**849**

Source: 31 March 2017 and 31 December 2016 Financial Statements

Datatape & other info PBC (NBV)

Datatape (€m)		Dec-16	
Buildings		447	
Non-Branches	*209*		
WIP (1)	*238*		
Other		188	
Subtotal		**635**	i
Furniture		**162**	ii
Non Reconciled Difference (NRD) (2)		**52**	iii
Total		**849**	i+ii+iii

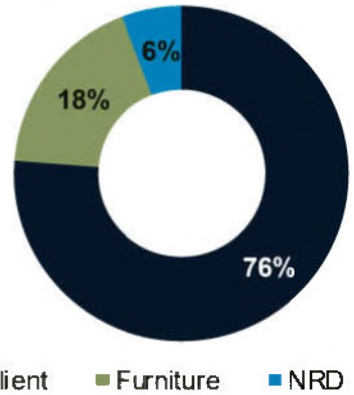
NBV - Net Book Value

PBC - Provided by Client

(1) - Infromation as of March 17

(2) - Including the time gap value differece of the WIP (march 17)

Breakdown of sources of information



Overview:

Due to the information provided is as of December 2016 the overview of this portfolio has been conducted considering the Financial Statements information as of this date.

The net book value of the only WIP included in the portfolio, Luca de Tena Building, is as of March 2017 so there is a difference between December information.

Tangible assets portfolio is composed by the epigraph Buildings, which comprises a WIP (Luca de Tena) and all the buildings of own use excluding branches. This epigraph represents the 47% of the total NBV.

The epigraph Others, with a representativeness of 34% of total in terms of NBV (as of December 2016) comprises mainly bank branches but the NBV of the assets included in the data tape provided does not match with the Financial Statements information. Portugal branches with a total NBV of €60 M seems to be included in this epigraph so in our analysis we have included this properties in this epigraph.

The conducted analysis includes only the described epigraphs, furniture is out of scope and no analysis has been conducted on that.

€52 M (0.04% of the total value) has not been reconciled. This figure includes the time gap value difference of the WIP wit information as of march 17.

Luca de Tena building, which is currently work in progress and Abelias building, has ben valuated independently using the IVSC methodology and obtaining information about surface areas and status thought public sources of information queries.

Provisional valuation

Real Estate Assets

Tangible Assets

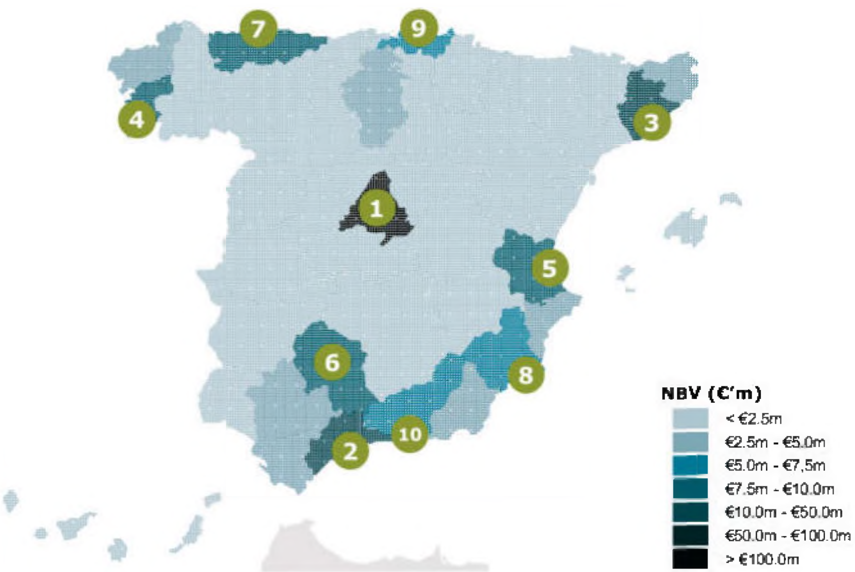
The majority of the NBV is in Madrid, driven by the HQ location

Tangible assets distribution by location (number of units and €'m)

	Total NBV	(% total)	Branches NBV	(%)	Buildings NBV	(%)
Madrid	440	76.5%	16	3.6%	424	96.4%
Málaga	12	2.0%	8	69.6%	4	30.4%
Barcelona	11	2.0%	11	100.0%	-	-
Pontevedra	10	1.7%	9	94.6%	1	5.4%
Valencia	8	1.4%	8	100.0%	-	-
Córdoba	8	1.4%	2	20.5%	7	79.5%
Asturias	8	1.3%	2	31.1%	5	68.9%
Murcia	7	1.2%	7	100.0%	-	-
Vizcaya	6	1.1%	6	100.0%	-	-
Granada	6	1.0%	1	10.8%	5	89.2%
Top 10 regions	**515**	**89.7%**	**71**	**13.7%**	**445**	**86.3%**
Other regions	59	10.3%	57	96.5%	2	3.5%
Total in datatape	**575**	**100.0%**	**128**	**22.3%**	**447**	**77.7%**

Source: Datatape provided in the VDR

REO distribution by location according to NBV



1. Málaga, 2. Murcia, 3. Madrid, 4. Barcelona, 5. Almeria, 6. Sevilla, 7. Valencia, 8. Alicante, 9. Pontevedra, 10. A Coruña

Tangible Assets portfolio

Top 10 locations by asset distribution account for 82% of the total NBV (€515m) comprising €71m which belong to Bank Branches NBV and €445m of buildings.

The own use portfolio distribution in terms of location is marked by the presence of the two most representative properties in Madrid. The WIP (Luca de Tena) with a NVB of €238m and Abelias building with €132m.

The geographical distribution of the branches is very regular so the regions with the highest volume of NBV generally allocates another type of property.

Provisional valuation

Real Estate Assets

Tangible Assets

The lack of information determines the methodology used for tangible assets

Valuation Approach

Due to the lack of information about tangible assets the valuation of this portfolio has been carried out through an alternative methodology. This methodology determines an estimated market value of the branches portfolio through the application of an estimated average value of a retail units with similar characteristics of a bank branch: an average weighted surface area around 250 sq.m and located in a secondary axis with a retail activity focus to cover the demand of the catchment area, to the bank branches included in the analysed perimeter.

The estimated average value of a retail units with the same characteristics of a bank branch ranges between 720,000€ to 254,000€ depending on the location and characteristics of the property.

Considering that a bank branches portfolio comprises an heterogeneous volume of units in terms of location and characteristics we have estimated a breakdown of the portfolio assuming that the 20% of the branches are included in the Cluster "A", 30% I the "B" and 50% in the "C", comprising the Cluster "A" the best properties, "B" the average ones and "C" the worst units in terms of location and characteristics.

The definition of the average bank branch, the breakdown of the portfolio terms of location and characteristics and the inputs assumed to determine de average property value have been defined through the analysis of a large number of branches inventory of the most representative Spanish financial institutions.

The lack of information about the surface area of the different units makes impossible the employment of the capitalization method, the applicable methodology fir this kind of properties, considering the potential estimated rental value of each property.

An individual approach has only been conducted on two properties due to the lack of information;

- Luca de Tena buildingm which is currently work in progress and
- Abelias building, where we had access to information

These assets have been valuated using the IVSC methodology and obtaining information about surface areas and status thought public sources of information queries.

Assumptions considered:

In the valuation conducted some assumptions have been considered:

- The estimated average value of a retail units with the same characteristics of a bank branch ranges between 720,000€ to 254,000€ depending on the location and characteristics of the property.
- Considering that a bank branches portfolio comprises an heterogeneous volume of units in terms of location and characteristics we have estimated a breakdown of the portfolio assuming that the 20% of the branches are included in the Cluster "A", 30% I the "B" and 50% in the "C", comprising the Cluster "A" the best properties, "B" the average ones and "C" the worst units in terms of location and characteristics.

Branches distribution hypothesis

Cluster	Distribution	Branches
A	20.0%	61
B	30.0%	90
C	50.0%	154
Total	**100.0%**	**305**

General Assumptions

Cluster	Concept	Max	Min
A	Surface area	250	250
	Market Rental Price (€/sqm/m)	18.0	16.0
	Average yield	7.5%	7.5%
	Estimated value	**720,000**	**640,000**
B	Surface area	225	225
	Market Rental Price (€/sqm/m)	15.0	12.0
	Average yield	8.0%	8.0%
	Estimated value	**506,250**	**405,000**
C	Surface area	200	200
	Market Rental Price (€/sqm/m)	11.0	9.0
	Average yield	8.5%	8.5%
	Estimated value	**310,588**	**254,118**

Provisional valuation

Real Estate Assets

Tangible Assets

The differences based on the methodology used a shortfall of between €126 M and €231 M, excluding consideration of furniture

Valuation Outcome

Tangible Assets (NBV)

€m	NBV (Dec-16)	NBV (March-17)	Max	Var (%) [1]	Min	Var (%) [2]
Others (Branches)	188	289	201	7%	168	(10%)
Spain	*128*	*n.a.*	*137*	*7%*	*115*	*(10%)*
Portugal	*60*	*n.a.*	*64*	*7%*	*53*	*(10%)*
Buildings	447	398	307	(31%)	236	(47%)
Non Branches	*77*	*n.a.*	*82*	*7%*	*69*	*(10%)*
Abelias	*132*	*n.a.*	*92*	*(30%)*	*67*	*(49%)*
WIP	*238*	*n.a.*	*133*	*(44%)*	*100*	*(58%)*
Subtotal	**635**	**687**	**509**	***(20%)***	**404**	***(36%)***
Furniture	163	162	162		162	
NRD	45	-	52		52	
Hold Value	**843**	**849**	**723**	**(15%)**	**618**	**(27%)**

(1) - Maximum value vs. march-17 NBV

(2) - Minimum value vs. march-17 NBV

Tangible assets NBV is concentrated within Bank Branches, Abelias building and Luca de Tena Headquarters accounting for 59% (€498m) of the total NBV value.

In order to determine an estimated market value a an alternative valuation methodology has been conducted, accounting for value decrease between -20% and -31%.

The is a shortfall between €126m and €231m, being our best estimate in the highest range of the shortfall.

Bank Branches account for €168m NBV 22% of the total tangible assets use.

Own use buildings account for €409m including finished, Abelias building and a WIP (Luca de Tena Headquarters).

The value of own use buildings has been obtained through the extrapolation of the result obtained in the valuation of the bank branches due to the scarcity of information necessary to be able conduct a valuation of this portfolio. Abelias and Luca de Tena buildings the valuation has been conducted following the indications of the IVS and obtaining the information from public sources.

Furniture does not correspond to a Real Estate asset typology therefore no valuation has been conducted.

€52m (0.04% of the total vale) has not been reconciled. This figure includes the time gap value difference of the WIP wit information as of march 17.

Provisional valuation

Real Estate Assets

Sources of Uncertainty

Foreclosed assets and tangible assets

Top – Down Approach

- ***Surface area (for tangible assets)***. Accuracy in terms of individual value is not quite accurate. The absence of information about the size and surface area distribution of the own use property made impossible the estimation of the applicable market value of each property. Nevertheless, there are no significant consequences in this methodology du to the estimation conduction based on similar banks commercial network.
- ***Accuracy in micro-location*** Accuracy in terms of micro-location is not quite accurate. Nevertheless, there are no significant consequences in this methodology.
- ***Accuracy in ECO appraisal reports*** *(local state valuation rules for Banks)*: The absence of ECO appraisal reports could be misleading.
- ***Accuracy in RICS valuation reports*** *(world's leading professional body for qualifications and standards in land, property, infrastructure and construction)*: The absence of RICS valuation reports could be misleading.

Bottom – Up Approach

- ***Sampling representativeness***:
  - 1. Foreclosed Assets: The sample accounts for 5,1% of total amount in the Gross Book Value and 6% of total amount in the Net Book Value. For this reason, the overall picture is limited.
  - 2. Tangible Assets: Due to the lack of information of valuation/appraisal report the individual valuation of a representative sample of properties could not be performed. Luca de Tena building (WIP) and Abelias building, has been valuated independently using the IVSC methodology.
- ***Accuracy in information provided:*** More information about every single asset should be required in order to challenge the third party valuation with accuracy.
  - 1. Foreclosed Assets:
    - ❖ A. Lack of appraisal reports of some properties.
    - ❖ B. Quality & Accuracy of the appraisal hypothesis considered in the appraisal report such as Town planning status, market comparable, quality research, etc.
  - 2. Tangible Assets: It has not been provided the Areas of every single property, which is key to determine the fair market value . Consequently, we have assumed market ratios of average areas per unit.
- **Site visits:** Fieldwork to confirm the information provided has not been conducted due to the tight project calendar restrictions.
- **Town Planning:** This valuation has been carried out on the assumption that the properties have all necessary licences for their current use and comply with all urban regulations and requirements. In the absence of information to the contrary, our valuation is on the basis that the properties are not affected by any proposals for road widening or Compulsory Purchase.

Provisional valuation

Real Estate Assets

General Outcome

The classification of investment properties on the balance sheet significantly increases the adjustment in tangible assets portfolio.

RE Valuation outcome (VDR structure)

1

Classification (€m)	NBV Financial Statements	NBV Assumed	Economic valuation Min Adjustment	Economic valuation Max Adjustment
Foreclosed Assets	**10,897**	**10,897**	**(2,494)**	**(3,192)**
Non-current assets held for sale	**8,814**	**8,780**	**(2,059)**	**(2,621)**
Hippocrates Bank	*3,136*	*2,943*	*(639)*	*(827)*
Banco Pastor	*99*	*99*	*(26)*	*(31)*
Inv. Inm. Canvives	*1,842*	*1,923*	*(550)*	*(675)*
Aliseda	*2,898*	*2,971*	*(697)*	*(887)*
Hippocrates Portugal, S.A.	*576*	*576*	*(134)*	*(171)*
Other	*261*	*267*	*(13)*	*(30)*
Investment property	**1,380**	**1,380**	**(237)**	**(317)**
Hippocrates Bank	*546*	*546*	*(100)*	*(131)*
Banco Pastor	*14*	*14*	*(2)*	*(3)*
Inv. Inm. Canvives	*244*	*244*	*(30)*	*(41)*
Aliseda	*210*	*210*	*(21)*	*(34)*
Other	*366*	*366*	*(85)*	*(108)*
Inventories	**699**	**737**	**(201)**	**(256)**
Inv. Inm. Canvives	*191*	*212*	*(52)*	*(68)*
Aliseda	*362*	*408*	*(76)*	*(107)*
Other	*146*	*117*	*(72)*	*(82)*
Non Reconciled Difference	*4*	*-*	*3*	*3*
Tangible Assets	**849**	**849**	**(126)**	**(231)**
Buildings	**398**	**447**	**(91)**	**(162)**
Others	**289**	**188**	**(88)**	**(121)**
Furniture	**162**	**162**	**-**	**-**
Non Reconciled Difference		**52**	**52**	**52**
Total RE	**11,746**	**11,746**	**(2,620)**	**(3,423)**

RE Valuation outcome (Balance sheet structure)

2

Classification (€m)	NBV Assumed	NBV Financial Statements	Economic valuation Min Adjustment	Economic valuation Max Adjustment	
Non-current assets held for sale	**8,814**	**8,780**	**(2,059)**	**(2,621)**	i
Other Assets	**1,780**	**1,780**	**(201)**	**(256)**	
Inventories RE	*699*	*737*	*(201)*	*(256)*	ii
Other [(1)]	*1,081*	*1,043*	*-*	*-*	
Tangible Assets	**2,229**	**2,229**	**(363)**	**(548)**	iii
Investment property	*1,380*	*1,380*	*(237)*	*(317)*	
Own Use	*849*	*849*	*(126)*	*(231)*	
Non Reconciled Difference	**4**	**-**	**(4)**	**(4)**	
Total RE	**11,746**	**11,746**	**(2,620)**	**(3,423)**	i+ii+iii

General RE Assets Outcome:

As a summary of the Real Estate Assets economic valuation a link between the outcome based on the VDR structure and the balance structure has been defined.

Main differences lies in:

In table 1 Tangible Assets concentrates a total adjustment between €126m ad €231m. In the 2[nd] table this caption also includes Investment properties so the potential adjustment ranges between €364m ad €548m.

More than 77% of the total adjustment has detected in Non-current assets held for sale due to the large volume of non-liquid assets such as lands in an initial stage of development.

Provisional valuation

Tax assets

Deferred Tax Assets at 31 March 2017 amount to €2,054m, of which €2,037m are protected DTAs

Overview:

Under IAS 12, deferred tax assets ("DTAs") represent the amount of tax recoverable in future periods arising out of deductible timing differences as well as the carry forward of unused tax losses. Likewise, deferred tax liabilities ("DTLs") represent the amount of income taxes payable in future periods in respect of taxable temporary differences:

- temporary differences are differences between the carrying amount of an asset or liability in the financial statements and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
- deductible temporary differences are defined as temporary differences that will result in an amount that is deductible in determining taxable profit (tax loss) for future periods when the carrying amount of the asset or liability is recovered or settled.
- taxable temporary differences are defined as temporary differences that will result in a taxable amount in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
- furthermore, some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences.

As stated by IAS 12, a DTA shall be recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference may be reversed. In this respect, companies adopting IFRS principles are required to test annually recorded DTAs in order to ensure their recognition in the Financial Statements in compliance with the requirement mentioned above (so-called *probability test*).

Tax assets booked in Hippocrates Group Financial Statements

According to the information included in the Financial Statements, Hippocrates Group has booked €5,199m of tax assets as set out in the following table:

Tax assets

€m	Mar-17	Dec-16
Current tax assets	145	176
Deferred tax assets	5,054	5,010
Total	**5,199**	**5,186**

Source: 31 December 2016 Financial Statements and Information disclosed in the Virtual Data Room

Deferred tax assets

€m	Mar-17	Dec-16
Deferred taxes recognised in equity	**292**	**312**
Adjustments for temporary differences	**3,067**	**3,056**
Bad debt provisions and foreclosed impairments	2,759	2,764
Of which: Protected/subject to monetization (1)	*1,965*	*1,965*
Pension funds and similar obligations	106	100
Of which: Protected / subject to monetization (1)	*72*	*72*
Impairment of investments and other funds	150	137
Accounting consolidation adjustments	45	45
Commissions, fees and financial expenses	2	2
Other deferred taxes	5	8
Tax-losses carryforwards (BINs) *(2)*	**1,695**	**1,642**
Total	**5,054**	**5,010**

Source: 31 December 2016 Financial Statements and information disclosed in the Virtual Data Room

(1): DTAs Protected amount to €2,037m, of which €2,029m are attributed to Hippocrates on a solo basis, and €8m to different banking subsidiaries.

(2): DTAs for Tax losses carry forward (BINs) amount to €1,695m, of which €854m correspond to Hippocrates (solo), €625m to other subsidiaries in the CIT Group and, €216m to subsidiaries outside the CIT consolidation Group. In addition, the Tax Group has not registered €84m of BINs from subsidiaries pre-consolidated.

Provisional valuation

Tax assets

Deferred Tax Liabilities as of 31 March 2017 amounts to €336m

Tax liabilities booked in Hippocrates Group Financial Statements

According to the information as of 31 March 2017, Hippocrates Group has booked €400m of tax liabilities as set out in the following table:

Tax liabilities

€m	Mar-17	Dec-16
Current tax liabilities	64	39
Deferred tax liabilities	336	358
Total	**400**	**397**

Source: 31 December 2016 Financial Statements and information disclosed in the Virtual Data Room

Deferred tax liabilities

€m	Mar-17	Dec-16
Deferred taxes recognised in equity	**144**	**172**
Adjustments for temporary differences	**192**	**186**
Tax operating lease	16	17
Goodwill	72	66
Amortization	19	19
Accounting consolidation adjustments	3	3
Real Estate NIC revalorizations	46	50
Other deferred taxes	36	31
Total	**336**	**358**

Source: 31 December 2016 Financial Statements and information disclosed in the Virtual Data Room

Valuation approach

Spanish regulations for Protected DTAs

As previously stated in the report, we have considered the sale of a business as the preferred resolution strategy. According to Basel 3/CRD IV, DTAs that rely on future profitability are deducted from the regulatory capital base of banking institutions. These rules have been phased in with effect from 1 January 2014.

Tax rule changes in Spain (through "Real Decreto-ley" 14/2013) mean that certain DTAs (bad debt provisions, impairment of repossessed real estate assets and contributions to welfare and early retirement schemes) could be reclassified as DTAs which do not rely on future profits. These DTAs are known as "Protected DTAs" and the effect of the tax rule change means that such protected DTAs now count towards the regulatory capital base of Hippocrates.

This legislation included amendments to the Corporate Income Tax (CIT) Act, making it possible to convert these DTAs into a tax credit against the Spanish Tax Authorities (STA), in case of (i) recognition of accounting losses, (ii) insolvency or (iii) liquidation process of the entity, since FY14.

The main tax measures introduced in the RDL 14/2013 are summarised below.

(i) Temporary allocation of non-deductible expenses.

With effect for tax periods from 1 January 2011, the following changes have been made:

- Temporary adjustments derived from the DTAs mentioned above, will be included in the CIT base, restricted to taxable profits prior to offsetting BINs. Such amounts are only deductible on a current year basis to reduce taxable income to nil for the tax periods between FY11 and FY13, and with limits of 25% of the tax base (FY14 onwards).
- Amounts not treated as deductible in a period due to the absence of sufficient taxable profits can be claimed in subsequent years subject to the same limits.

Provisional valuation

Tax assets

Spanish Tax Legislation provides that certain DTAs are subject to monetisation rules and do not rely on future profits.

Protected DTAs could be monetized under certain circumstances (i.e. accounting losses, insolvency or liquidation)

Otherwise protected DTAs can be recovered after 18 years from initial recognition

Hippocrates is in a process of monetising ca. €477 m of protected DTAs in July 2017

Spanish regulations for protected DTAs (cont.)

Considering that in FY12 Hippocrates had credited BINs, a reclassification from tax losses to Protected DTAs was made according to said rules.

Likewise, in the General Budget Law of 2016, new modifications came into force, differentiating between the DTAs generated up to 31 December 2015 and subsequently generated DTAs:

- DTAs generated from 2016: New DTAs are protected up to the limit of the CIT liability obtained in the period. Therefore, new DTAs could be considered as protected for the future as long as the entity had paid the CIT liability.

  Considering that Hippocrates Tax Group has obtained tax losses in 2016, the new (2016) DTAs would not be subject to monetisation and therefore they would not be protected. Nevertheless, part of these non protected DTAs could be converted into protected, provided that some CIT liability was paid in the following two years (for the part of this liability that was not used to monetise the new DTAs of the correspondent year).

- DTAs generated until 31 December 2015: In relation to Protected DTAs generated until 31 December 2015, they would be protected provided that Hippocrates files the formal option during the first 25 days of July 2017 (Tax Form 221).

  In addition to the option, an annual fee should be paid through the same Tax Form if the sum of the tax liabilities between FY2008 – 2015 was lower than the protected DTAs generated in the same period. If any, the annual fee would amount to 1.5% of the mentioned difference.

  Hippocrates has estimated that the 2016 annual fee would amount to approximately €20m (worst case would be €31m).

Finally, the file of the 221 Tax Form and the payment of the annual fee (in 2017 and onwards) is compulsory to maintain the DTAs affected (€2,037m) as protected.

In terms of economic valuation, we have not included the future potential liability derived from the annual fee payment as a consequence of the unknown profitability of Hippocrates (which affects the calculation base of this fee).

(ii) Conversion of DTAs into credits with the STA

For tax periods from 1 January 2014, the following changes have been made:

- The DTAs relating to bad debt accruals (accruals for credit risk and insolvency and loan impairment from unrelated parties), impairment of repossessed real estate assets and contributions to welfare and early retirement schemes, will be converted into a credit with the Spanish Tax Authorities, where any of the following conditions are met:
  - Recognition of accounting losses in the audited and approved accounts. The amount subject to conversion ("monetised") is a percentage of capital and reserves, with that percentage then applied to total DTAs.
  - The entity is liquidated or judicially declared insolvent.
  - Otherwise DTAs can be recovered after 18 years from initial recognition.
- If these conditions are met, the taxpayer may choose between: i) claiming a payment of the amount of the credit from the Tax Authorities, or ii) offsetting those credits against other tax liabilities.
- During FY16, Hippocrates has generated consolidated accounting losses, and a claim for conversion of part of the protected DTAs could be considered in July 2017. The preliminary estimate considered by Hippocrates is €477m.

Provisional valuation

Tax assets

Recoverability of non-protected DTAs will rely on future profits.

Spanish regulations for non-protected DTAs

- DTAs for Tax losses carry forward (BINs):
  - Recoverability of BINs generated in the Tax Group of Hippocrates will rely on future profits of its own Tax Group. There is 25% (of the taxable base) annual limitation for offsetting BINs.
  - Recoverability of BINs generated for each entity before its incorporation to the Tax Group will rely on future profits of the entity (solo basis) as well as future profits of the Tax Group.
  - In case of Hippocrates' sale to another Spanish Bank (under the assumption that the purchaser has constituted its own Tax Group), Hippocrates Tax Group would be included in the Tax Group of the purchaser as a tax sub-group. The recoverability of BINs generated in the Hippocrates' Tax Group will rely on future profits of its Tax sub-group, as well as future profits of the purchaser´s Tax Group.
  - In case of liquidation of Hippocrates, the individual BINs attributed to Hippocrates (the parent company) the will be lost. At this respect, as a consequence of the extinction of the Tax Group, the rest of the BINs would be allocated to the each subsidiary in function to its contribution to the tax losses credited by the Group. In this case the recoverability of the BINs will rely on future individual profits.
  - In case of transfer of a subsidiary of Hippocrates to third party, the entity will be excluded of the Tax Group and some of the BINs generated by the own entity in the Group would be attributed to this entity.
  - In case of transfer of financial assets or business units, the BINs would only be transferred provided that the existence of a branch of activity (provided that the tax neutrality regime is applicable) for CIT purposes in the transfer.
- DTAs for temporary differences:
  - The recoverability of these assets will depend on certain circumstances such as accounting provision reversal, expenses that change condition from non-deductible to deductible, etc..
  - In terms of valuation it would be reasonable to consider that the reversal of these temporary differences could convert into BINs. Therefore, we have assumed that the recoverability of the DTAs will rely on future profits in similar terms as described above.
  - Nevertheless, in terms of valuation it would be possible to offset these DTAs against DTLs derived from temporary differences.
- DTAs recognised in equity (e.g. Available for sale portfolio, pension schemes)
  - The recoverability of these assets will depend on the accounting recoverability of the underlying financial asset as a consequence of the valuation at fair value.
  - In addition, in case of transfer of the underlying assets assuming losses, these would have a tax impact, and BINs could be generated (only a tax deduction limitation arises in case of certain qualified equity portfolio).
  - Assuming that almost all of the DTAs recognised are not linked to portfolio, the recoverability of the DTAs will rely on future profits in similar terms as described above.
  - Nevertheless, in terms of our preliminary assessment it would be possible to offset these DTAs against DTLs recognised in equity.

Other aspects

- In terms of our preliminary assessment, we have not included any figure related to future taxes, duties with periodical accrual (Bank Levy, Local Taxes, etc.).

Provisional valuation

Tax assets

There is uncertainty about the recoverability of the majority of non-protected DTAs

Valuation outcome :

Valuation under sale of business (sale of Hippocrates's shares)

€m	Book ValueMar-17	Recoverability	Low Adjust.	High Adjust.	Comments
Current tax assets	**145**	Not reliant on future profits	-	-	
DTAs recognised in equity	**292**	Part is compensated with related DTLs	(148)	(148)	Would only consider the amount compensated with DTLs related to fixed income. Uncertain recoverability for the rest under 2017 facts (e.g. accounting losses).
DTAs - Adjustments for temporary differences	**3,067**				
Of which: Protected under Article 130 LIS	*2,037*	Not reliant on future profits	-	(285)	Subject to conversion into receivables against the Tax Authorities under certain circumstances. Two approaches in terms of value (Nominal vs Discounted)
Of which: Non Protected	*1,030*	Reliant on future profits	(838)	(838)	Would only consider the amount compensated with DTLs related to temporary differences. Uncertain recoverability for the rest under 2017 facts (e.g. accounting losses).
DTAs - Tax-loss carryforwards	**1,695**	Reliant on future profits	(1,695)	(1,695)	Uncertain recoverability under 2017 facts (e.g. accounting losses).
Total	**5,199**	**Total**	**(2,681)**	**(2,966)**	

Source: Information disclosed in the Virtual Data Room

- According to our valuation, we estimate a range of losses between €2,681m and €2,966m, being our best estimate €2,681m.
- The timing of recovery of the protected DTAs is uncertain and could take up to 18 years from recognition dependent on the continuing operation of the company and future performance. The purchasers could record at Book Value on the Balance Sheet (i.e. Protected DTAs are capital neutral).
- As a consequence of the facts arisen in the first quarter of 2017, mainly, the large amount of accounting losses recognised, as opposed with the Business Plan considered in the closing of 2016, uncertainty arises about the recoverability of the DTAs that rely on future profits (non-protected DTAs).
- Irrespective of the uncertainty mentioned for valuation purposes, note that for tax purposes the right of use of the mentioned DTAs will not be lost (no limitations in time for tax purposes).
- Part of the non-protected DTAs generated in 2016 could convert into protected, provided that a CIT liability was generated in the following two years (for the part of this liability that was not used to monetise the new DTAs of the correspondent year).

Provisional valuation

Tax assets

The recoverability of non-protected DTAs in case of acquisition of Hippocrates's shares by a Spanish bank would be uncertain (depending on both Business Plans, acquirer Tax Group plus Hippocrates)

If the purchaser is a foreign bank (already non established in Spain) the recoverability of the non protected DTAs would depend on the Hippocrates's Business Plan on "Stand Alone" basis

Valuation outcome :

Protected DTAs

- Certain aspects could be considered for the valuation, such as, the recoverability timing, the regulatory capital needs of the acquiring bank, etc.
- It could be reasonable a valuation at nominal on the basis that purchasers (Spanish or foreign banks) would record at Book Value on the Balance Sheet and are considered as RWA at 100% for regulatory capital purposes.
- Nevertheless, a purchaser could value at discounted cash flows. Therefore, we have adjusted in the best case value the difference between the nominal and the discounted value, calculated as the NPV of the nominal after 14 years (18 years from the recognition year i.e. 2012), with the rate of the Spanish Public Bond at 10 years.

Non protected DTAs

- The valuation of non protected DTAs could depend on the purchaser (Spanish / Foreign):
  - If the purchaser is a Spanish banking group, the recoverability and recognition in the Balance Sheet will depend on the Business Plan of Hippocrates's (on "Stand Alone") plus on the purchaser's Tax Group Business Plan.
  - However, if the purchaser is a foreign bank (still non established in Spain), the recoverability and recognition will depend on the Hippocrates "Stand Alone" Business Plan.
- In the scenario where the Tax Group of the purchaser (Spanish Bank) is generating significant positive taxable bases for CIT, after Hippocrates's acquisition, the recoverability of DTAs derived from temporary differences could be accelerated compared to "Stand Alone". In addition, assuming that the future tax quotas/liabilities of the Tax Group of the Spanish purchaser Bank (jointly with Hippocrates) could be higher than Hippocrates "Stand Alone", a major part of the non protected DTAs generated in 2016-17 (not yet integrated in the taxable base) could convert into protected.
- Note that in case of a potential merger between the Spanish purchaser Bank and Hippocrates after the acquisition, limitations for using non protected DTAs (for BINs) could arise.
- On the contrary, if the Tax Group of the Spanish purchaser Bank is generating tax losses, "Stand Alone" scenario (applicable to foreign purchaser Bank) could be more efficient in order to accelerate the recoverability of BINs.
- In addition, considering that non protected DTAs are deducted for regulatory capital purposes on a fully loaded basis, the purchasers (Spanish or foreign) could value them at discounted cash flow basis.
- As a result, there could be some value of the non protected DTAs to both Spanish bank and foreign bank purchaser. However, due to the regulatory capital treatment, we would expect to apply a discounted cash flow model for economic valuation and this would reduce the amount significantly. Given the extent of DTAs in the Spanish banking sector, the likely potential purchasers could expected to have significant tax credits to absorb losses for a number of years.
- Therefore, there is uncertainty about the value that potential purchasers could give for non protected DTAs.

Provisional valuation

Tax assets

Limitations and assumptions

Key uncertainties:

Limitations

- Our review of DTAs/DTLs registered in Hippocrates' Financial Statements has been limited to the public information available and the information disclosed in the virtual data room.
- We have not performed any independent verification of the facts and information available. We have assumed the accuracy and reliability of the information.
- Particularly, we would like to point out that the information disclosed in the virtual data room is not enough to carry out a proper and meaningful review of the accuracy of the amount of DTAs registered. The missing information has been requested but not yet provided.
- Our work is not equivalent to a tax audit or a tax due diligence, and may differ from a future specific tax audit or tax due diligence.
- In the course of a tax audit, the Tax Administration may hold a different view or interpretation of the facts and tax regulations than those taken by us during the course of our work.
- The analysis made in this interim report has been carried out based on the current laws, regulations and administrative and judicial interpretations.

Assumptions

- Due to time and documentation limitations, we have performed an analysis on a conceptual basis of the tax criteria carried out by Hippocrates for the calculation of the tax adjustments included in the taxable base of the Group which involve recording of DTAs (protected and non-protected) and DTLs.
- Such analysis has been performed based on information contained in the Financial Statements of Hippocrates and the tax forms provided through the virtual data room.
- Even though our work has been focused in; (i) the review of DTAs/DTLs registered in Hippocrates' Financial Statements through the CIT returns and partial supporting documentation of the tax adjustments made to the taxable base which derive in the recognition of deferred taxes and, (ii) the Tax criteria adopted by Hippocrates for calculating the CIT taxable base; we have not had access to the appropriate documentation to perform an adequate and meaningful review of the calculations carried out by Hippocrates for recognizing DTAs (protected and non-protected) and DTLs.
- Therefore, although the criteria adopted by Hippocrates for the recognition of protected and non-protected DTAs seems to be conceptually reasonable according to Spanish Tax Legislation, we have not had access to the supporting documentation for validating the amount registered.

Provisional valuation

Legal contingencies

Management have provided for floor clauses and mandatorily convertible notes

An industry theme of "mortgage loans expenses" was not provided for as at 31 March. An information was received on 29 May.

Legal contingencies associated with past capital increases have been rumored on the press, but no claims yet received

Provisions

€m	Mar-17	Dec-16
Pensions and other post employment defined benefit obligations	236	238
Pending legal issues and tax litigation	22	23
Commitments and guarantees given	125	196
Other provisions	66	78
Provisions Balance Sheet	**449**	**535**
Floor clauses (1)	490	511
Total	**939**	**1,046**

Source: 31March 2017 and 31December 2016 Financial Statements

Other provisior)

€m	Mar-17	Dec-16
Mandatorily Convertible Notes	17	17
Pending legal issues and tax litigation	11	11
Commitments and guarantees given	16	16
Restructuring and other provisions	22	34
Total Other provisions	**66**	**78**

Source: Information provided by the entity

Overview:

Floor clauses: Mortgage loan deeds in Spain used to include a minimum interest rate applicable regardless of the market interest rate. Currently, both Spanish Law and Case law consider that clause null an void and banks must restore undue amounts payed by customers.

Legal risk stems from: (i) court claims, (ii) pending judicial proceeding ([redacted] according to information provided by the Bank dated on 31st March 2017), and (iii) the foreseeable substantial increase of claims as a result of new legislation (Royal Decree-Law 1/2017, get in to force February 20th).

Mandatorily convertible notes:

Given the nature of this instrument, in terms of its financial complexity and selling practices, there have been many cases of misselling and remediation. Based on Hippocrates' sources, there are still [redacted] judicial proceedings pending, as of 31st March, 2017.

(1) Hippocrates records the provision fund for floor clauses under the caption "Loans and advances to customers" of the balance sheet.

(2) Spanish association of retail shareholders of listed companies.

Mortgage loans expenses:

Historically, on all mortgages, banks' customers were required to pay full notary feeds and other expenses related to the mortgage origination. Following the Supreme Court ruling of 23.012.15, customers have made claims against banks to reimburse a share of the mortgage loan expenses. This is a fairly recent area of conduct mediation and its outcome is still uncertain.

Capital Increases:

[redacted]

Other claims:

Based on the examples of banking nationalizations and the current financial stress situation a risk of claims regarding certain financial products emerges (structured notes, perpetual notes, subordinated liabilities, etc).

Valuation approach

We have conducted a valuation approach with regards to the preferred resolution strategy, being a sale of Hippocrates. This is a highly uncertain area and purchasers will have different risk appetite, which we have sought to consider by the use industry benchmark percentages of likelihood and amounts of loss.

Where Hippocrates has performed its own calculations, we have reviewed the data used for those, assessed the assumptions made by Management and considered adjustments, based on our experience, on:

- Floor clauses.
- Mandatorily convertible notes.
- Mortgage loans expenses.

For capital related contingencies, we have estimated best and worst case values based on illustrative percentages. The area of legal claims has inherit uncertainty, further data analysis is required on the customer complaint area and we recommend legal opinion is sought in likelihood of claims crystallising.

Provisional valuation

Legal contingencies

We have used a valuation approach that we understand is best practices across the industry and taken it as a proxy for what a purchaser might use

[redacted]

Floor clauses:

Management approach: Based on the report prepared by the head of legal affairs (*"CLAUSULAS SUELO resumen 14052017"*), Management has performed a detailed exercise. Based on three years' worth of experience, the Management has determined:

- The historic figure of total loans with floor clauses raises to € 9.210 M.
- Currently the total population loans with floor clauses raises to €1.213 M.
- €478 M have been excluded from the risk scope.
- €735 is the potential population claims.
- €375 M have been assessed to date.
- With €211 M will be accepted and paid.
- €69.3M will be rejected.
- €94.7 M have been considered out of scope.

Management has estimated 40% of future claims and extrapolated the same structure. According to this criteria Management will pay €296 M, and will reject pay €97 M and within this amount it is estimated a final economic impact of €24 M.

The exact calculation for the provision is not clear from the Virtual Data Room, but the overall provision of €490M equates to 67% of the remaining €735 M populations.

Deloitte approach:

[redacted]

[redacted]

Provisional valuation

Legal contingencies

We have estimated more prudent assumptions in the calculations of mandatorily convertible notes and mortgage loans expenses, resulting in a potential increase to liabilities

Mandatorily convertible notes:

Management approach:

The mandatorily convertible notes are a financial product that has caused a severe litigation impact on the bank in the recent years due to the high number of claims received by the retailers.

Based on the report prepared by the head of legal affairs, Management made a scoring to asses the eligibility of customers for compensation.

Based on this assessment, Hippocrates proposed an agreement to those customers considered eligible. Customers could either accept or reject the proposal or not respond to it. Management have provided for:

- Customers who agreed the proposal
- An amount for customers who have rejected the proposal

To determine the amount payable to each customer, management has used 80% loss over the face value on the basis of court rulings.

Deloitte's approach:

[redacted]

Mortgage loans expenses:

Management approach:

Hippocrates have not made a provision for mortgage loans expenses and initially informed that the number of claims is not relevant.

On 29th May, Hippocrates uploaded on the Virtual Data Room a report setting out their consideration of likely claims.

Deloitte approach:

[redacted]

Provisional valuation

Legal contingencies

Considerable uncertainty around the potential for claims and likelihood of pay-out,

[redacted]

Valuation approach:

Capital Increases

[redacted]

This is a scenario of considerable uncertainty where we recommend a full legal opinion on the ability of people to claim, probability of success and potential pay-out.

Provisional valuation

Legal contingencies

Based on the analysis performed, a range of outcomes has been estimated at [redacted] to [redacted], with a best estimate of [redacted]

Risk of misselling exists on the cases of resolution and liquidation

Valuation outcome:

€m	Provisions	Low Range	High Range
Floor clauses	[redacted]		
BSOCs			
Mortgaged loans expenses			
Cap Increases (2012 & 2016)			
TOTAL			

With regard to floor clauses and mortgage expenses we consider that the "best estimate" correspond to the average between our best and worst case value ranges since there is no other modulator criterion.

[redacted]

Therefore, our overall **best estimate is of** [redacted]

Sources of uncertainty:

No detailed information has been provided with regards the cases excluded from the management perimeter, neither legal grounds justifying their exclusion.

We have not information about volume of the expired mortgage loans. We have no detailed information about the notary costs of the mortgage loans.

We had not had access to detailed information concerning to economic influence of other litigations proceedings (Swap, Promotor bank guarantees, nullity of provisions, multi-currency loans, etc.).

We have not had access to detailed provisions associated to each type of litigations proceedings.

We have no information about the provisions regarding "pending legal issues and Tax litigation".

Due to time constrains and information available, pensions and other provisions have not been analyzed at this stage.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Hippocrates developed a strategy to establish a network of JVs and alliances by partially selling businesses and/or entering into long term agreements with a book value of €1,908 m as of 31 March 2017

Investment in joint ventures and associates

€m	mar-17	dec-16
Joint Ventures		
Wizink Bank, S.A.	785	772
Aliseda Servicios de Gestión Inmobiliaria, S.L.	142	132
Others	32	35
Total Joint Ventures	**959**	**938**
Associates		
Allianz Hippocrates, S.L.	403	397
Metrovacesa Suelo y Promoción, S.A.	110	110
Grupo Financiero Ve por Más S.A. de CV.	106	100
Targobank, S.A.	88	91
Compañía Española de Viviendas en Alquiler, S.A.	59	59
Euro Automatic Cash Entidad de Pago, S.L.	40	39
Aviación Intercontinental, A.I.E	28	28
Trindade Fundo de Investimento Imobiliario Fechado	20	21
Others	95	82
Total associates	**949**	**927**
Total investments	**1,908**	**1,865**

Overview:

Hippocrates holds a number of equity investments in other companies which mainly focus on credit cards, retail banking, insurance and real estate businesses.

- **Joint ventures** (JVs) are contractual agreements whereby two or more members undertake an economic activity that is subject to joint control, and in which both parties in joint control hold rights over the net assets thereof.
- **Associates** are investee companies in which Hippocrates exercises significant influence.
- **Subsidiaries** are companies controlled by Hippocrates and therefore consolidated at its financial statements.

Given time constraints, our analysis has been developed on a consolidated basis, focusing on JVs and Associates which are included in consolidated financial statements by equity method. This analysis has taken into consideration the scenario of sale of the whole bank to a local or foreign buyer.

Our analysis is limited given a lack of data, the present analysis covers joint ventures and associates representing 80% of total book value (in a different colour in the table of the left).

Recently, Hippocrates developed a strategy to establish a network of JVs and alliances by partially selling businesses and/or entering into long term agreements. The aim of this strategy was: (i) include specialists in those businesses to increase profitability, and (ii) obtain capital gains.

Joint Ventures

Wizink

Since December 2014, Hippocrates has held a 49% stake in Wizink, in partnership with Värde Partners. Wizink is specialised in the credit card business and comprises: (i) the former card business of Hippocrates in Spain and Portugal; (ii) Citi credit card business in Spain and; (iii) Barclaycard business in Spain and Portugal.

As of December 2016 (after Barclaycard integration in November) Wizink had €3,039m of loans and generated a ROE of 13.4% with 12.5% CET 1 and an 8.7% NPL ratio. Its contribution to Hippocrates' results in 2016 was €66m.

Aliseda Gestión Inmobiliaria

Hippocrates owns a 49% stake in this JV, while Värde Partners and Kennedy Wilson hold the remaining 51%. Aliseda is a servicer that manages the real estate business of Hippocrates. This JV is structured as a contract, with 10 years of initial duration, where Hippocrates' partners hold an option to sell back their stake at the end of this period or extend the contract for a further 5 years.

Aliseda's main figures in 2016 were €29.5bn of AuMs, €1.9bn of assets sales and €48m of net profit.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

We have focused our analysis on those subsidiaries with a potential bid offer, according to the information provided by Hippocrates

Others

Given the time constraints and insufficient information available, we have been unable to analyse the JVs in the 'Others' line, although we consider that these JVs would not have a material impact on value.

Associates

Given the limited data available, we have only been able to analyse the below associates. Subject to further time and information, we would extend our analysis.

Allianz Hippocrates

Allianz Hippocrates is a holding of three companies: a life insurance business and two asset management companies (pension and mutual funds), in which Allianz Hippocrates and Hippocrates have a 60% and 40% stake, respectively.

As of December 2016, life insurance premiums were €468m and mutual and investment funds were €5,446m and €10,991m, respectively.

Grupo Financiero Ve por Mas

Ve por Mas is a financial group in Mexico in which Hippocrates has a 25% stake.

Targobank

Targobank was a retail bank established in 2010 as a joint venture between Credit Mutuel and Hippocrates (50% each). In March 2016 Credit Mutuel acquired a further 1.02%, bringing Hippocrates stake to 48.98%.

On June 1st Hippocrates announced the sale of its remaining stake to Credit Mutuel.

As of December 2016, Targobank had 125 branches, €2,228m loans and contributed with net losses to Hippocrates Group.

Subsidiaries

Our analysis has focused on the consolidated Hippocrates' group considering the subsidiaries that are currently subject to a sale process which may give rise to a capital gain.

We have also been limited by time and information received. A further analysis of Hippocrates Group's subsidiaries may be undertaken at a later phase and further capital gains or losses may be identified.

Hippocrates Private Banking

The business of Hippocrates Private Banking, focused on high net worth individuals, is among the top Spanish Private Banking entities, with ca. €7,000m of assets under management. It offers the full range of private banking products through its network of 31 branches and 180 employees.

The company was established in 2001 as a 60%-40% joint venture with Dexia Banque Internationale à Luxembourg. Latest available main financials are as follows:

Hippocrates Private Banking

In EURm	2015	2016
Assets under management	**7,676**	**7,044**
Net interest margin	5	7
Net fees & commissions	22	21
Net profit	**8**	**1**

Totalbank

TotalBank is an integrated retail commercial bank with activities in South Florida and headquartered in Miami. It offers a broad range of domestic and international financial services to corporations, small businesses, and individual consumers through its network of 16 offices and ca. 300 employees.

Totalbank was acquired in July 2007 for a total cash consideration of $300m (€220m based on 0.73 €/$ exchange rate as of 10 July 2007), which implied multiples of 3.5x PBV and 17.7x PE.

Latest available main financials are as follows:

Totalbank

In USDm	1Q2016	1Q2017
Assets	**2,869**	**2,968**
Loans to customers	2,013	2,092
Customer deposits	2,043	2,133
Shareholders' equity	**463**	**484**

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Hippocrates developed a strategy to establish a network of JVs and alliances by partially selling businesses and/or entering into long term agreements with specialist partners

Joint Ventures and Alliances

There are several joint venture agreements which include change of control or resolution clauses. In these cases, Hippocrates could be forced to acquire the stake of its partners at a price established in the agreements.

JVs agreements are as follows:

- JV Agreement in respect of Aliseda Servicios de Gestión Inmobiliaria, S.L., in which Hippocrates has a 49% stake (being Värde Partners and Kennedy Wilson the other shareholders) entered into between Hippocrates, Samana SHL Sàrl and Aliseda Servicios de Gestión Inmobiliaria, S.L. on 27 December 2013.
- JV Agreement in respect of Allianz Hippocrates, in which Hippocrates has a 40% stake (being Allianz the other shareholder) entered into between Hippocrates, AGF RAS Holding BV and Sonata Ahorro y Seguro, S.L. on 23 March 2011.
- JV Agreement in respect of Euro Automatic Cash Entidad de Pago, S.L., in which Hippocrates has a 49% stake (being Credit Mutuel the other shareholder) between Hippocrates and Euro-Information.
- JV Agreement in respect of Grupo Financiero Ve por Más S.A. de C.V., in which Hippocrates has a 25% stake; agreement executed between Hippocrates, the controlling shareholders of Grupo Financiero Ve por Más S.A. de C.V. and Grupo Financiero Ve por Más S.A. de C.V. on 11 December 2013.
- JV Agreement in respect of Targobank, S.A., in which Hippocrates has a 49% stake (being Credit Mutuel the other shareholder), entered into between Hippocrates, Hippocrates Hipotecario, S.A. and Banque Fédérative du Crédit Mutuel, S.A. on 28 October 2010.
- JV Agreement in respect of WiZink Bank, S.A., in which Hippocrates has a 49% stake (being Värde Partners the other shareholder) entered into between Hippocrates, Aneto Sàrl and Hippocrates-e, S.A. on 18 December 2014 (the WiZink JV Agreement);

Additionally, Hippocrates has entered into a number of alliance agreements which do not include any ownership rights, nevertheless include similar change of control or resolution clauses which, if exercised, could result in potential penalties for Hippocrates.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Valuation has considered the scenario of the Hippocrates' whole sale to a Spanish or foreign bank

Due to time constraints and limited information, we have relied on the market approach to value the JVs, associates and subsidiaries

The fair value of Wizink would imply a capital gain between €48m and €376m in the consolidated financial statements

Valuation approach:

We considered and evaluated each of the three traditional valuation approaches to value the joint ventures, associates and subsidiaries: the income approach, the market approach and the asset approach.

Due to time constraints and limited information, and in the context of the sale of the whole bank as preferred resolution strategy, we have performed our work using the market value approach. We would wish to provide a cross check using other methods but without a business plan it has not been possible.

Within the market approach, we applied the guideline public company method, which employs multiples derived from market prices of stocks of companies engaged in the same or similar lines of business as Hippocrates' investees, and which are actively traded on a free and open market. Within the market approach, we also have used the guideline transaction method, which relies on market multiples derived from transactions of significant interest in companies engaged in the same or similar lines of business.

In addition, we have considered other references as put/call agreements, cost or book value.

Our analysis has taken into consideration the definition of fair value as *"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"*.

Valuation outcome:

Individual valuation approaches for a selection of joint ventures and associates and subsidiaries are as follows:

Joint ventures and associates

Wizink Bank

Our valuation range for 49% stake (€0.8 – €1.2bn) has been driven by multiples implied in the two 2015 transactions relating to Wizink:

- Hippocrates-e's (Wizink's former name) acquisition of Citibank credit card business in Spain (2.96x P/TBV).
- Hippocrates-e's 51% sale of Wizink to Värde Partners (4.13x P/TBV).

These are the most recent and comparable transactions to date. These transactions appear consistent with publically available information.

Based on information provided to us by the Deputy Secretary Technical General of Hippocrates the range of value was €2.3 – €2.6bn. This implies a 49% equity between €1.1 – €1.3bn.

Based on the above, Hippocrates has estimated an internal value of €2.0bn and the range of equity research reports is €1.5 – 2.5 bn. We consider our range of value as a good proxy of value as it is aligned with the references before mentioned.

A capital gain may be between €61m and €389m in the consolidated financial statements.

There are certain risks that could impact in the valuation of Wizink: (i) potential regulatory changes introducing limits to maximum interest rates; and (ii) the impact of the Payment Services Directive 2 (PSD2), which decreases the barriers to entry the payment services industry.

Time constraints and the non-availability of a business plan challenge the assessment of the cap in the interest' rates. This could affect our conclusions.

Aliseda Servicios Inmobiliarios

In the context of Sunrise transaction (which has not been completed), Hippocrates agreed a call option with Värde and Kennedy Wilson, by which Hippocrates has the right to acquire the 51% stake for a total consideration of €180m.

Such agreement has been established as the higher end of our range and would value 100% of Aliseda at €353m.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Considering the call option agreed with Värde and Kennedy Wilson, the stake of Hippocrates in Aliseda would be €173m

The value of Allianz Hippocrates would be comprised by current portfolio and future business, which depends on the future of Hippocrates and on the interest of the potential buyer in joining Allianz alliance

Hippocrates announced the sale of Targobank for €65m on June 1st

This value is also aligned with analyst reports according to press release of Expansion (April 8th).

The minimum range has been established based on the 2016 Aliseda book value in the consolidated annual report. The potential sale of Hippocrates' 49% stake in Aliseda would be worth €142m, however as discussed previously a sale at this price would have no capital gain.

Allianz Hippocrates

Evaluation of Allianz is a complex exercise because we have to consider the following issues:

- The unique business and operations and current shareholders involved in the joint venture agreement, the potential buyer of this investee is almost limited to Allianz.
- The value of Allianz Hippocrates would comprise: (i) current portfolio and; (ii) future business, which depends on the future of Hippocrates.

We have estimated that, in the context of a potential sale, the highest price would be in line with the book value. The value has been estimated applying a multiple of comparable companies considering percentile 25% for the minimum value. This value implies a 30% haircut to the book value. The value has been between €276 – €403m.

The value of this asset in a potential transaction could be significantly different depending if the buyer could be interested in joining Allianz alliance or needs to break it.

A deeper and more detailed analysis would need embedded value reports for the life insurance business and detailed information regarding asset management business.

Grupo Financiero Ve por más (BX+)

Analysts' midpoint valuation of BX+ has been established as our worst case value with an implied P/BV of 2.0x which implies a value for the equity stake of €129m.

According to information reviewed, the investment agreement includes a put option for Hippocrates at 2.15x BV (exercisable in 2019). It has been considered as our highest value (€139m). This value is calculated considering 2016 BX+ BV and we have not discounted it assuming both effects could be offset.

Targobank

On June 1st, Hippocrates announced the sale of its stake in Targobank for a consideration of €65m. This is the price that we have considered for our valuation, which implies a capital loss of €23m.

Subsidiaries

Considering our consolidated basis approach, a valuation of subsidiaries have not been performed. As set out previously, we have only considered the subsidiaries which we understand Hippocrates might have capital gain, being Totalbank, Hippocrates Private Banking and Hippocrates Financial Services (offers, market references or completed transaction prices). In these cases we have calculated the capital gain relating to the operations considering consolidated book value and we have to point out that theses capital gains could differ from those that had been obtained if a comprehensive valuation exercise is undertaken on an entity basis.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Where available, offers submitted for some of the joint ventures and associates have been considered in this evaluation

Subsidiaries (cont.)

Totalbank

Hippocrates' Management confirmed us that on May 18th the Board of Directors approved a binding offer for Totalbank for €497m. This is the value that we have considered for our illustrative valuation which implies 1.64x PTBV. Capital gain considering consolidated book value is €235m.

In addition, we have analysed the recent transaction of Sabadell United Bank. In February 2017 Banco Sabadell announced the sale of its retail banking operations in Florida (USA), Sabadell United Bank, for a total consideration of $1,025m (ca. €967m), implying multiples of 1.67x PBV, 1.95x PTBV and 21.13x PE ratio.

The implicit multiple in the offer received is lower that multiple obtained by Sabadell with the sale of its subsidiary but we understand that is consistent due to the current situation of Hippocrates.

Hippocrates Private Banking

In January 2014, Hippocrates agreed to buy back Dexia's 40% stake for €49.2m, implying a 100% equity value of €123m and 2.05% P/AuMs ratio based on December 2014 assets under management.

We have estimated a valuation range between €119 - €150m. It has been driven by multiples implied in the European transactions and analysts estimates. Capital gain considering consolidated book value would be €112 - €143m.

Management has informed us of a non binding offer for Hippocrates Private Banking for €125m.

We note that our valuation is in line with offers received.

Hippocrates Financial Services

Hippocrates sold Hippocrates Financial Services on 5 May for a total consideration of €39m, which implied a capital gain of €7m on a consolidated basis.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

The resulting valuation range for the JVs and associates is between €1.8bn and €2.3bn, which compared to the book value of the total investments as of March 2017 (of 1,9bn) would result in a capital loss/gain between €-78m and €418bn

Capital gains from subsidiaries would be around €0.4bn

Investments in joint ventures, associates and subsidiaries

EURM	%	Book value	Value min	Value max	Capital gain / (loss) Value min	Capital gain / (loss) Value max
Joint Ventures						
Wizink Bank, S.A.	*49.0%*	785	832	1,161	48	376
Aliseda Servicios de Gestión Inmobiliaria, S.L.	*49.0%*	142	142	173	-	31
Others		33	33	33	-	-
Associates						
Allianz Hippocrates	*40.0%*	403	276	403	(127)	-
Grupo Financiero Ve por Más S.A. de CV.	*25.0%*	106	129	139	23	33
Targobank, S.A.	*49.0%*	88	65	65	(23)	(23)
Others		353	353	353	-	-
Total investments in JVs and associates		**1,908**	**1,830**	**2,326**	**(78)**	**418**
Subsidiaries - Capital gains						
Hippocrates Private Banking			112	143	112	143
TotalBank			235	235	235	235
Popular Financial Services			7	7	7	7
Total subsidiaries			**354**	**385**	**354**	**385**
Total JVs, associates and subsidiaries		**1,908**	**2,184**	**2,711**	**275**	**802**

Using the approach before described, the illustrative fair value of investments in joint ventures and associates analyzed would be in a range between €1.8bn and €2.3bn.

Taking into account capital gains that could be obtained through the sale of Hippocrates Private Banking, TotalBank and Hippocrates Financial Services (around 0.4Bn), this range would increase to €2.2 - €2.7bn. We have not considered the tax impact of the capital gains, which is consistent with our approach on the potential impairment of assets.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

If a resolution process initialized is based on the sale of the business or shares of Hippocrates, the shareholding of Hippocrates would subsequently be modified and a change of control would occur

JVs and Alliances agreements

If a resolution process initialized is based on the sale of the business or shares of Hippocrates, the shareholding of Hippocrates would subsequently be modified and a change of control would occur.

Some of the JV Agreements reviewed contain customary change of control provisions, which, in principle and according to our understanding, would be triggered as a consequence of the implementation of the resolution procedure mentioned.

Aliseda

The Aliseda JV Agreement contains, among others, reciprocal put and call options to be exercised by either party in accordance with the conditions set out therein. In particular, this Aliseda JV Agreement contains a scenario by virtue of which, Samana SHL Sàrl shall be entitled, as investor, to exercise its put option under the agreement, in the event of a nationalization of Hippocrates. If exercised, Hippocrates would have to acquire all the shares owned by the investor at price equal to 140% of the fair market value of the shares (fair market value to be determined by an independent expert).

Moreover, the Aliseda JV Agreement establishes that a change of control of Hippocrates would imply the termination of the management agreement in respect of real estate assets executed by the parties to the Aliseda JV Agreement. This termination would imply the payment by Hippocrates of a compensation fee to be determined in accordance with the conditions set out therein, and which would vary depending on where the business is originated on the date on which the management agreement is terminated.

Allianz

The Allianz JV Agreement contains, among others, reciprocal put and call options to be exercised by either party in accordance with the conditions set out therein. In particular, this Allianz JV Agreement contains a scenario by virtue of which, Allianz shall be entitled to exercise its put option under the agreement, in the event of a change of control of Hippocrates.

If exercised, the price of the shares would be the highest of (i) 110% of the fair market value of the shares (fair market value to be determined by an independent expert) or (ii) EUR 1,018,000,000 minus the dividends distributed plus any share capital increases; all increased by an annual compound interest rate of 2.5%.

For the purposes of this agreement there a change of control is deemed to exist if Hippocrates is merged with another institution or if any shareholder has an stake equal or voting rights equal or higher that 20%.

Bx+

This agreement sets out that, in case of an effective change of control in Hippocrates, the rules regarding the right of first offer established therein, should apply.

According to this agreement, effective control means the ability to manage, directly or indirectly, the business of a company.

Given that this agreement is subject to Mexican law, we are of the view that these provisions should be reviewed and analysed by a Mexican lawyer.

EAC and Targobank JV

The EAC and Targobank JV Agreements are very similar. Both of them contain change of control provisions in quasi-identical terms. Under these agreements, in case of a change of control in Hippocrates, the relevant counterparty (Credit Mutuel or the relevant entity within its group) shall have the option to either (i) acquire the shares owned by Hippocrates in the relevant JV at a price equal to 85% of the fair market value of such shares, or (ii) sell to Hippocrates at a price equal to 115% of the fair market value of such shares. In both cases, fair market value to be determined by an independent expert.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Some of the JV and alliances Agreements reviewed contain customary change of control provisions, which, in principle and according to our understanding, would be triggered as a consequence of the implementation of the resolution procedure mentioned

For these purposes, change of control shall be construed in accordance with Article 42 of Spanish Commercial Code which sets out that, among others, control is deemed to exist when a company holds the majority of the voting rights of another company or has the power to appoint or dismiss the majority of the members of the governing body of such company

As of the date hereof, Hippocrates has communicated to the CNMV (the Spanish Securities and Exchange Commission) that it has reached an agreement for the sale of its stake in Targobank to Credit Mutuel. Closing of the transaction is expected to take place before year-end.

Wizink

This agreement sets out that the investor shall have the right to exercise its put option in the event of a change of control in Hippocrates.

Under this agreement control is deemed to exist (i) by reference to the Securities Market Law, and in particular the provisions regulating the need of a takeover bid (threshold set at 30%) and (ii) the recovery, resolution or adoption of early measures in Hippocrates pursuant to the EU Directive 2014/59/UE of 15 May 2014. The exercise price would be equal to the fair market value of the shares.

Alliances

There are also some alliances which do not include any ownership rights but nevertheless include similar change of control or resolution clauses which, if exercised, could result in potential penalties for Hippocrates.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

We understand that the sale of the whole bank implies a change of control. In this scenario some put options could apply

Estimated amount payable in the events that JVs options and options relating to alliances were exercised could be in the range of €2.4bn and €2.9bn of which around €0.8bn would be penalties

JVs and alliances - Penalties in change of control

EURM	JVs					Alliances			Total
	Wizink	Aliseda	Allianz	EAC	Primestar	Recovery EOS	Colina	Depositary [1]	
% Hippocrates	*49%*	*49%*	*40%*	*50%*	*20%*				
% Partner	*51%*	*51%*	*60%*	*50%*	*80%*				
Price (rule)	Fair value	140% Fair Value	Highest of: (i) 110% fair value; (ii) €1,018m	115% Fair Value	100% Fair Value	110% initial payment	125% Fair Value	Early termination agreement (€15m during 10 years)	
Minimum value									
Fair value 100%	1,699	289	690	81	24				
Fair value Hippocrates' stake	832	142	276	40	5				
Fair value Partner' stake	866	148	414	40	19		79		
Cash out	866	207	1,018	46	19	149	98		2,402
Penalty	-	59	604	6	-	149	18		836
Maximum value									
Fair value 100%	2,370	353	1,007	81	24				3,834
Fair value Hippocrates' stake	1,161	173	403	40	5	149	98		2,028
Fair value Partner' stake	1,208	180	604	40	19	-	79		2,131
Cash out	1,208	252	1,018	46	19	149	98	73	2,863
Penalty	-	72	414	6	-	149	18	73	732

Note 1: Depositary alliance does not include a clause of change of control but includes an early termination agreement.

JVs and Alliances agreements (cont.)

Agreements include the price or cash-out that, eventually, Hippocrates should pay to its partners in case of change of control. We have estimated the potential penalties taking into account that penalties are the difference between cash-out and the fair value of the stake acquired. The estimated amount payable in the events that JVs options and options relating to alliances were exercised could be in the range of €2.4bn and €2.9bn of which around €0.7 – €0.8bn would be penalties.

We have to emphasize that the exercise of the options would imply the break of some alliances that nowadays allow Hippocrates to increase income or reduce costs. We have estimated the cash-out or the penalties based on the rule of each contract but we have not estimated the impact of the future cash flows that Hippocrates would not receive. In addition, these options may be subject to negotiations between Hippocrates and its partners. In the scenario of the sale of the whole bank and depending not only on the partners' stance but also on the strategy of the potential buyer. For instance, we understand that a Spanish bank could have some agreements that could be in conflict with Hippocrates ones but a foreign entity could be interested in preserve them.

Furthermore, it should be noted that several of Hippocrates' partners in these agreements, Allianz and Mr. Antonio del Valle, are not only shareholders but also members of Hippocrates' Board of Directors.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Considering potential penalties, the resulting capital loss/gain for a potential buyer would be between €-561m and €70m

Investments in joint ventures, associates and subsidiaries

					Capital gain / (loss)	
EURM	%	Book value	Value min	Value max	Value min	Value max
Joint Ventures						
Wizink Bank, S.A.	*49.0%*	785	832	1,161	48	376
Aliseda Servicios de Gestión Inmobiliaria, S.L.	*49.0%*	142	142	173	-	31
Others		33	33	33	-	-
Associates						
Allianz Hippocrates	*40.0%*	403	276	403	(127)	-
Grupo Financiero Ve por Más S.A. de CV.	*25.0%*	106	129	139	23	33
Targobank, S.A.	*49.0%*	88	65	65	(23)	(23)
Others		353	353	353	-	-
Total investments in JVs and associates		**1,908**	**1,830**	**2,326**	**(78)**	**418**
Subsidiaries - Capital gains						
Hippocrates Private Banking			112	143	112	143
TotalBank			235	235	235	235
Popular Financial Services			7	7	7	7
Total subsidiaries			**354**	**385**	**354**	**385**
Total JVs, associates and subsidiaries		**1,908**	**2,184**	**2,711**	**275**	**802**
Total Penalties JVs and Alliances			**(836)**	**(732)**	**(836)**	**(732)**
Total		**1,908**	**1,347**	**1,979**	**(561)**	**70**

Considering clauses that potentially could allow the investors in JVs to exercise put options that force Hippocrates to buyback the remaining stakes, penalties could be around €0.8bn. The outcomes of these potential cancellations are subject to negotiation between the parties involved.

Capital gain or loss derived from the fair value of JVs, associates and subsidiaries on a consolidated basis and considering potential penalties mentioned would be between €-561m and €70m, being our best estimate €-256m (based on average values between minimum and maximum range except for Aliseda that is considered as its book value and Grupo Financiero Ve x + in which our best estimate is the price of the put option included in the investment agreement considering current book value).

In addition, there are two areas of uncertainty which will only be estimable once independent valuations under the options are available.

- Put option prices would be based on a third independent expert valuation and that we do not have access to any valuation prepared by those parties.
- Liquidity, P&L and capital treatment arising from the integration of the business following exercises of the puts, would imply an increase in intangibles, risk weighted assets and outflow of cash, and a reduction in the fee expenses, and we do not have this information.

Provisional valuation

Investments in joint ventures, associates and subsidiaries

Sources of uncertainty:

Our work is based on financial and non-financial information obtained from public sources, including digital and written information media (such us Bloomberg, S&P Capital IQ, research reports). We assume that such information is reliable. However, we cannot guarantee the accuracy of the information used.

Ordinarily, we would seek to cross check our work using alternative valuation approaches such as the application of income approaches (such as DCF or DDM); which have not been performed given data and time limitations. Our analysis could be improved if business plans, profit and loss account and balance sheet´s projections could be provided.

Our economic valuation of equity method investments, includes the potential impact of change of control, or related clauses that potentially could allow the investors in JVs to exercise put options that force Hippocrates to buyback the remaining stakes or alternatively could otherwise impact on value. In any case, the outcomes of these cancellations are subject to negotiation between the parties involved.

In our information request, we required a detailed analysis impact regarding changes of control including liquidity (by the cash out) profit and loss account (because of potential penalties implied in options prices and perimeter modification), balance sheet and capital impacts (as the put exercise would imply a business combination arising investee's assets and liabilities at consolidated balance sheets, most of them related to intangible assets deductible for solvency purposes) but this information has not been provided.

According to our understanding, if a resolution process initialized was based on the sale of the business or shares of Hippocrates, the shareholding of Hippocrates would subsequently be modified and a change of control would occur.

We have sent to your the legal advisors our understanding regarding the potential impact of these clauses and requesting their confirmation of the treatment. At the date of this report, this has not been concluded.

Additionally we note that, these options may be subject to negotiations between Hippocrates and its partners.

Furthermore, it should be noted that several of Hippocrates' partners in these agreements, such as Allianz and Mr. Antonio del Valle, are not only shareholders but also members of Hippocrates' Board of Directors.

In the case of Hippocrates' investment in Wizink there are certain risks that we would like to highlight. In recent years there have been court rulings against companies that charged interest rates above the legal limit. Additionally, there is certain regulatory risk derived from the implementation of the European Council's Payment Services Directive 2 (PSD2), which decreases the barriers of entry in the payment services industry.

As noted above there is an uncertainty of the implications of the clauses. Legal advice should be obtained on this point.

Provisional valuation

Intangible assets

A potential transaction involving a domestic or international buyer would imply a fair value assessment of the acquired balance as of the acquisition date.

According to our understanding, goodwill value would be zero because it is not an identifiable asset in the context of a business combination

Overview:

Intangible assets comprises goodwill and other intangible assets (trademark, customer relationships, computer software-IT projects, etc.).

Intangible Assets

€m	mar-17	Dec-16
Goodwill	2.073	2.075
Other intangible assets	538	538
Total	**2.611**	**2.613**

Source: 31 March 2017 and 31 December 2016 Financial Statements

Goodwill represents the future economic benefits derived from net assets acquired in a business combination, which cannot be individually or separately identified or recognised.

Goodwill arising on consolidation is €316m as of 31 December 2016 being €184m relating to the acquisition of Hippocrates Portugal and remaining €132m to Totalbank´s business combination.

Goodwill

€m	mar-17	Dec-16
Consolidation goodwill	n.d.	316
Hippocrates Portugal, S.A.	n.d.	184
TotalBank	n.d.	132
In the balance sheet of subsidiaries	n.d.	1.759
Hippocrates Bank Español, S.A.	n.d.	1.601
Banco Pastor, S.A.	n.d.	145
Other subsidiaries	n.d.	13
Total	**2.073**	**2.075**

Source: 31 December 2016 Financial Statements

Goodwill recognized on the subsidiaries' balance sheets relates to the items already recorded by the subsidiaries when they joined the Group and/or as a result of transactions completed.

Goodwill relative to subsidiaries at 31 December 2016 is related mainly to Hippocrates (€1,601m) and Banco Pastor (€145m).

Other intangible assets

€m	mar-17	Dec-16
Computer software - IT projects	n.d.	402
Trademark	n.d.	48
Customer relationships (CDI[1])	n.d.	84
Other	n.d.	4
Total	**538**	**538**

Source: 31 December 2016 Financial Statements

(1) [CDI: Core Deposit Intangibles]

Other intangible assets are mainly composed by Banco Pastor trademark (€48m), customer relationships (€84m) of which €83m are core deposits with origin in the acquisition of Banco Pastor and computer software (€402m).

Valuation approach:

A potential transaction involving a domestic or international buyer would imply a fair value assessment of the acquired balance as of the acquisition date, according to IFRS 3.

This accounting procedure would require the potential buyer to assess the fair value of Hippocrates' goodwill and intangible assets. Depending on the buyer's nature (domestic or international) the approach for each of these assets' valuation would differ, and so would the valuation results.

Provisional valuation

Intangible assets

Hippocrates' intangible assets' fair value recognition would vary depending on the domestic or international nature of the buyer

{1} [IFRS 3 - identifiable asset:

An asset is identifiable if either (a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.]

Valuation approach (continued)

Our approach used in the valuation of goodwill and other intangible assets is as follows:

Other intangible assets

EURM	Min	Max
1 Goodwill	-	-
2 Computer software - IT projects	-	402
3 Core Deposit Intangibles	-	-
4 Trademarks	5	10
5 Other	-	-
Total	**5**	**412**

1. Goodwill: Goodwill does not meet the requirements set forth in IFRS 3 for an Intangible asset to be identifiable[1]. Having said that, in our view, a potential buyer would not attribute any value to the goodwill. Based on our experience, a potential buyer would not pay for a pre-existing goodwill.

2. Computer software – IT projects: We have considered that a potential domestic buyer would not attribute any value to the software as it would be able to perform a migration to its platform. For the international buyer scenario, a 100% of its book value of the software has been estimated considering that the entrance of this new competitor in the Spanish market would require a platform and Hippocrates' software would be necessary.

   Given time constraints, we have not analysed software in detail due to this information has not been reviewed.

3. CR – Core Deposit Intangible: In our view, a potential buyer would attribute no value to this intangible asset due to the current significant deposit outflows.

4. Pastor trademark: Pastor has 20% of the market share in Galicia. Given the strong presence of Pastor in this area, the Pastor brand could be of value for a third part. The value range has been estimated assuming a value resulting from capitalising savings at a Royalty Rate range of 0.25% 0.5% over the 2016 total income.

The range of value of intangible assets is €5m-€412m and our best estimate is €409m. Therefore, the adjustment would be between €-2.2bn and €-2.6bn (€-2.2bn in our best estimate).

Sources of uncertainty:

Business plans and impairment tests have not been reviewed, due to the delay in providing the business plan and not having received the impairment tests.

Provisional valuation

Equity & Fixed Income

The 65% of the Equity & Fixed Income portfolio (€14,5bn) are instruments at Fair Value on the Balance Sheet

The 98% of the portfolio are classified as level one of hierarchy of fair value. The rest of the portfolio is classified as level 3

Overview

As of 31 March 2017 the Group has an Equity and Fixed Income portfolio of €22,438 m classified as:

€m	Book Value
Fixed Income	**21,515**
Available for sale	12,556
▲ Held-to-maturity investments	7,360
▲ Loans and receivables	544
Held for trading	686
Fair Value through Profit and Loss (net position)	368
Equity	**923**
Available for sale	663
Held for trading	42
Fair Value through Profit and Loss (net position)	218
Total	**22.438**

▲ Held at amortized cost

*Source: Quaterly financial estatements.

- 96% of the portfolio corresponds to Fixed Income and 4% to Equity.
- 85% of the Fixed Income portfolio is in government debt, mainly from Spain (66%) and Italy (23%).
- The majority of assets are recorded at fair value (available for sale, held for trading and fair value through profit and loss).
- Assets classified as held-to-maturity and loans and receivable are held at cost and have been considered for fair value adjustments.
- The majority of the portfolio elements are liquid and classified as level 1.
- The book value of the entity´s inventory as of 31 March 2017 was reconciled with a difference of less than 2 million Euros.

Valuation approach

According to the EBA/RTS/2017/05 – Draft regulatory technical standards on valuation to determine difference in treatment following resolution, article 4, paragraph 4 and 5:

- For assets traded in an active market (level 1 of fair value hierarchy of IFRS 13) we have used the observed price
- For assets not traded in an active market (level 2 and 3 of fair value hierarchy of IFRS 13) we have not had enough information to evaluate the expected cash flows

Hierarchy of fair value levels of IFRS 13:

- Level 1 inputs: are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. [IFRS 13:76]
- Level 2 inputs: are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. [IFRS 13:81]
- Level 3 inputs: are unobservable inputs for the asset or liability. [IFRS 13:86]

€m	Level 1	Level 2	Level 3	Total
Fixed Income	**21,427**	-	**88**	**21,515**
Available for sale	12,468	-	*88*	*12,556*
Held - to maturity investment	7,360	-	-	*7,360*
Loans and receivables	544	-	-	*544*
Held for trading	686	-	-	*686*
Fair value through profit and loss	368	-	-	*368*
Equity	**546**	-	**377**	923
Available for sale	*286*	-	*377*	*663*
Held for trading	*42*	-	-	*42*
Fair value through profit and loss	*218*	-	-	*218*
Total	**21,973**	-	**464**	22,438

*Source: FINREP, 31st March, 2017

Provisional valuation

Equity & Fixed Income

We have no re-evaluated Level 3 assets which should be at fair value in the Balance Sheet

Adjustments were identified in held-to-maturity relating to Italian government bonds

In order to analyze the correct distribution by fair value levels of the portfolio, we have checked in external sources commonly accepted by the market (Bloomberg and Reuters) the following points:

- Analysis whether the market price exists or not as of 31 March 2017.
- Test of the price market liquidity, depending on the external source.
- Analysis of the market value during the two days before and the day after the closing date, to evaluate the liquidity.

For Level 1 assets we tested a sample as of 31 March.

€m	Number of operations analyzed	Book value analyzed operations	Total number of operations	Total book value	Coverage of book value
Available for sale	34	10,059	740	12,554	80%
Held to maturity	18	7,361	18	7,361	100%
Loans and receivables	15	518	15	518	100%
Trading	18	686	18	686	100%
Fair value through Profit and loss	288	296	51	369	80%
Total	**373**	**18,920**	**842**	**21,488**	**88%**

*Source: Deloitte Analysis.

For Level 3 securities we have not been able to perform a replication of valuation because we have not received neither the details of the estimation methods nor the characteristics of each of these securities.

Level 3 securities distribution is as follows:

€m Accounting portfolio	Fair value level	Book value
Available for sale (Fixed Income)	Level 3	88
Available for sale (Equity)	Level 3	377
Total		**464**

*Source: FINREP, 31st March, 2017

The amount of the main Level 3 securities are:

- Available-for-sale financial assets (Fixed Income): SAREB bond, which amounts to €83m.
- Available-for-sale financial assets (Equity): SAREB security, which amounts to €179m.
- Available-for-sale financial assets (Equity): Fondo de Recuperación del Turismo in Portugal, amounting to €98.5m.
- Available-for-sale financial assets (Equity): Globalia Corporación Empresarial security, amounting to €39.8m.

Valuation Outcome

The gains and losses associated to the Available for Sale portfolio are already considered in the own funds and in capital requirements.

The net gains/losses of the held-to-maturity and loans and receivables portfolios must be considered in the economic valuation:

€m	Book value	Fair value	Plus / Minus (***)
Held-to-maturity investments (Fixed Income)	7,360	6,961	(399)
Loans and receivables (Fixed Income)	517	519	1
Total	**7,878**	**7,480**	**(398)**

(***)The losses correspondents at the table above at 15 May 2017 will be approximately €-337m.

*Source: Deloitte Analysis.

We have not been able to check the valuation of the Level 3 portfolio (see slide about valuation approach). Following a prudential criteria, we have applied a 20% haircut to level 3 assets (**with an estimated impact of €92,8m**). This percentage is consistent with the treatment of level 2 assets in the estimation of the Liquidity Coverage Ratio. Considering this haircut, the **global impact in fixed income is €0,4bn in a worst case value and €0,5m in a best case value**. Our **best estimate is coincident with this best case.**

Sources of uncertainty

We have not had access neither to gains or losses details nor to the fair value level at 31 March 2017 of individual basis within the consolidation perimeter.

We have not had access neither to the characteristics of the Level 3 securities nor to the estimation method applied by Hippocrates in order to replicate the valuation of a sample of titles.

Provisional valuation

Derivatives

The derivatives portfolio is recorded at fair value in the Balance Sheet. We have performed no testing to confirm this preliminary assessment

Overview

The derivatives on the balance sheet as at 31 March 2017 are detailed in the table below:

€m	Positive valuation	Negative valuation
Held for trading derivatives	**1,530,136**	**1,513,382**
Interest rate	1,478,124	1,477,978
Equity instruments	23,760	13,273
Currencies and gold	28,116	21,995
Credit	0	0
Commodities	136	136
Hedge derivatives	**232,021**	**1,000,531**
Fair value	206,403	727,893
Cash flows	16,826	86,856
Portfolio FV Hedge of IRR	0	185,769
Net investment abroad	8,792	13
Total	**1,762,157**	**2,513,913**

*Source: Information disclosed in the Virtual Data Room

- Based on information sourced from the Virtual Data Room (VDR), management of derivatives is based on a back to back operating strategy that significantly reduces the market risk of derivative exposure.
- The credit risk of derivatives is covered with netting agreements and collaterals. Based on the available information, the Credit Value Adjustment (CVA) of the derivatives as of 31 March 2017 was €21.8m.
- Hippocrates uses hedging instruments to hedge interest rate risk of the Available for Sale portfolio and of the financial liabilities measured at amortised cost.
- As at 31 March 2017 the derivatives' inventory reconciled to the accounting position without any differences.

Sources of uncertainty

We have not had access to detailed information on operations and methodologies used for the CVA adjustment calculation. Consequently, we have not been able to replicate the valuation of any of them or to validate the adjustment.

We have not had access to the derivatives collateralisation detail.

Provisional valuation

Equity valuation

There are several approaches for an equity valuation, the best market reference would usually be a bid in a competitive process

Given available information, time constrains and the situation of Hippocrates for the purposes of providing a valuation under the 'sale of business' resolution tool we have utilized an adjusted book value methodology.

Overview of potential equity valuation methodologies

Methodology	Comments
Market Capitalization	Hippocrates' market capitalization could be considered as a sound reference of its fair value, as it is a liquid stock quoted in the main Spanish stock exchange index (IBEX), where both stockholders and potential investors have access to the highest level of publicly available information. In our view, the current difference between Hippocrates' market cap and its NAV, is a consequence of both potential adjustments and an expected ROE below cost of capital.
Comparable Multiples	The Comparable Multiples method (or Public Company Method) employs market multiples derived from the prices of peers that are actively traded on stock exchange. Among the most generally accepted ratios for banks are: a) the Price to Tangible Book Value (P/TBV), b) the Price to Book Value (P/BV) and c) the Price on Earnings (P/E). The P/E ratio has been ruled out in the present case as there is no reliable information on what would be a normalized earnings scenario. The Book Value would be a suitable method, however, given the dispersion on the intangible to tangible book value ratio, P/TBV is considered the most appropriate method for Spanish banks. P/TBV ratio is currently around 1x for Spanish banks.
Comparable Transactions	The Comparable Transactions (or Transaction Method), relies on implicit market multiples derived from recent transactions involving entities comparable to Hippocrates. The distressed conditions that Hippocrates is currently undergoing make this method less reliable, as there is not a significant number of transactions in the banking sector framed in a similar scenario.
Dividend Discount Model	The Dividend Discount Model (DDM) is a dynamic method for establishing the value of a company. A dynamic valuation approach would not be suitable given the uncertainties around the future of the Hippocrates and the lack of reliable prospective financial information as well as the time constrains we have had to face throughout the process.
Adjusted NAV	We have run an economic valuation on an asset group basis. After this analysis, we arrive to an Adjusted Net Asset Value (NAV). In our view the resulting Adjusted NAV would be a reasonable starting point for an equity valuation considering the current P/TBV multiples and our assumption regarding intangibles in Adjusted NAV.
Bids received in a competitive sale process	Hippocrates is under a sale process that will end on June 10th, 2017. In the coming days Hippocrates is expected to receive binding offers that will be the best reference of its market value. This is likely to be the case in a resolution scenario as well depending on the competitiveness of the process.

Provisional valuation

Equity valuation

Market capitalization is affected by volatility

The most recent transaction in the Iberian market, that was under resolution mechanism, is the acquisition of Banif by Banco Santander Totta.

Overview

As shown previously, there are several methodologies that are commonly accepted to obtain the fair value of an entity.

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

In the following slides the suitability, effectiveness and constraints of each one are detailed:

Market Capitalization

As at June, 5th, 2017, Hippocrates market capitalization was €1,4bn (with €0,34 per share). This methodology should be one of the best reference of value given this is a liquid market where there are significant buy/sell offers that build a price in an efficient way.

Given the special situation of Hippocrates, the share price has experienced a great volatility. The share price has dropped 44% in the last three days. In the last week the stock has fallen 49%, bringing its month-to-date performance to 55%.

Multiples Valuation

In the application of multiples, both listed entities and transactions have been considered:

Guideline transactions (transaction multiples) allow understanding how similar companies have been valued in market transactions. Given the special situation of Hippocrates there are no recent transactions in Spain that fits properly. The latest transaction in Iberian market under a resolution context was the following:

- On 19 December 2015 Banco International do Funchal (BANIF) was put into resolution which involved additional aid measures, mostly to absorb past losses. The main business was sold to Banco Santander Totta, while equity (Portugal owns 60.5% of the bank) and subordinated debt were bailed in.
- The resolution measures mainly consisted of transferring non core business to a new vehicle in exchange of debt, which amounted to € 746 M. Once non core assets were removed from BANIF balance sheet, both State of Portugal and Resolution Fund injected € 2,255 M, included in "Cash and deposit at Central Banks". Banco Santander Totta, paid € 150 M for € 1,733 M net assets perimeter, which implies a multiple of 0.09x before fair value adjustments. In case of excluding this cash aid the implicit price was negative, € -2,105 M. Before cash injection and fair value adjustments it is supposed a negative multiple. After fair value adjustments including the cash aid, the multiple was 0.47x.
- We must point out that the final price in a transaction would vary depending on the number of bidders involved in the process.

Guideline Public Company compares, in terms of multiples, the Company in relation to listed comparable companies. When using this methodology, listed companies similar to Hippocrates have been selected, in a similar industry, in developed economies, and in the same phase of the economic cycle.

Given the nature of Hippocrates (mix of businesses, footprint and size), no market peer is totally comparable but, **Bankia**, **Sabadell** and **Caixabank** could be selected as the best peers for Hippocrates.

Bankia has sound capital and solvency ratios and a manageable exposure to non performing loans. Sabadell has a similar business model to Hippocrates, mainly focused on SMEs and professionals. As a result, we understand that these two peers are reasonable comparable for Hippocrates.

Provisional valuation

Equity valuation

Bankia, Banco Sabadell, Caixabank are the most comparable market peers for Hippocrates, given size and balance sheet composition.

Market peers are trading around 1.0x Tangible Book Value

In case of negative TBV multiples approach would not be appropriate

Multiples Valuation (cont.)

Caixabank has been selected as a comparable despite its size and Spanish market share, close to 25.7%. It has been focused on Spanish market, (until the acquisition of BPI), and Hippocrates business is mainly affected by the Spanish economy, therefore, we understand they should have similar performance in the market.

Given the evolution of market peers which currently trade on a range between 0.93-1.22x, the average market multiple based on this peer group would be 1.04x. P/TBV of Hippocrates as at June , 2nd, 2017 is 0.21x.

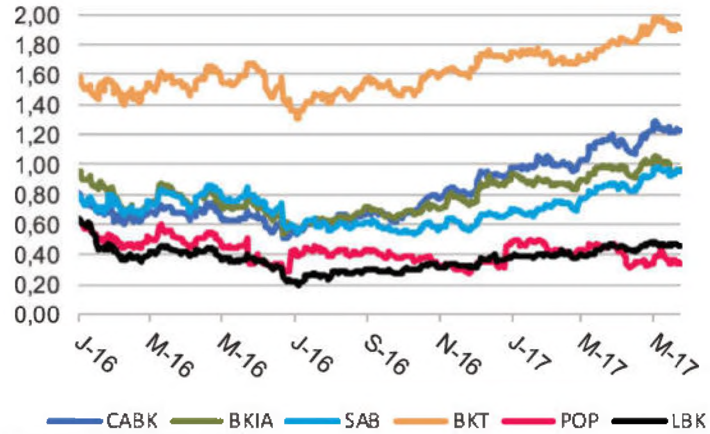
Price to tangible book value (PTBV)

Entity	Dec-14	Jun-15	Dec-15	Jun-16	Dec-17	Jun-17
Bankinter	1,79x	1,75x	1,67x	1,39x	1,72x	1,89x
Caixabank	**1,13x**	**1,07x**	**0,85x**	**0,63x**	**0,95x**	**1,20x**
Bankia	**1,15x**	**1,06x**	**0,99x**	**0,59x**	**0,88x**	**0,94x**
Sabadell	**0,91x**	**1,08x**	**0,82x**	**0,60x**	**0,68x**	**0,92x**
Hippocrates	0,86x	0,93x	0,66x	0,40x	0,46x	0,17x
Liberbank	0,73x	0,71x	0,63x	0,22x	0,37x	0,44x
Selected avg.	**1,06x**	**1,07x**	**0,89x**	**0,61x**	**0,84x**	**1,02x**

Bankinter and **Liberbank** have not been considered due to:

- **Bankinter** has always been an outlier in terms of P/TBV. It is focused on affluent customers and wealth management while Hippocrates´s core business is mainly driven by professionals and SMEs.
- **Liberbank** is a former savings bank with a high market share concentrated in four Spanish regions. Its main business is related to mortgages. It holds a significant amount of non performing loans in its balance sheet as does Hippocrates. In spite of these similarities we have not considered Liberbank as a comparable entity because, once the proposed adjustments are applied to Hippocrates, it would no longer fit with the new balance sheet structure.

P/TBV



Source:S&P Capital IQ

In the case of a negative TBV, a multiple approach would not be appropriate. We note that there are adjustments made for the purpose of this economic valuation that are not comparable with accounting practices, reducing the ability to compare across the market. These include non protected DTAs and expected loss vs incurred loss approach for loans, and potential legal claims, and fair value adjustments to held to maturity assets.

Provisional valuation

Equity valuation

A dynamic valuation approach would not be suitable given the uncertainties around the future of the Hippocrates and the lack of reliable prospective financial information as well as the time constrains we have had to face throughout the process.

Dividend Discount Model

The income approach is based on the concept that the value of a business will be determined by its capacity to generate dividends during its remaining useful life. The most common method under this approach in the valuation of financial entities is the Distributable Dividend Discount Model ("DDM"), based on the idea that the value of shares of an entity is determined by the present value of potential future dividends.

We consider that there are some critical factors that show why the DDM could not be used in Hippocrates:

- Firstly, Hippocrates´ Business Plan has been provided on June 2nd, and therefore, we have not been able to review as thorough as required.
- Secondly, Hippocrates acknowledged its constraints and limitations in its Business Plan. According to the statements included by Management in the Business Plan provided, it is affected by the current circumstances and must not be considered as a consistent, accurate and reliable reference given the specific situation of Hippocrates.
- It is worth noting that the Business Plan is not reconciled with our proposed adjustments.
- Thirdly, due to the current situation there are some uncertainties regarding the hypothesis and assumptions used in the Business Plan.
- In terms of profitability, for any investor to recover his investment a RoE above the CoE is required.

CoE \ RoE	8%	9%	10%	11%	12%
8%	1.00x	1.17x	1.33x	1.50x	1.67x
9%	0.86x	1.00x	1.14x	1.29x	1.43x
10%	0.75x	0.88x	1.00x	1.13x	1.25x
11%	0.67x	0.78x	0.89x	1.00x	1.11x
12%	0.60x	0.70x	0.80x	0.90x	1.00x

- The implied RoE in Hippocrates´ Business plan is not higher than the CoE, even if no credit impairment is considered. Therefore, no value creation is expected in the forthcoming period before potential synergies

Provisional valuation

Equity valuation

We have complemented the adjusted net assets value by an estimation of additional sources of value a buyer would consider to translate it into a bid offer.

According to our understanding, given the market situation, main source of value for a potential buyer would be cost synergies.

Synergies that bidders may be willing to pay would depend on having a competitive sale process

Potential acquirer considerations

Considering the methodologies described in previous pages adjusted NAV is a good starting point for a potential buyer. However, the value for a potential buyer would differ considering the following factors:

Synergies

In this context, synergies are the key upside element for potential buyers. We have estimated a value range for the synergies based on publicly available information about banking industry M&A transactions in Spain.

The synergies may vary depending on the acquirer. Particularly, they will depend on the branch overlap. The greater branch overlap the higher synergies could be obtained. As it is shown in the table below, synergies generated in past deals resulted in savings around [redacted]

[redacted]

We have applied this percentage over the 2017 operating expenses. Given the fact that personnel expenses have changed significantly as a consequence of the early retirement plan in 2016, we have taken as a reference for 2017 the annualized operating expenses of Q117.

Restructuring costs have been estimated according to:

- Incurred costs in the recent early retirement plan that was implemented in Q4 2016 by Hippocrates. The costs amounted to 2.0x the total synergies expected by Hippocrates Management
- Analysts estimate multiple in the Bankia-BMN announced merger of 2.5x.

We understand this is the best approach to estimate the potential savings that could result for a third party in an acquisition context. However, we must point out that Hippocrates' business plan has been provided on June 2nd and due to time constraints, we have not reviewed nor analyze the seasonality of operating expenses.

[redacted]

As shown in the table above, we have applied 30% of nominal tax rate. This exercise does not take into account the potential tax impact. It will depend on the buyer´s capacity to generate future profits.

Provisional valuation

Equity valuation

Hippocrates´ final valuation will depend on the acquirer´s view on a number of critical factors, as well as its strategic fit

Potential acquirer considerations (cont.)

Strategic view

One of the main strengths of Hippocrates is in its SMEs and professionals market share, close to 17%. While competitiveness in this segment has increased in recent months due of its high profitability, Hippocrates has maintained its leadership position.

On the negative side, any bidder would take into account for the final price the amount of non performing assets that Hippocrates owns (ca. €37bn), not only in terms of provisions but also in terms of market liquidity.

A potential buyer should also take into account some others specific considerations as funding/capital raising requirements; operational risk considerations; competition restrictions; and shareholder approval.

Contingencies

We must point out that risk related to contingencies is a matter of perception and their magnitude may vary among bidders.

JVs and alliances agreements

Hippocrates holds several JVs and alliances in different businesses. Most of these agreements include put options that could have adversely effects to the acquirer.

Hippocrates could be forced to acquire the remaining stake at a price established in the contracts. If put options were exercised above fair value, the exceeding amount could be considered as a penalty. These penalties may vary depending on the buyer´s strategy.

Negotiations between both parties will be critical for the price paid. A player interested in buying Hippocrates has to analyze if the current agreements could be profitable and complementary to its current strategy or whether the best option is to cancel those agreements in order to eliminate potential redundancies.

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7 897,80
6 641,78
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689,76

Liquidation scenario simulation

General Liquidation Strategy & Principles

Based on the prior case of Bank of Madrid, it appears likely that the banking license would be revoked prior to the commencement of the liquidation, which appears to make a going concern sale unlikely

Overview of process and implications

The liquidation process in Spain is heavily court driven which would impact on any asset realisation strategy. Liquidation of Hippocrates will be governed by the Spanish Insolvency Act.

It should be noted that there is no special insolvency procedure for banks.

Based on the prior case of Bank of Madrid, it is assumed that the banking license would be revoked on commencement of the proceedings, if this has not been done before, thus making a sale of the bank as a going concern not possible. The functions of the Liquidator are to:

- Preserve the assets' value and maximize realisation;
- Settle a list of creditor claims, rank and pay them accordingly;
- Evaluate the alternative options which in the case of a typical liquidation may be:
  1. Sale of the whole of the business as a going concern
  2. Sales of portfolios of assets
  3. Piecemeal disposals with a wind down of the rump

Option one above appears unlikely on the assumption that the banking licence has been revokedWe have considered whether some form of pre-packaged sale would be possible, as an alternative to resolution. However, even if an acceptable offer appeared available, the requirement for the Liquidation Plan to be approved by the Court (as well as the time taken to prepare such a plan and the risk of stakeholders objecting to it) may make this very difficult.

A sale of assets either packaged into portfolios or piecemeal over a longer period appears a more likely scenario given the case.

Recent legal changes, limiting the Liquidators' right to draw fees to a maximum 18 month period in total, would act as a disincentive to a long term realisation strategy. Ordinarily we would expect a complex case like this to take many years – or otherwise the process is likely to suffer from market saturation and recoveries are unlikely to be maximised.

From a NCWO perspective adopting a strict interpretation of the law may increase the risk of legal challenge. Moreover, we note that the rules capping a liquidators fees are new and untested in the Courts and we do not know if it gives the practitioner enough incentive to deal effective with the Liquidation phase for a longer period than 18 months.

For the purposes of our analysis, we have assumed that in the case of Hippocrates it may be possible to persuade the Court to agree a less truncated liquidation period.

Hypothetical liquidation scenario

We have prepared an illustrative liquidation scenario simulation based on the economic valuation, assuming a 3 year liquidation process, on the assumption that the Court will agree the Liquidators' proposals for a plan extending over this period.

This liquidation scenario allows for the disposal of assets, including: the packaging of assets into specific portfolios and a phased approach to seek to maximize values (and avoid market saturation).

Liquidation scenario simulation

General Liquidation Strategy & Principles

The requirement for the Liquidation Plan to be approved by the Court and the risk of stakeholders objecting seems to make any pre-packaged insolvency sale, as an alternative to resolution, very difficult

Key Considerations

We set out below a number of key considerations.

Topic	Comment	Observation/ Implications
Appointment of the Liquidator	• Court driven process to appoint the Liquidator on the grounds of insolvency. • For banks, prior to making an order, the FROB will be provided an opportunity to place the bank into resolution instead of liquidation. • In the Bank of Madrid case the period between application to the court and making of the liquidation order was 9 days, ordinarily in the Madrid Commercial courts it is 2 – 3 months.	• It is assumed that the banking licence would be revoked with the commencement of the proceeding, if it has not been done before (as in the Bank of Madrid case). • The consequence of the revocation of the licence is to prevent the bank from further banking business, including depositors no longer being able to withdraw funds. • It will be important to limit the period between application and liquidation order, in order that a liquidator can stabilise and take control as soon as possible.
Liquidators duties	• To preserve, manage and collect in the assets for the benefit of creditors until realisation. • To prepare a list of assets and creditors, rank and pay them. • The liquidator is required to consider a number of matters in formulating his strategy, including employees and creditors together with maximizing realisations.	• No specific prioritisation of deposit holders.
Consequences of Liquidation	• We assume that access to financial market infrastructure (e.g. payment systems) may cease. This would be a critical piece of analysis in any contingency planning process or there is a risk of material value destruction. • Costs incurred by the Liquidator become priority claims against the estate.	• Liquidator no longer able to carry on regulated business on the assumption that the banking license having been withdrawn. • It may be possible for some subsidiaries to continue operations, however this would depend on their individual funding positions, the approach of the directors and regulator. • Liquidator will assess cost base to limit outflows/ preserve assets; assessment of whether to commence a collective dismissal process for staff/close branches.
Liquidation Process	• A summary of the process follows below. • Process is regulated by the Court, with the liquidator obliged to prepare a plan for approval and creditors, etc. having the ability to object. • While possible to dispose of assets ahead of formal approval of the plan, this is very unusual albeit may be required to maintain value.	• As an alternative to resolution and disposal of assets, we have considered whether it would be possible for the same result to be achieved through a liquidation process (along the lines of a pre-packaged insolvency sale). This option would not be available to Hippocrates given the revocation of the banking license. • The requirement for the Liquidation Plan to be approved by the Court and risk of stakeholders objecting seems to make this very difficult, given the size and number of stakeholders of Hippocrates.

Liquidation scenario simulation

General Liquidation Strategy & Principles

Recent legal changes, mean that the maximum period for which the liquidator can draw fees is 12 months during the Liquidation Phase with two potential possible extensions of 3 months (18 months in total).

In complex cases, with difficult to realise assets, this may act as a disincentive to a long term realisation strategy which could effect asset realisations

Key Considerations cont'd

We set out below a number of key considerations.

Topic	Comment	Observation/ Implications
Liquidators' fees	• The liquidator's fees are calculated during the Common Phase as a fixed amount, based (inter alia) on the amount of assets and liabilities. • During the Liquidation Phase the liquidator may draw a further monthly amount being 10% of the total fee for the Common Phase for the first 6 months and 5% per month thereafter.	• Recent legal changes, mean that the maximum period for which the liquidator can draw fees is 12 months during the Liquidation Phase with two possible extensions of 3 months each (18 months in total). • Moreover, we note that a creditor may apply to Court for the removal of a liquidator after 12 months (for inefficiency). • Both of the above changes are designed to improve the operation of the liquidation process in Spain but in complex cases, with difficult to realise assets, may have negative implications on liquidation strategy.
Interest on claims	• The commencement of insolvency proceedings freezes the value of claims, other than in the case of pledged credits up to realization value.	• Liquidators' cost of capital is essentially zero. • To maximise realisations, a run off strategy for performing loans may be more appropriate to maximize nominal realisations.
Depositor Compensation	• We are unaware as to whether the bank maintains fit for purpose Single Customer View files. • We understand it took several months in the Bank of Madrid case to prepare a list of creditors, during which time depositors were uncompensated.	[redacted] • The Bank of Madrid case suggests a period of several months to achieve a pay-out. • The longer a compensation pay-out takes, the more detabilising it is for Hippocrates, with significant time and effort focused on placating the depositors / stabilising the situation – time which would be better used maximizsng asset realisations.

Liquidation scenario simulation

General Liquidation Strategy & Principles

Following recent changes in the law, the duration of the liquidation is limited to one year. This is not considered feasible for a large bank such as Hippocrates since it may not be the best method to maximize realisations

Liquidation Process

We set out below the process for liquidation under Spanish law. As noted earlier, there is not a special insolvency procedure for banks.

Phases	Activities
The Common Phase of the insolvency proceedings (The timeframe can vary depending on the complexity of the entity)	• Purpose is to evaluate the assets and liabilities and to preserve assets. • In this first phase (named common phase), the appointed insolvency practitioner shall: – Prepare a list of claims duly ranked to be annexed to a report filed with the Commercial Court. – Prepare an inventory of the aggregate assets. – Provide a valuation of the business as a whole. – Provide a valuation of the business units under two hypothesis: business continuity and liquidation. – Prepare the creditor hierarchy. • Creditors or the debtor are able to comment on the report and may file objections with the Court. • Once the Court has settled any disputes, the insolvency practitioner submits a definitive report, and then the Court declares the end of the common phase and the opening of the Agreement Phase or the Liquidation Phase. • The common phase usually takes a number of months. In the case of Hippocrates, it is highly likely that the liquidation phase would be opened simultaneously with the declaration of the insolvency proceedings (as happened in the Bank of Madrid case).
Arrangement Phase	• As an alternative to liquidation, a composition of creditor claims maybe proposed. However, this is considered unlikely in this scenario.
Liquidation Phase (Creditor can apply for the removal of Liquidator after 12 months. Maximum period of payment is 18 months)	• Purpose of this phase is to prepare and implement a liquidation plan. • The Liquidator provides the Court a disposal plan. If possible, this should consider disposal of the company as a whole or parts thereof. • During the fifteen days following the date on which the winding-up plan has been made available at the Court Office, the debtor, the creditors and employee's representatives may make remarks or proposals of amendment. • Finally, the Court approves the plan (with or without amendments). • The sales processes usually foreseen in the winding-up plan are: 1. Sale of business units: – As a single unit. Likely to be the optimum solution but unlikely given loss of the License. – Multiple units (Private Banking, Allianz, etc.). 2. The sale of set of assets, divided into classes (Client credits, debt instruments, shareholdings in other entities, real estates assets, furniture, etc.). 3. Piecemeal sale of assets (direct sale or public auction). • If the winding up phase lasts for more than one year the Insolvency Act entitles any interested party to apply for the removal of the practitioner. Moreover, a recent legal change limits the practitioner's fees to 12 months, with an extraordinary extra time of no more than six months. This has the potential to significantly restrict the Liquidator's strategy and his ability to realise assets for the best price.

Liquidation Scenario Overview

High level hypothetical Liquidation Scenario

The standard period to submit the liquidation plan to the Court is 15 days however given the case, it is likely that an extension to this period will be granted

For the purposes of this analysis (and for consistency) we have considered the insolvency of Hippocrates on a consolidated basis for illustrative purposes. This is not legally possible under Spanish Insolvency Law

Process for preparing a Liquidation Plan

- Based on the prior case of Bank of Madrid, it is assumed that the banking license would be revoked first, thus the liquidation phase would be run simultaneously with the common phase once the insolvency proceeding is opened.
- In a standard insolvency proceeding the liquidation plan should be prepared within fifteen days following the opening of the liquidation phase. The due date might be extend by the Commercial Court for another similar term if it is justified considering the complexity of the insolvency proceeding.
- In the current case it is likely, considering the Bank of Madrid precedent, that the beginning of the fifteen day period would not start until the liquidation plan foreseen in article 75 of the Spanish Insolvency Act is submitted to the Court. This is a high level assumption which could change with further analysis.
- The due date to submit the liquidation plan is within two months (with the possibility of a four month extension). Accordingly there could be a six month period between the commencement of liquidation and the production of the liquidation plan., two months with the possibility of an extension for a further four months period, the deadline to file the report could last for a maximum of seven months period.
- The plan might foresee, if possible, the disposal of the company as a whole or parts thereof.
- During the fifteen days following the date on which the liquidation plan has been made available at the Court, the debtor, the creditors or employee representatives may make remarks or proposals of amendment.
- Given the size and number of creditors in Hippocrates, there is considerable risk that plan approval is delayed.
- Finally, the Court approves the plan (with or without amendments) within fifteen days of submission.
- While possible to dispose of assets ahead of formal approval of the plan, this is very unusual. This process could therefore significantly delay asset realisations.

Group v Legal entity basis

- Given data and time limitations, our economic valuation work has been prepared based on consolidated information and forms the basis for this preliminary analysis. Real life
- For the purposes of this analysis (and for consistency) we have considered the insolvency of Hippocrates on a consolidated basis for illustrative purposes. This is not legally possible under Spanish Insolvency Law.

Hypothetical strategy

- The period over which the liquidator has to realise assets and his strategy will have a material impact on overall recoveries. For the purposes of this preliminary analysis prepared over the past few days, and taking into account the comments overleaf, we have assumed a 3 year liquidation process, on the assumption that the Court will agree the Liquidators' proposals for a plan extending over this period.
- We have modelled best and worst case level of illustrative outcomes to show a range of possible recoveries based on haircuts applied to the balance sheet items.
- We have assumed that liquid assets, Including Held to Maturity Investments, would be realised over the initial 12 months (phased so as to avoid value destruction from market saturation). Our illustrative estimated outcome statements assumes realisations in line with the low end preliminary economic valuation (i.e. after the High adjustment has been applied).
- The assumed realisation strategies for other principal assets classes (loans, real estate, tax assets) are shown on the following pages.

No creditor worse off analysis

Estimated outcome statement

On a legal entity basis, recoveries of different classes of creditors could be materially different reflecting the subordination of intragroup debt.

Estimated outcome statement

€m	%recovery low	%recovery high	Liquidation low scenario	Liquidation high scenario
Total pledged assets			24,028	23,343
(-) Secured creditors repayment from pledged assets	100%	100%	12,088	12,090
Excess cash flow from pledged assets realization			11,940	11,253
Unpledged asset realisations			78,480	74,825
Realisations available for credit against the estate			**90,420**	**86,078**
Costs incurred during the Liquidation			**1,870**	**1,870**
Liquidator and Legal fees			395	395
Operating costs			888	888
Employee termination costs			332	332
Landlord termination claims			256	256
Amounts available to Privileged Creditors			88,550	84,208
Tax			400	400
DGS			35,989	35,989
Retail Non-covered deposits			18,078	18,078
Total privileged creditors	100%	100%	54,468	54,468
Net realisation available to unsecured creditors			**34,083**	**29,741**
Institution Non-covered deposits			24,714	24,714
Deficit of principal on secured creditors			-	-
Contingent liabilitites/Guarantees called			3,991	3,991
Other ordinary, unsecured, non privileged creditors			19,962	19,962
Total unsecured creditors	**70%**	**61%**	**48,667**	**48,667**
(Shortfall) to unsecured creditors/pay to sub'ed			(14,584)	(18,926)
Realisations available for unsecured creditors				
Subordinated creditors			2,037	2,037
(Shortfall) to sub'ed creditors/pay to Equity	0%	0%	(2,037)	(2,037)

Preliminary analysis shows, equity and subordinated debt written off in full with a recovery range of between 70% and 61% to unsecured creditors

Basis of preparation

- For this preliminary analysis, reflecting the lack of time and information, we have performed our analysis at a consolidated group level using the outputs from our Economic Valuation analysis.
- Subject to further and better information becoming available, this will need to be updated in the coming days to a legal entity basis as would be the case in a "real" scenario

We understand that under Spanish Law, any deficit of principal on secured liabilities falls to be treated as an unsecured liability, whereas any deficit of interest would be treated as sub-ordinated. Only secured liabilities continue to accrue interest following the commencement of proceedings.

ECB funding of ca. €23.2bn is collateralised against assets (loans & securities) with a NBV of ca.€23.5bn. We understand that on liquidation ECB may directly enforce against these assets, putting the margin at risk. We have adjusted the asset line and the related secured creditor balance to exclude both.

The remaining pledged assets form collateral for the covered bond program. It is unclear whether Liquidation triggers an automatic enforcement right (our assumption is not – and that the trigger would be maturity/ default).

Potentially material legal claims (including around the recent capital raising) in the event of Liquidation – we have used the High End estimate from our Economic Valuation analysis Hippocrates has provided guarantees on behalf of customers, these are amounts that the group would be required to pay on behalf of third parties in the event of default by the obligors. The amount as at 31 December was ca.€10 bn. The extent to which these could crystalise in the future is uncertain.

Additionally, as at Hippocrates had undrawn commitments to provide future funding to customers of ca. €6 bn. Without further analysis, which would also require legal input, it is unclear whether Hippocrates failure to honor such commitments in the future as a result of liquidation could trigger breach of contract claims from customers. Both of the above could materially increase the level of claims and reduce the recovery to unsecured creditors

Liquidation scenario simulation

Assets assumptions (1)

The level of write down on the performing and non performing portfolio is the key drivers for the level of recoveries.

Additional illustrative haircuts of between €8.4bn to €10.5bn above economic value adjustments have been applied in the liquidation scenario.

Assets

Assets			Adjustments		Insolvency Case	
€M		Total	Low case	High case	Low case	High case
Cash and cash balances at central banks		6,177	-	-	-	-
Financial assets held for trading		2,259	-	-	-	-
Financial assets designed at fair value through profit or loss		586	-	-	-	-
Available-for-sale financial assets		13,219	-	-	-	-
Loans and receivables:		94,480	(2,704)	(6,962)	(8,697)	(12,016)
Deposits at credit institutions		3,213	-	-	-	-
Loans and advances to other debtors		90,723	(2,704)	(6,962)	(8,697)	(12,016)
Performing loans	1	82,618	(2,194)	(2,588)	(3,803)	(5,949)
Non-performing loans	2	18,242	(510)	(4,374)	(4,894)	(6,067)
Fixed Income		544	-	-	-	-
Held-to-maturity investments		7,360	(398)	(491)	(398)	(491)
Derivatives – Hedge accounting		248	-	-	-	-
Fair value changes of the hedged items in portfolio hedged of interest rate risk		260	-	-	-	-
Investments in subsidiaries, joint ventures and associates	3	1,908	70	(561)	(155)	(626)
Asset under reinsurence and insurance contracts		18	-	-	-	-
Tangible assets	4	2,229	(363)	(548)	(940)	(1,082)
Intangible assets		2,611	(2,199)	(2,606)	(2,611)	(2,611)
Tax assets		5,199	(2,681)	(2,966)	(2,681)	(2,681)
Non-current assets and disposal groups classified as held for sale		8,780	(2,056)	(2,619)	(5,123)	(5,411)
Other assets		1,780	(201)	(256)	(458)	(486)
Total assets		147,114	(10,532)	(17,008)	(21,063)	(25,404)

1 On the performing book we have assumed a run-off of the book (with yield in the meantime) and sale at the end of the liquidation period.

We have applied the following illustrative haircuts: Home purchase (35% - 45%); Consumer - 40% - 50%; Non-financial - 30% - 35%; General Government – 15% - 20% at the end of the liquidation period

We are seeking appropriate market comparable to provide better comparison and may seek to revise these in the coming days. At this stage we have not undertaken any DCF analysis which would be required for better

2 NPLs – are assumed to be disposed of during the initial 12-18 months. We have applied a higher level of haircut to the preliminary Economic Valuation Analysis to illustrate the impact of insolvency as follows:

- 50% - 70% - house purchase
- 93% - 98% for consumer finance
- 80% - 85% for Companies.

See slide 79 for further market commentary.

3 JV's, subsidiaries and associates:

- A haircut of 35% has been applied to the 'hold' scenario based on illiquidity studies.
- No value would be allocated to Aliseda and Primestar, as these JVs are service contracts with no value outside Hippocrates.
- For Totalbank, Targobank and Hippocrates Financial services we have not considered any haircut due to:
  - Hippocrates has confirmed that the Board of Directors approved a binding offer for Totalbank on May 18th.
  - Hippocrates sold its stake in Targobank on 1 June 2017.
  - Hippocrates Financial Services was sold on 5 May 2017.
- The declaration of insolvency may not affect the validity and performance of contracts with reciprocal obligations that are pending fulfilment by both parties. Our understanding is that partners would not execute their put options in case of insolvency.

4 Tangible assets/ Non-current/ Other Assets realized in the same way as Held For Sale assets.

- Other real estate asset and other inventories, an initial haircut and at the end an additional haircut of 80
  - Fixed assets, sale 33% each year with a 42% of haircut and at the end 80%
  - Inventories, sale 20% each year with a 50% haircut and at the end 80%

Liquidation scenario simulation

Assets (2)

We have assumed that the protected DTAs would be converted to cash but non protected DTAs would be lost.

Assets

Assets

€M	Total	Adjustments Low case	Adjustments High case	Insolvency Case Low case	Insolvency Case High case
Cash and cash balances at central banks	6,177	-	-	-	-
Financial assets held for trading	2,259	-	-	-	-
Financial assets designed at fair value through profit or loss	586	-	-	-	-
Available-for-sale financial assets	13,219	-	-	-	-
Loans and receivables:	94,480	(2,704)	(6,962)	(8,697)	(12,016)
Deposits at credit institutions	3,213	-	-	-	-
Loans and advances to other debtors	90,723	(2,704)	(6,962)	(8,697)	(12,016)
Performing loans	82,618	(2,194)	(2,588)	(3,803)	(5,949)
Non-performing loans	18,242	(510)	(4,374)	(4,894)	(6,067)
Fixed Income	544	-	-	-	-
Held-to-maturity investments	7,360	(398)	(491)	(398)	(491)
Derivatives – Hedge accounting	248	-	-	-	-
Fair value changes of the hedged items in portfolio hedged of interest rate risk	260	-	-	-	-
Investments in subsidiaries, joint ventures and associates	1,908	70	(561)	(155)	(626)
Asset under reinsurence and insurance contracts	18	-	-	-	-
Tangible assets	2,229	(363)	(548)	(940)	(1,082)
Intangible assets	2,611	(2,199)	(2,606)	(2,611)	(2,611)
Tax assets 1	5,199	(2,681)	(2,966)	(2,681)	(2,681)
Non-current assets and disposal groups classified as held for sale 2	8,780	(2,056)	(2,619)	(5,123)	(5,411)
Other assets	1,780	(201)	(256)	(458)	(486)
Total assets	147,114	(10,532)	(17,008)	(21,063)	(25,404)

1

The treatment for liquidation of DTAs is discussed on pages 35 -41. We have assumed that protected DTAs would be immediately converted into a credit receivables against the Spanish Tax Authorities.

Individual Non protected DTAs attributed to the parent will be lost. Additionally, as a consequence of the extinction of the Tax Group, the rest of the Non Protected DTAs would be allocated to the each subsidiary (for BINs in function to its contribution to the tax losses credited by the Group). In this case the recoverability of the DTAs will rely on future individual profits.

Part of the non-protected DTAs generated in 2016-17 could not convert into protected in the liquidation proceeding (assuming that no taxable income arises in 2017-18)

2

Non-current assets – held for sale

We have applied an additional hair cut of 23% to the preliminary economic valuation amount, to reflect the fact of the liquidation and distressed sales. Our liquidation assumption assumes a phased process with 20% of the portfolio sold in each of 3 years and the remaining balance realised with an additional ca. 80% haircut at the end of the liquidation process.

NPL and PL portfolio

Liquidation scenario and uncertainties

High level assumptions have been made on the appropriate pricing to be applied to the NPL and PL portfolios

NPL and PL in a liquidation scenario

Due to the limited time and data around the loan portfolios (both NPL and PL), we have made high level assumptions on the appropriate pricing for the portfolios.

In a liquidation scenario, we have assumed that the below pricing methodology may be used:

- Of the total book c€30.1bn is categorised as without collateral. Of this c€5bn is in the NPL category. Additional information is needed on the c€25bn of performing portfolio to refine pricing.
- Of the €25bn, c€22.5bn relates to SMEs and large corporates. Pending additional information this can be assumed to be cash flow based lending and recoverability could be impacted in case of issues with the underlying borrowers.
- Approximately €18bn (c€1.1bn of this is NPL) of the book is made up of residential loans collateralised on first homes with an average LTV of c.43%. Assuming this is quality seasoned performing residential product (in decent geographical locations) this could be considered attractive for potential investors.
- Based on the quality of data available and yield on this portion of the portfolio a securitisation exit could be considered. While the weighted average coupon will have a significant bearing on the capital structure that could be attracted, if it is not yield impaired (250+bps) pricing in the 85-95% range can be expected.
- Recent UK transactions that have been securitised have attracted pricing in the 90's as a % of GBV. For securitisation, availability of data and documents will be key. The depth of the market is yet to be ascertained as typical annual RMBS private distribution in Spain have been in the region of c.€1bn per annum over last 2 years and hence given the size of the portfolio a liquidity discount may be demanded by investors.

Set out on the following slide are recent NPL transactions which provide comparable pricing

- A similar approach can be considered for the c€2.2bn of second home exposures. Investors typically demand a higher return on this asset class.
- Assuming similar yield, location, LTV etc characteristics pricing on this book could be in the range of 80-90% of GBV.

Performing loans

- Of the balance, c€11.2bn is performing SME collateralised exposures. These appear to be low LTV but average time to maturity is 9+ years which could be viewed unfavourably by investors.

In order to refine our assumptions and pricing of the NPL and PL portfolios, further details around the portfolios is required.

Recent comparable NPL portfolio transactions

Each portfolio is unique and factors like quality and value of collateral, extent of unsecured exposures etc. have an impact on recoverability and therefore pricing. Recent SME and RED portfolio transactions have been used as indicative pricing levels for Hippocrates' NPL and PL portfolios

Recent SME portfolio transactions

Asset class	GBV (€'m)	Price (%)
SME / Corporate	[redacted]	
SME / Corporate		
SME / Corporate		
SME / Corporate		
Total		

Recent RED portfolio transactions

Asset class	GBV (€'m)	Price (%)
RED	[redacted]	
RED		
RED		
RED		
RED		
Total		

Distribution of credit risk (DCR) by purpose of contract

	Cm	%	High	Low
Construction and property development	[redacted]			
Civil engineering construction				
Large corporates				
SMEs and sole proprietors				
Individuals - Mortgage				
Individuals - Other collateral				
Individuals - Other collateral				
Total Spanish private sector				
Pricing Range (% of GBV)				

Overview

- It is expected that any strategic purchaser of the Bank will consider the NPL portfolio as non-core and will look to divest the same
- Recent transactions in the Spanish market have been reviewed to arrive at a range of indicative pricing for the NPL portfolio
- Each portfolio is unique and factors like quality and value of collateral, extent of unsecured exposures etc have an impact on recoverability and hence pricing
- As limited information on the portfolio is available at this stage a range can be derived based on recent transactions seen in the Spanish market
- Additional factors discussed below could further impact the portfolio and indicative pricing can be refined if additional information is made available.

SME portfolio

- A range of 10-20% of GBV can be assumed for the SME NPL portfolio.
- Factors that will impact pricing will include proportion of unsecured in the portfolio, quality of collateral etc. The total SME NPL is c€6.1bn of which c€2.4bn is possibly unsecured based on information provided.

Construction and Property Development

- The RED (real estate development) loans seem to trade a little higher as a % of GBV.
- A range of 20-30% of GBV can be assumed for the construction and property development NPL portfolio.
- Factors that will impact pricing will include quality, location and income generation from the underlying real estate.
- A review of collateral value, the reasonableness thereof (time of valuation, basis the valuation was done on, liquidity for the asset class in the market etc) can help further refine the pricing range.
- There is c€9.3bn of construction related exposures in the NPLs. Of this c22% is land (urban). An additional 17% is categorized as not having collateral. These are likely to have a negative impact on recoverability.

Rest of the NPL portfolio

- The above two categories account for c€15.5bn of the c€18.2bn of NPLs.
- An assumption can be made to apply the SME range to the large corporates.
- The other significant exposure is Retail with first homes as collateral. Pricing on these would depend on location and quality of collateral but one could assume these trade between 30-50% of GBV based on recent transactions. The process to recoveries is likely to be a little longer though as these are primary dwellings.
- Non-collateralised retail (if unsecured credit card type exposures) will trade sub 5% of GBV.

Liquidation scenario simulation

Creditor Hierarchy

As we have not been provided with the consolidated LDT as at 31 March 2017, we have used the 31 December 2016 data to extrapolate an estimated creditor hierarchy

Creditor Hierarchy

Creditor Hierarchy		of which				Adjustments	
€M	Total	Pledge	Privileged	Unsecured	Subordinated	Low	High
Financial liabilities held for trading	1553			1,553			
Financial liabilities designated at fair value through profit or loss	610			610			
Financial liabilities measured at amortized cost	131,199						
Liabilities of credit institutions	35,930	23,200		12,730			
Deposits from other creditors	78,782		[1] 54,068	24,714			
Debt certificates including bonds	13,192	11,957		1,235			
Subordinated liabilities	2,037				2,037		
Other financial liabilities	1,258			1,258			
Derivatives – Hedge accounting	1,046			1,046			
Liabilities under insurance and reinsurance contracts	470			470			
Provisions[1]	449			449		(1,278)	(3,457)
Tax liabilities	400		400				
Share capital repayable on demand	-						
Other liabilities	612.0			612.0			
Liabilities included in disposal groups classified as held for sale	-						
Net intersegments financing	-						
Total liabilities	**136,339**	[2] **35,157**	**54,468**	**44,677**	[3] **2,037**		

[redacted]

Basis of preparation

- This preliminary analysis has been completed (in the same way as our Preliminary Economic Valuation) base on the consolidated balance sheet at 31 March 2017.
- We do not have a consolidated LDT at 31 March 2017, but have used the 31 December 2016 LDT and other data sources to extrapolate an approximation.

[1] Privileged are split between Preferred (being amounts due to depositors up to the Covered amount – DGS has a subrogated claim once paid) and behind this any remaining amount due to depositors who are individuals and micros and SMEs

[2] Secured creditors includes €23.2bn ECB funding, which is collateralized against a portion of the loan book and securities

[3] While our analysis has been shown on a group basis and therefore intragroup balances are excluded, we would note that the insolvency estimated outcome statements should be produced on a legal entity basis (this work is in progress) and that intragroup debt under Spanish law is subordinated. This may have a material affect on recovery levels of different classes of creditors when looked at on a legal entity balance.

Liquidation scenario

Claims against the Estate

Based on our liquidation scenario simulation, the estimated liquidation costs for the three year period total €1,870m.

Item	Comment
Liquidators costs and expenses **[€395m]**	***Remuneration of the Insolvency practitioner:*** • Defined under the law and divided by the two phases (common phase and liquidation). The amount of remuneration is determined by the amount of the assets and liabilities of the debtor. • There are several circumstances whereby the remuneration of the insolvency practitioner may increase, including where: the company has > 1,000 creditors; or > 250 employees; or a collective dismissal procedure is undertaken; or it is a financial institution. • On the other hand, in certain instances, such as the cessation of the activity, that may reduce the insolvency practitioner´s fees. • The remuneration of the insolvency practitioner: – during the common phase is capped at €40m per company. – during the liquidation phase is limited to one year. Under exceptional circumstances (i.e. highly complex cases) the Judge can admit an additional fee of 6 extra months salary (two periods of three months). Given the case is highly likely. This is subject also to a cap of €10m (per company). • Finally it should be noticed that there would be two appointed insolvency practitioners due to the size. ***Lawyers:*** • The case law has settled that the lawyers´ fees are limited to the insolvency practitioner fees. • Given the case, we have considered as a reasonable assumption a high scenario where the lawyers request the maximum possible fees, and a low scenario where the lawyers accept a 50 % discount over the insolvency practitioner fees. ***"Procurador":*** • The "procurador" acts on behalf of the debtor before the Court. • The fees of the "procurador" are the lowest of the following: – Those resulting from the application of a scale determined by the amount of the liabilities of the debtor. – The insolvency practitioner fees (according to the case law). – Given the case, we have considered as a reasonable assumption in a high scenario where the "procurador" accept a 66% discount over the insolvency practitioner fees and a low scenario with a 78% discount. This is purely illustrative, given the scale of such a liquidation is unprecedented.

Liquidation scenario

Costs of Liquidation cont'd

Based on our liquidation scenario simulation, the estimated liquidation costs for the three year period total €1,870m.

Item	Comment
Personnel cost **[€238m]**	• Costs of employees required during the liquidation to assist with the wind-down of operations. • A small number of branches (40) and the head office (and therefore the employees) will be kept open to deal with the wind-down procedures and the residual banking operations. • The total personnel costs of €235m for the liquidation are significantly lower in comparison to the annual personnel costs (normal trading) of €719m. • 10% increase in remaining staff's salaries during the liquidation process (€ 3m) to avoid early departure from the company
Employee Termination costs **[€332m]**	• Following cessation of the business, because of the removal of the banking license, the extinctive collective dismissal procedure may be undertaken. The procedure will be ruled by the same Court that oversees the bankruptcy proceeding. • In Collective dismissal proceedings, the Spanish Statute of Workers Rights foresees that if any objective cause concurs the employees affected by the collective dismissal procedure will receive compensation equal to 20 days' salary per year of service, with a maximum of 12 months' salary. • For the purpose of our illustrative analysis we have taken into account the following: 1. The number of employees. 2. The average seniority of the employees. 3. The average salary of the employees. • The above would provide a gross estimation; detailed individual specific information would be required to produce a more robust analysis • Employees continue to be paid during the consultation process.
Termination costs (other than employees) **[€255m]**	• On termination of a branch sale and leaseback agreement, Hippocrates will be liable for the outstanding term under the agreement.
Operating costs **[€650m]**	• In the first year all branches are sold apart from a residual 40 (and the head office), which will remain open to deal with claims and wind-down procedures. • The scale back reflects the properties no longer needed in the liquidation of Hippocrates. • Included in the operating costs is the communications, maintenance of premises equipment, IT and other operating expenses, legal fees and other operating costs based on the amount of assets still on the balance sheet.

Liquidation scenario simulation

Sources of uncertainties and next steps

With further data around the balance sheets of the solo entities and time, we would be able to refine our liquidation assumptions and prepare a more robust and reliable liquidation scenario strategy.

Sources of uncertainty

Set out below are the key sources of uncertainty with respect to the liquidation scenario simulation.

- We have not have access to sufficient data in order to determine the accurate composition and valuation of the assets and therefore have had to make high level assumptions on the asset realisation strategy, which may have a material impact on the overall realisations.
- The impact of set off is yet to be considered. This could have material value implications if liabilities (that are only worth say, 30% of nominal value) are offset against assets worth 100% of nominal value.
- We do not have sufficient information to consider whether there are any setoffs available for creditors and debtors to be applied. Any setoff may impact on the outcome.
- The creditor hierarchy template has been prepared based on our understanding of the Spanish Insolvency Act and we have not had sufficient data or time to enable the creditors to be categorised according to their ranking. This creditor hierarchy table may differ materially once we have further granular detail.
- The liquidation would need to be conducted on a solo entity basis, however we have not been provided with the Hippocrates corporate structure or individual entity financial statements. On this basis, our calculations have been conducted at the Hippocrates group level. Again, this could have material value implications with creditors in some entities receiving 100% recovery to the detriment of creditors in other entities. This issue is exacerbated by the subordination of intercompany loans, which makes the.
- entity by entity analysis critical

To prepare the liquidation plan, significant information and a detailed realisation strategy is required. Given the insufficient information currently available, it would prove very difficult to prepare a detailed liquidation plan for the liquidation of Hippocrates.

Given the change in the Spanish Insolvency Act, in particular around the liquidators' remuneration and the timeframe for a liquidation, there is significant uncertainty around the maximum timeframe for a liquidation which would likely have an impact on the liquidator's realisation strategy.

Next steps

In order to refine our liquidation scenario strategy we consider that the following next steps would be required:

- If we are provided with sufficient data, we would divide the assets of Hippocrates into several classes to develop an appropriate realisation strategy for the assets, including consideration of packaging options – what would facilitate an efficient sale of sets of assets by the insolvency practitioner during the liquidation phase.
- Complete individual entity outcome statements. A review of the individual entity's balance sheets, the intercompany matrix and the overall Hippocrates corporate structure would provide greater visibility as to where value is realised and the impact on the respective entity creditors.
- With further data and time, we would be able to refine our liquidation assumptions and prepare a more robust and reliable liquidation scenario strategy.
- Further, we will also look to formulate a liquidation scenario based on the maximum 18 months considered by the Spanish Insolvency Act. Although this timeframe is considered unrealistic for Hippocrates given its size, complexity and creditor base.
- This is likely to further reduce recovery ranges due to the shorter period.

Liquidation scenario simulation

Consolidated vs. individual legal entities.

The liquidation scenario simulation has been prepared on a consolidated basis for illustrative purposes, however any liquidation is conducted on a solo entity basis (this information is not currently available).

Hippocrates Group

Given we have not been provided with the corporate structure or the balance sheets of the solo entities, our liquidation scenario has been prepared on a consolidated basis for illustrative purposes. The actual liquidation under Spanish Insolvency Act would be of the solo entities.

On receipt of this further information, we would be able to present a more robust liquidation scenario simulation on a solo entity basis as follows:

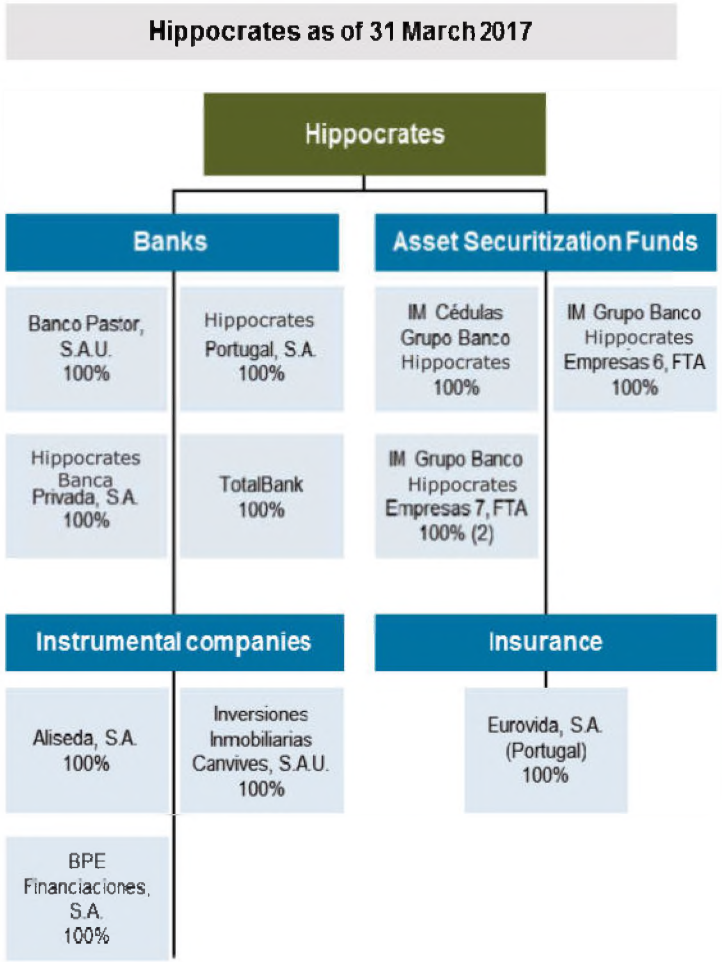
- **Liquidate only the entities with the highest debt.** We would assess the hypothetical insolvency situation of the legal entities giving consideration to the effects that may stem from the insolvency of Hippocrates.
- **Who are under an insolvency situation?** The solvency analysis should be made by (BCE, BE, MUS) about the institutions with banking license.
- **The international subsidiaries may be excluded.** According to the Spanish Insolvency Law, only the Spanish legal entities would be liquidated by the Spanish proceedings. The insolvency proceeding, of a foreign legal entity, would be ruled by its national Courts.

Analysis of intercompany loans - Who else would fall are under an insolvency situation?

The insolvency proceedings of the parent company would mean the subordination of the intercompany loans (for instance, €11.4bn of intragroup liabilities that would be subordinated). This situation would impact the solvency ratios of the subsidiaries and may impact on the balance sheet of the guarantor of Hippocrates (i.e. Aliseda).

The Employee impact analysis

The employee impact may be materially different on a consolidated basis compared with a solo legal entity basis. Under a solo legal entity basis analysis, it would be possible to reduce the number of employees affected by the collective dismissal (i.e. selling business units).



Contents

Scope, basis of work and limitations

The scope of the work has changed from the initial proposal submitted as a consequence of the imminent liquidity crisis which Hippocrates is facing.

The data limitations and time constraints have been key challenges. We have sought to use available firm and industry information to provide insight and build illustrative analysis.

Methodology applied seeks to offer a preliminary assessment of Hippocrates on the basis of an individual analysis of the key asset types.

Purpose and overall approach

- Hippocrates is facing a challenging financial situation: the 31 December balance sheet has been restated to reflect additional required provisions; the President of Hippocrates has recently been replaced; there has been considerable press speculation as to Hippocrates' future; and depositor outflows have accelerated.
- Management's initial plan is to sell the bank to a private entity, with a deadline for offers on 10 June; Hippocrates has established a virtual data room for potential purchasers, to which Deloitte has had access (since 25 May at 14:00 CET). If there is no official purchase announcement by 10 June, liquidity pressure could increase. As per recent press releases, the deadline for submission of such offers has been extended to no later than the end of June.
- Emergency Liquidity Assistance capacity is [redacted] from which [redacted] is available; however, it is unclear if this will suffice to cover the liquidity gaps Hippocrates might face in the very short term.
- Moreover, we understand that a pre-cautionary recapitalisation has been excluded.
- While no failing or likely to fail decision has been made by the Single Supervisory Mechanism ("SSM") the situation is urgent and SRB has accelerated its readiness planning in case a resolution scheme is required and has commissioned Deloitte to perform an economic valuation of the entity as a foundation for its resolution planning including a preliminary estimated outcome statement illustrating the potential insolvency counterfactual. The SRB made its sharepoint available to Deloitte by 24 May 18:27 CET.

Methodology

When preparing the initial report, Deloitte has implemented a methodology tailored for the sole purpose of assisting the SRB in relation to its valuation of Hippocrates, seeking to offer a preliminary assessment of Hippocrates as of today using 31 March 2017 unaudited management information.

- We have adopted a risk-based approach, focusing on areas of significant valuation uncertainty (e.g. loans or loan portfolios, real estate assets, level 2 and level 3 financial instruments, deferred tax assets, litigations and claims, etc.)
- In the time available we have based our analysis on the consolidated group balance sheet, applying specific valuation methodologies per asset type. These methodologies are detailed in Chapter 2 of this interim report.
- Through our daily conference calls with the SRB we have discussed:
  - Our proposed methodology and valuation approach for the key asset classes
  - The draft skeleton of the 30 MAY interim report; and
  - Time and data limitations and the challenges this places on us in providing meaningful insight.
- The skeleton for the initial report was agreed with you on 28 May and covered:
  - the preliminary economic valuation,
  - the general liquidation strategy and principles,

  and has been amended and extended as per your request expressed during our 31 May conference call, for the agreed interim reports to be submitted by 2 and 6 June.

Scope, basis of work and limitations

Our work has been severely marked by the extremely short period of time we have been provided for the review of the information.

Our review is limited exclusively to the areas included in our mandate, and with the limitations and assumptions described herein.

- The scope of the current mandate and changes from the first Provisional valuation have been covered in the introductory notes in pages 2, 3 and 4.
- Our main challenge, as discussed with you, has been the limited time and a reduced ability to obtain and review the necessary information. As such, the analysis in the report is necessarily illustrative.
- We have sought to show examples of how this analysis can be developed if there is more time and in doing so have made a number of critical assumptions that in some cases have no clear or supportable basis. These limitations mean that the reliability of the figures included in the interim cannot be guaranteed for decision making.

Limitations, liability and assumptions

- Our work is based on unaudited management information as at 31 March 2017. Our procedures did not include verification work or constitute an audit in accordance with auditing standards.
- Our work does not constitute the provision of legal advice. During the course of our work a number of legal issues have been identified around the operation of Spanish Insolvency law which have been tackled within the report.
- Our work does not constitute any recommendation as to whether the resolution process with respect to Hippocrates should be initiated, or as to which resolution tool would be recommendable to implement.
- Our work has been performed on a desk top basis with only limited access to management.
- The scope of our work to date has been severely limited by the information and time available; Deloitte was first approached to submit a proposal for services on 18 May 2017 and, following submission of our response on 22 May, notified of its selection the next day with an initial kick off call later that same day explaining that the work needed to be significantly accelerated with an initial report required by 30 May.
- Moreover we note that access to the SRB sharepoint was only obtained on 24 May at 18.27 CET and to Hippocrates' virtual data room on 25 May at 14.00 CET; in this regard, we note a number of important data gaps which are outlined in this report.
- Our review is limited exclusively to the areas included in our mandate, which has evolved and changed from SRB's original request as a result of the current situation, and with the limitations and assumptions described herein.
- An illustrative example of the list of information reviewed is attached in these Appendices.

Important notice

Our procedures did not include verification work or constitute an audit in accordance with auditing standards.

Deloitte accepts no responsibility for the reliability of the information reviewed to the extent it is inaccurate, incomplete or misleading, or for matters not covered by the report or unidentified due to the limited nature of our enquiries.

Limitations, liability and assumptions

- The information reviewed to prepare the report has been provided to us by the SRB and by Hippocrates, or derived from publicly available sources.
- No due diligence or other auditing of numbers or data has been performed.
- The information reviewed consists of copies of the original documents. The validity and authenticity of the referred documentation and the existence of any other documents that might alter the content of our report have not been verified, except when otherwise expressly indicated herein.
- We have worked under the assumption that no information that might have changed, qualified or replaced our conclusions within this report, has been omitted. Likewise, we have not carried out any review of the accuracy, truthfulness, validity and integrity of information provided, and we have assumed that this information is accurate, true and complete in all aspects. Unless otherwise noted in the report, full compliance with all applicable local and national laws and regulations is assumed by us.
- In addition to the foregoing, it must be highlighted that, within the information reviewed, there are a number of data gaps and inconsistencies in the available information. Therefore, other documents we have not had access to or other facts we have not been informed of could exist, which might had altered the content and conclusions herein described.
- Accordingly, we accept no responsibility for the reliability of the information reviewed to the extent it is inaccurate, incomplete or misleading, or for matters not covered by the report or unidentified due to the limited nature of our enquiries. Our work on the interim report should not be considered an adequate substitute for a normal scope investigation on which reliance could properly be placed as part of the process in making a decision.
- In connection with the foregoing, Deloitte does not accept any responsibility for matters not covered in the report or omitted due to the limited nature of our review.
- We shall not under any circumstances whatsoever be under any liability to any party other than the SRB, for whatever the client may or may not do in reliance on the report or any other information, opinions or advice given to the SRB by Deloitte. Any further work done or advice given in relation to the engagement will be on this basis. Nothing contained in this document (especially the analyses, recommendations, opinions or conclusions or the identity of Deloitte staff) should be disseminated through advertising media, public relations, media, means of sale, mail, direct transmission, or any other means of communication without the prior written consent of Deloitte.
- Without prejudice to the generality of the foregoing, which applies to all and any of the areas and teams intended to the issuance of this interim report, each of the relevant areas has included a section called "Sources of uncertainty", with specific limitations and assumptions.
- For your convenience, this interim report has been made available to you in electronic copy format. Only a final signed copy should be regarded as definitive.
- This interim report is issued on the understanding that the SRB has drawn our attention to all matters of which they are aware concerning the financial position of Hippocrates which may have an impact on our reports. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Deloitte.