Danièle NOUY
Chair of the Supervisory Board

COURTESY TRANSLATION

Ms Paloma López Bermejo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 21 July 2017

Re: Your letters (QZ047 and QZ053)

Honourable Member of the European Parliament, dear Ms López Bermejo,

Thank you for your letters on Banco Popular Español, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by cover letters dated 9 June and 19 June 2017.

As laid down in the Interinstitutional Agreement between the European Parliament and the European Central Bank (ECB), any reporting obligations vis-à-vis the European Parliament are subject to the relevant professional secrecy requirements, as outlined in the Capital Requirements Directive IV[1]. These requirements also apply to information about banks which the ECB determines to be failing or likely to fail. While I cannot disclose any confidential information, let me provide you with some relevant considerations in response to your question.

On 6 June 2017 the significant deterioration of the liquidity situation of Banco Popular Español S.A. led to a determination that the entity would have, in the near future, been unable to pay its debts or other liabilities as they fell due. Consequently, the ECB determined that the bank was failing or likely to fail in accordance with Article 18(1) of the Single Resolution Mechanism Regulation[2] and duly informed the Single Resolution Board (SRB), which adopted a resolution scheme entailing the sale of Banco Popular Español S.A. to Banco Santander S.A.

The liquidity crisis experienced by the bank was idiosyncratic and was triggered by a series of events over recent months, including the bank's announcement that the 2016 financial statements had to be amended and that a new capital increase or, alternatively, a merger or acquisition process would have to be carried out. This also led to several rating downgrades.

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1 Directive 2013/36/EU of the European Parliament and of the Council.

2 Regulation (EU) No 806/2014 of the European Parliament and of the Council

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The structural problems of the bank (i.e. the high level of non-performing assets, low provisions and poor profitability) had been identified in the context of the 2014 comprehensive assessment when the Single Supervisory Mechanism was being established and had been reflected in commensurate capital requirements since then as a result of the Supervisory Review and Evaluation Process. This process involved the use of several supervisory tools, including, among other things, on-site inspections, internal model investigations, stress-test exercises, as well as the ongoing assessment of the bank's financial and capital situation.

In particular, the 2016 European Banking Authority stress test revealed that an adverse scenario would have a significant impact on Banco Popular Español. The outcome of this scenario for the bank was the worst among the Spanish banks participating in the test and the third worst among the whole sample in terms of the depletion of the CET1 (Common Equity Tier 1) ratio.[3]

As mentioned above, the SRB proposed a resolution scheme on 7 June 2017 that was subsequently approved by the European Commission under EU bank recovery and resolution rules. The resolution process including the treatment of shareholders and subordinated bondholders does not fall within the scope of the supervisory activity carried out by the ECB.

Lastly, we are continuously monitoring developments in the banking sector to assess whether any stress situation should be addressed.

Yours sincerely,

[signed]

Danièle Nouy

[3] The results of the 2016 European Banking Authority stress test with regard to Banco Popular Español are available at http://www.eba.europa.eu/documents/10180/1519983/EBA_TR_ES_80H66LPTVDLM0P28XF25.pdf