



EXPLANATORY NOTE ON THE 'VALUATION 3' REPORT

The 'Valuation 3 report' notes that the opening of a normal insolvency proceeding for Banco Popular Español S.A. (BPE) on 7 June 2017 would have resulted in an unplanned liquidation. This is by its nature value destructive, for reasons including: the abrupt cessation of business; customer attrition; an inefficient asset realisation process; and additional (often significant) costs and claims.

Deloitte considers three alternative time scenarios (18 months, 3 years and 7 years) for the liquidation under normal insolvency proceedings to maximise the asset realisations to creditors in a reasonable period. For each time scenario the report presents a best and worst case outcome.

The report highlights that under any of these scenarios, the losses to BPE's creditors would have been much higher than in resolution and that customers, including depositors, which were not affected by resolution measures, would also have incurred losses (See Annex I):

- The 18 month scenario, included in the report reflecting the Spanish Insolvency Act, is deemed by Deloitte as extremely unlikely. Losses for unsecured creditors in this scenario would range between EUR 8 and 14 bn.
- The 3 year scenario, considered by Deloitte as the minimum period to liquidate assets in an efficient way, would result in losses for unsecured creditors ranging between EUR 5.8 and 11.5 bn.
- The 7 year scenario, representing a longer term work out of assets to obtain higher recoveries, would still result in losses for unsecured creditors between EUR 3.3 and 8.5 bn.

Moreover, in an insolvency scenario the Spanish Deposit Guarantee Scheme would have incurred losses between EUR 1.8 – 2.2 bn. Furthermore, the valuation report does not include any adverse impact on the Spanish financial sector or the Spanish economy that could have resulted from the



unplanned liquidation of BPE. This could have further reduced recoveries for creditors under the above scenarios.

Therefore, Deloitte concludes that for the Affected Shareholders and Creditors, no recoveries would have been expected in a normal insolvency proceeding even under the most optimistic scenario considered and, as a result, there is no difference in treatment in comparison to the resolution action taken (See Annex II).

The most important factors driving Deloitte's conclusions are:

- A significant reduction in the valuation of the Bank's loan portfolio, driven by estimated prepayment behaviour on the performing loan portfolio and discounts required to achieve disposal of the non-performing and 'rump' performing loan portfolios.
- Reductions in the value of securities, real estate, intangible assets, and tax assets.
- Liquidation costs (remuneration costs, cost arising from the termination of contracts, employee costs including the process for collective dismissal and operating costs), and estimates of legal contingencies.

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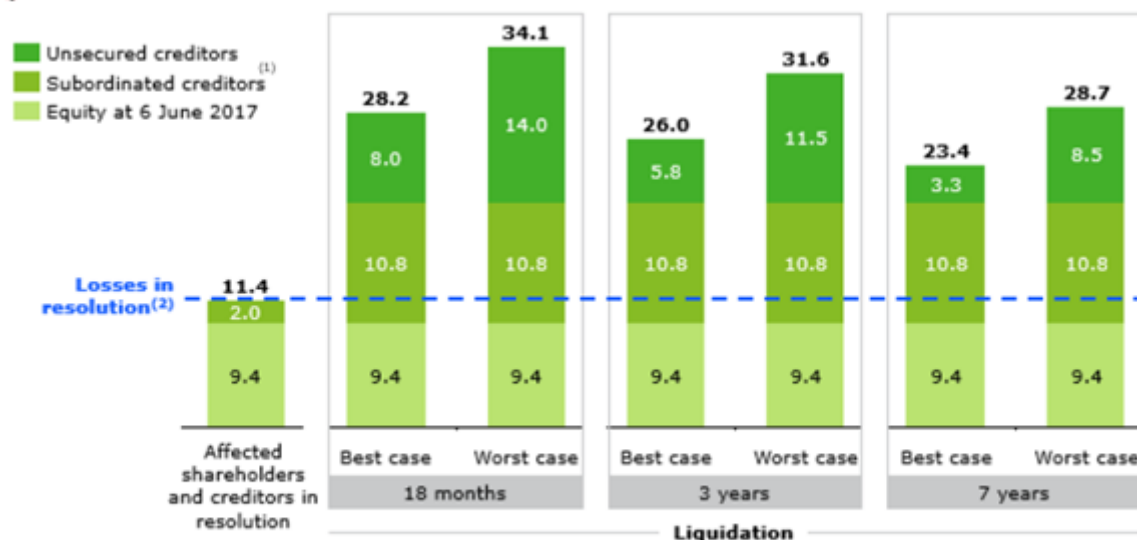
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Annex I: Comparison with resolution outcome

NCWO Outcome for Banco Popular legal entity (Creditor losses) (€bn)



(1) This includes €2.0bn of subordinated debt and €8.6bn of intra-group debt, totaling €10.8bn.

(2) All creditor's losses in resolution (€11.4bn) were suffered by the shareholders and subordinated creditors of Banco Popular legal entity.

Source: Banco Popular Individual Financial Statements, Deloitte analysis

Annex II: Table of results

Estimated assets realisation values in liquidation (€m)

Assets	NBV (6 June 2017)	18M Scenario		3Y Scenario		7Y Scenario	
		Best Case	Worst Case	Best Case	Worst Case	Best Case	Worst Case
Equity, fixed income and derivatives portfolios ⁽¹⁾	21,543	20,410	20,392	20,410	20,392	20,410	20,392
Loans and receivables	83,330	66,521	63,430	68,499	65,660	71,069	68,579
Joint ventures, associates and subsidiaries	9,908	8,382	7,496	8,382	7,496	8,382	7,496
Real Estate assets	3,728	2,514	2,252	2,832	2,624	2,946	2,758
Intangible assets	1,198	-	-	-	-	-	-
Tax assets	5,692	2,334	2,334	2,334	2,334	2,334	2,334
Other assets	1,045	166	166	166	166	166	166
Total insolvency realisation		100,327	96,067	102,624	98,669	105,307	101,722
Liquidation costs		(990)	(989)	(1,078)	(1,077)	(1,193)	(1,192)
Total realisation for shareholders & creditors		99,338	95,078	101,546	97,593	104,114	100,531

(1): Equity, fixed income and derivatives portfolios includes cash and cash with the Central Banks totaling €1,334m, and excludes fixed income from the loans and receivables portfolio of €654m

Source: Banco Popular Individual Financial Statements; Deloitte analysis