

Addendum to Hippocrates Provisional Valuation Report

[Sale of Business scenario]



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1. **Executive Summary**

1.1. **Outcome of the alternative insolvency scenario**

The valuation must include an estimate of the recoveries which shareholders and creditors would expect to receive in the event that Hippocrates were wound up under normal insolvency proceedings. This will assist the SRB in evaluating the risk that Hippocrates' shareholders and/or creditors are ultimately assessed to have received worse treatment than if Hippocrates had entered into a normal insolvency proceeding.

The appropriate insolvency proceeding is governed by Law 22/2003, on insolvency (the **Spanish Insolvency Law**). There is no specific law governing bank insolvencies in Spain. The Spanish Insolvency Law promotes the sale of the business as a whole to preserve value. If Hippocrates' banking license were to be revoked making the business non-viable, liquidation would be likely to begin immediately. Liquidation consists of an accelerated realisation of the assets, with no minimum binding price. Creditors must be paid in accordance with the order established hierarchy settled by Spanish Insolvency Law.

We have performed an initial estimated outcome statement for a liquidation scenario focused on the parent company only reflecting limited data ant time for our analysis.

The information available to us has not been sufficient to construct a detailed and reliable estimate of the creditor hierarchy. This is due principally to the limited availability of information on a legal entity level, reconciliation issues with the liability data template (**LDT**), a lack of clarity on intragroup assets and liabilities, and to the fact that the deteriorating liquidity position of the entity is likely to result in significant changes to the liability structure between the date of the most recent information available to us and the resolution date.

Our methodologies and assumptions for this analysis are outlined in chapter 3 below. The table below shows our best and worst case estimates for potential total recoveries and implied losses.

(€ billion)	Worst	Best
Total recovery available for creditors		
Implied losses (for consolidated liabilities and equity as of March 2017)		



2. Liquidation scenario simulation

2.1. Purposes of this simulation

According to article 36 of the BRRD, article 5 of Law 11/2015 and article 7 of Royal Decree 1012/2015, a valuation is required to determine whether compared to the resolution action Hippocrates' shareholders and/or creditors would have received a better treatment had Hippocrates entered into an ordinary insolvency proceeding provided for under Spanish Insolvency Law.

2.2. Liquidation strategy explanation

The aim of the liquidation stage is to maximise asset recoveries for the purposes of repaying creditors. Spanish Insolvency Law promotes the sale of the business as a whole considering it as the best strategy to minimise the loss of value that the liquidation process entails. Where that cannot be done, then assets should be packaged into portfolios or sold piecemeal.

An insolvent liquidation process is by its nature value destructive (assets sold at distressed prices, costs of the process are high, etc.); this is exacerbated in the case of an unplanned process.

The process for liquidations in Spain under Spanish Insolvency Law is set out in Annex II.

The changes related to the 18 months' practitioners' fee cap are untested in the courts but may act as a disincentive to a liquidator to run a long term process. For an entity such as Hippocrates, a very short period of 18 months may not be feasible. A process condensed over a short period risks market saturation which would depress prices.

2.3. Creditor hierarchy

Settlement of the debtor's liabilities will be in accordance with the order established in the Report prepared by the insolvency liquidator (foreseen in article 75 of the Spanish Insolvency Law), and in any event according to the hierarchy settled by the said Spanish Insolvency Law:

Entity	
1	Income from secured assets will be applied to the secured credits up to their value.
2	Credits against estate: costs of the process (including: fees of the insolvency practitioner, compensation from collective dismissal, salaries after the declaration of insolvency, any cost rise during the process, etc.)
3	Privileged credits
4	Unsecured creditors
5	Subordinated creditors

It is important to note that under Spanish Insolvency law, intra group debts are subordinated behind unsecured creditors.

2.4. Methodology and hypothesis

The liquidation process in Spain is heavily court-driven which would impact on any asset realisation strategy. The liquidation will be subject to Spanish Insolvency Law and will be monitored by a Spanish court, who would appoint the insolvency practitioners from the list proposed by the FROB.

As a result of the liquidation process, certain expenses may arise (legal advisors, court agent - *procurador*-, insolvency administrator, collective dismissal, etc.) which may be material in addition

to the foreseen loss of value as a result of the accelerated sale of assets by the insolvency administrator.

The liquidation analysis has to be carried out on an individual basis (i.e. by legal entities), since a group liquidation is not possible under Spanish law and to reflect the different ranking of claims. Our hypothesis would be that an insolvency would be triggered, first, at the parent level (by withdrawal of the banking licence or petition by the directors to the bankruptcy court).

Main outcomes and sources of uncertainty

While noting the recent law changes imply an accelerated process (max 18 months), we have modelled the scenario of a 3 year liquidation process on the basis that the liquidator is still required to maximise realisations and, given the complexity, the Court may be willing to approve a liquidation plan over this period.



2.5. Legal entity basis

Given the financial interconnectedness between Hippocrates and its subsidiaries, a liquidation appointment at the parent level may likely lead to insolvent liquidations at certain subsidiaries also, since those entities would no longer be able to call back funds required for day to day purposes, or due to the withdrawal of their banking license.

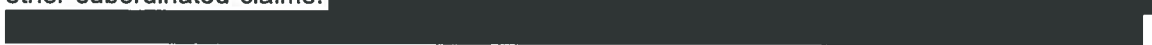
We note that Hippocrates' subsidiaries can be classified into two groups: those that provide finance services and those which provide supplementary services (i.e. portfolio management, real estate companies, etc.) Given that the parent company represents approximately 90% of the group's assets, the subsidiaries that are relevant to be considered in an insolvency scenario of the group are the following:

<table border="1"> <tr><td colspan="2" style="text-align: center;">HIPPOCRATES</td></tr> <tr><td>Assets</td><td style="text-align: right;">138.733</td></tr> <tr><td>Liabilities</td><td style="text-align: right;">128.630</td></tr> </table>		HIPPOCRATES		Assets	138.733	Liabilities	128.630																											
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*In million euros

The main consequences of a Company being declared insolvent, are that (i) its assets and liabilities are frozen, and (ii) payments of its debts is subject to the creditors rank provided for in Spanish Insolvency Law.

If certain companies within the same group are declared insolvent at the same time, the main issue is the treatment of intragroup credits within the scope of the insolvency proceeding. Further to Spanish Insolvency Law, those intragroup credits are qualified as subordinated, and rank junior to other subordinated claims.





With respect to Hippocrates, the impact of the insolvency proceeding, in terms of how losses are allocated is summarised below:

Allocation of write downs	Adjustments (*) (Euro billion)	
	Best case	Worst case
[Redacted]		

We analyse below the impact of the insolvency proceeding of the parent in the following subsidiaries:

i. Banco Pastor

On the balance sheet, appears that the entity has customer deposits for a total amount of €11.114m. Simultaneously, Banco Pastor has deposits of €6.072m on its parent company, Hippocrates.



ii. Popular Banca Privada

On the balance sheet, appears that the entity has customer deposits to a total amount of €334m. At the same time, Popular Banca Privada deposited €539m on its parent company, Hippocrates.





iii. **Banco Popular Portugal**

Considering the effects of the individual basis analysis, the assets of the entity would be reduced to an amount between €9.192m and €8.225m.

The customer deposits of the entity raises to a total amount of €4.711m, while the total liabilities represent an amount of €8.404m.

Banco Popular Portugal has been receiving funds only from Hippocrates. As a consequence, the insolvency declaration of the parent company would not have a severe impact on the balance sheet of the Portuguese entity, making the maintenance of the economic activity an existing possibility.



iv. **Aliseda**

This company will be on an equity impairment situation, which implies that according to the Spanish Companies Law, it has to be wounded up.

v. **Inv. Inm Camvives**

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2.6. Estimated assets realisations

We set out below a summary of our analysis which shows the adjustments applied to asset values in a liquidation.

Area	Adjustments (*) (Euro billion)	
	Best case	Worst case
Total gross assets per 31 March 2017	138.8	138.8
Total gross assets	138.8	138.8
Loans and receivables		
Real estate assets		
Deferred tax assets		
Intangible assets		
Equity and Fixed Income		
Joint ventures, associates and subsidiaries		
Total adjustments		
Subtotal – estimated asset realisations		
Costs		
Total net realisations for creditors		

[Redacted content]



2.7. Estimated recoveries to creditors

We have allocated the estimated recoveries from the best case scenario above through the creditor hierarchy for the group as shown below to identify where the value breaks and shortfall to creditors. In addition, the LDT had considerable data and reconciliation shortcomings.

Creditor Hierarchy	Hippocrates (solo) as at 31 March 2017 (€'m)	Adjustment (contingent liabilities)	Total	Allocation of Best case expected realisations	Implied % shortfall
[Redacted]					

[Redacted]



