Banco Popular resolution

On 7 June 2017, the Single Resolution Board decided to trigger the resolution of Banco Popular Español. This decision is based on the ECB's conclusion that the bank was about to fail and reach its point of non-viability, taking into account the rapidly deteriorating liquidity and the failure of the M&A process. To ensure the continuity of the bank's operations and to avoid adverse effects on financial stability, the SRB decided to transfer Banco Popular to Banco Santander S.A.

To address the capital shortfall, all the shares and the AT1 instruments were written down and the Tier 2 converted into shares to be transferred to Banco Santander S.A. for the price of EUR 1.

Santander will integrate Popular's operations in the next couple weeks. The combined bank will book €7.9bn of provisions and raise €7bn of equity in July to neutralise the impact of the transaction on the CET1 ratio.

Axiom's analysis

As recently as last week, Banco Popular reported additional provisions of €1.5-2bn as part of a full review of its portfolio expected for the end of the month. Our estimations stood significantly higher, between €3.5bn and €4bn and our base scenario assumed the conversion of the two new AT1s only, excluding the legacy T1s and the T2s from the scope of the burdensharing, alongside a low bid from Santander around 0.15% of Banco Popular's book value.

The announced amount of €7.9bn in provisions, and above all the undifferentiated treatment between the various debt formats (T2 treated similarly as AT1 with a value reduced to zero) is a severely adverse outcome and largely unexpected by analysts. The ECB's view on the liquidity is also debatable in light of a Eur 20bn portfolio of securities available for central bank funding and a Liquidity Coverage ratio of 146% released with their Q1 results on 5 May. Santander leveraged its sole bidder position, without any competition, to impose their terms on Popular bondholders and ultimately extract the maximum value from the acquisition with c. €950mn of additional net profit expected by 2020 and an increase of 3.4% in RoTE to 13%.