EUROPEAN CENTRAL BANK

BANKING SUPERVISION

**Danièle NOUY**

Chair of the Supervisory Board

*COURTESY TRANSLATION*

Ms Tania González Peñas
Ms Lola Sánchez Caldentey
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Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 27 July 2017

**Re: Your letters (QZ-060-61)**

Honourable Members of the European Parliament,

Thank you for your letter regarding Banco Popular Español, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 29 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 rules also apply to information about banks which the ECB determined to be failing or likely to fail. While I cannot disclose any confidential information, let me nevertheless provide you with some relevant considerations in response to your questions, to the extent that they concern the ECB competences regarding prudential supervision.

The recent liquidity crisis experienced by Banco Popular Español S.A. was idiosyncratic and triggered by a series of events over recent months, including:

- In February 2017 the institution disclosed the need for extraordinary provisions amounting to €5,700 million, leading to losses of €3,485 million in 2016, and appointed a new chairman;
- On 10 February 2017 DBRS downgraded the rating of the institution;
- On 14 February 2017 Fitch downgraded the rating of the institution;

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

- On 3 April 2017 the institution released an ad-hoc public statement on the outcome of several internal audits with a potentially significant impact on its financial statements and confirmed that it would replace its chief executive officer after less than one year in office;
- On 7 April 2017 Standard & Poor's downgraded the rating of the institution;
- On 10 April 2017 the institution announced that it would not pay dividends and that a capital increase or a corporate transaction could be required owing to the group's tight capital position and the level of its non-performing assets;
- On 21 April 2017 Moody's downgraded the rating of the institution;
- On 3 May 2017 the group disclosed its quarterly results for the first quarter of 2017, which underperformed market expectations;
- On 31 May 2017 it was disclosed in the media that the bank could face a wind-down process if the ongoing sale process was not finalised in the very short term;
- On 6 June 2017 DBRS and Moody's downgraded the rating of the institution.

The ECB has continuously monitored the situation, increasing the frequency of that monitoring when the situation became more critical, i.e. daily since the beginning of April. In particular, the monitoring of the liquidity coverage ratio (LCR) was one of the supervisory tools used to assess liquidity risk.

On 6 June 2017 the significant deterioration of the liquidity situation of Banco Popular Español S.A. led to the determination that the entity would have, in the near future, been unable to pay its debts or other liabilities as they fell due. This situation made it impossible to delay the failing-or-likely-to-fail decision until the weekend, as there were no alternative supervisory or early intervention measures available which could have prevented the failure. 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 (SRMR)[2] and duly informed the Single Resolution Board (SRB), which adopted a resolution scheme entailing the sale of business.

The ECB had been closely monitoring not only the liquidity, but also the capital position of the bank. Its structural problems (high level of non-performing assets, low coverage, poor profitability) were reflected in commensurate capital requirements established by the ECB. This capital demand reflected, inter alia, the results of the 2016 European Banking Authority (EBA) stress test, which revealed that Banco Popular Español S.A. would suffer a significant impact under a stress scenario. It had performed the worst in Spain and the third worst in the whole sample in terms of its Common Equity Tier 1 (CET1) ratio under the adverse scenario. However, the ultimate goal of the 2016 EBA Stress test was neither to assess the economic value of the bank as a whole from a gone-concern perspective, nor to anticipate the impact of an idiosyncratic run on a bank. Instead, such a stress test is a tool designed to shed light on the resilience of institutions to certain adverse macroeconomic scenarios which may or may not materialise.

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

For what concerns the resolution process, including the treatment of shareholders and subordinated bondholders, this does not fall within the scope of the supervisory tasks assigned to and carried out by the ECB. For questions regarding resolution aspects, I therefore kindly refer you to the Single Resolution Board.

Yours sincerely,

[signed]

Danièle Nouy