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A Resolution in the Spanish Banking Sector: The Case of Banco Popular Español

Abstract

The restructuring of Banco Popular Español (BPE) through its takeover by Banco Santander provided a valuable example of the first resolution framework application, which allowed for the assessment of its effectiveness. However, similar crisis tools were also utilised in the Spanish banking sector in 2008–2013. Their analysis may provide a valuable contribution to the issue of selecting the most appropriate resolution tools for banks, which can be utilised by Spain and other EU countries when further restructuring their respective banking sectors or managing crises. The aim of this article is to evaluate the effectiveness of the BPE resolution. Additionally, other examples of the application of the “sale of business” tool from the Spanish banking crisis of 2008–2013 were assessed. The conclusions were then used to assess the possible application of similar tools at other banks in Spain and other European countries.

Keywords: resolution, Banking Union, crisis management, “sale of business” tool, Banco Popular Español.

JEL Classification: E58, F02, G01, G18, G21, G28, G33, G34.

1. Introduction

The restructuring of failing banks usually offers valuable lessons for the future with regard to banking risk, managing that risk and crisis management

frameworks. The experience gained can be utilised when resolving further ailing institutions.

Such an opportunity occurred in Spain, where in 2017 Banco Popular Español (BPE) faced collapse due to liquidity problems. The case set a dubious precedent at the European level, marking the first time the Single Resolution Mechanism¹ was applied. As the effectiveness of the European resolution framework had not been tested earlier, the BPE resolution should serve as an incentive to verify the efficacy of the procedure. This article focuses on evaluating the effectiveness of the BPE resolution, the most recent example of bank restructuring in the European Union, carried out in accordance with the current institutional set-up.

For this purpose, the Banking Union's institutional framework, the course of the resolution proceedings and its preliminary outcomes were analysed. As part of the BPE resolution, "sale of business" tool was implemented. However, a similar solution was frequently applied in the Spanish banking sector in the period 2008–2013. Therefore, when evaluating the BPE's sale, it is worth considering the results of similar transactions carried out earlier in Spain, when there was a different institutional set-up. For that purpose, the effectiveness of mergers and acquisitions (M&A) in Spain in the period 2008–2013 was also analysed. This allowed for the identification the list of success and failure factors in utilising M&As as a resolution tool.

The article serves not only cognitive purposes (as a concise presentation of the application of the "sale of business" resolution tool in Spain, the first country to apply the Single Resolution Mechanism) but also offers a valuable lesson for possible crisis interventions both with other weak Spanish banks and other countries for the future resolution cases, especially ones from the Eurozone. They are part of the same resolution institutional framework, so all the procedural and operational obstacles that appeared during the BPE's resolution are principally addressed to banking union participants. Taking into account that the analysis comprised both commercial and cooperative banks of various size (in terms of assets), the assessment of the functional elements of M&A could prove valuable for other countries, including ones from outside the EU.

The first part of the article provides an overview over the resolution procedure in Spain. A critical analysis of the applicable legal framework as well a literature review were conducted. The main research questions were: Is the resolution framework in Spain coherent and equal for all credit institutions? How does the resolution in Spain, which is a member of the Banking Union, work? What are the main benefits and drawbacks of the resolution framework in Spain?

The second section comprises the inquiry about the BPE resolution. For that purpose, the analysis of the financial data, documents and press releases in the

¹ The Single Resolution Mechanism is a resolution framework in the countries participating in the Banking Union.

form of a case study is presented. The main research questions were: What were the characteristics of BPE? Why did the BPE fail? What events triggered the resolution process? How does the resolution of BPE work? What lessons could be learned from the process?

The third part of the article considers other examples of how the “sale of business” tool was applied in Spain (utilised earlier in a different institutional set-up and among different types of institutions). With 51 transactions identified, conducting a case study on each would have been untenable. Therefore, it was decided that the effectiveness of the interventions would be assessed based on the financial data of the institutions concerned. For that purpose, six criteria were selected (providing for the widest possible scope of assessment). Among these criteria, financial indicators were observed for each institution before and after the transaction. If an indicator improved, the transaction was assessed as successful for that criterion. The success rates were calculated for each criterion (successful mergers as percentage of all mergers). The main research questions were: How many transactions were carried out? How successful were they? Did the transactions enable the institutions in crisis to resolve their problems?

2. General Rules Regarding the Resolution Procedure in Spain

2.1. General Remarks

Spain is a member of the Eurozone and the Banking Union. This status has a tremendous influence on the country’s financial safety net and the legal framework that can be applied to crisis management (including resolution). As a result, apart from the national institutions like the Bank of Spain (which performs national supervisory tasks), Fondo de Reestructuración Ordenada Bancaria (or “the FROB”), which is the executive resolution authority, and Fondo de Garantía de Depósitos de Entidades de Crédito (“the FGDEC”), which is national deposit guarantee system²), there are also pan-European bodies which take part in the resolution process. These include the Single Supervisory Board (SSB) as a decision-making body of the Single Supervisory Mechanism established within the European Central Bank (ECB), the Single Resolution Board (SRB) and (to a limited extent) the European Commission (EC) together with the EU Council³.

² For more about solutions regarding deposit guarantees: (Zaleska 2016, Gospodarowicz 2015).

³ For more about the institutional framework of resolution in the Banking Union: (Koleśnik 2015, 2017).

Table 1. Division on SIs and LSIs in Spain

Significant Institutions	Less Significant Institutions
11 banking groups and 2 banks	76 groups of institutions ^a (mostly cooperative banks); including subsidiaries of foreign institutions
94.3% of assets	5.7% of assets

^a LSIs are not part of SIs.

Source: the author's own elaboration based on (https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.list_of_supervised_entities_201802.en.pdf, accessed: 8.05.2018; *Report on the Banking...* 2017).

As a consequence of being one part of the Banking Union, the rules regarding the conduct of crisis management procedure depend on the type of the institution threatened with bankruptcy. Two groups of institutions can be distinguished:

- institutions of significant importance (significant institutions – SIs)⁴ (at least global systemically important institutions, G-SIIs, and other systemically important institutions, OSII);
- other, less significant institutions (LSIs).

The scope of SIs and LSIs in the Spanish banking sector is provided in Table 1.

2.2. Resolution of Significant Institutions

In case of the SIs, the resolution procedure is more complicated in terms of institutional arrangements. The primary responsibility for the supervision of the SIs (including setting prudential requirements as well as granting and revoking licenses) lies in the hands of the ECB⁵. As a result, the ECB is the institution which determines whether the bank is at risk of failing, though the ongoing,

⁴ Systemic importance is determined based on the size of the institution (minimum 30 billion EUR or minimum 5 billion EUR and at least 20% of the home's country GDP), the need to provide public support in the past (from the resources of the European Financial Stability Facility, EFSF, or European Stability Mechanism, ESM) and international activity (especially when the institution has subsidiaries in at least two other Member States participating in the Banking Union and is essential from the perspective of the whole group). Notwithstanding these criteria, the three biggest institutions from the country are deemed to be of significant importance (Council Regulation (EU) No 1024/2013a of 15 October 2013...).

⁵ Although extensive, the ECB's powers are not complete. For example, the ECB does not have the power to prevent money laundering, which is the responsibility of the national supervisor. One case when a bank, under the direct supervision of the ECB, failed as a result of the engagement in money laundering is ABLV (<https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180224.en.html>, accessed: 9.05.2018; <https://www.bankingsupervision.europa.eu/press/pr/date/2018/html/ssm.pr180222.en.html>, accessed: 9.05.2018).

day-to-day monitoring and controlling of institutions is carried out by Joint Supervisory Teams (JSTs; separate for each commonly supervised bank), which comprise experts from both the ECB and the Bank of Spain (as local, national supervisor) (<https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html>, accessed: 8.05.2018). The ultimate decision whether the bank should be resolved or liquidated is made by the SRB. Also, the plan, according to which the resolution is going to be conducted, is prepared by the SRB. In practice, representatives of the SRB, the Bank of Spain and the FROB working together (as Internal Resolution Teams, IRTs⁶; separate IRTs for each bank under the remit of the SRB) to elaborate the plan, which is accepted during the SRB's executive sessions⁷ and then, if the bank functions also outside the Banking Union, by the resolution college⁸. After the assessment that the failing SI should be resolved, the SRB (or resolution college chaired by the SRB depending whether the bank is functioning outside the Banking Union) has to adopt the formal decision, part of which is the resolution scheme. The latter has to be additionally accepted by the European Commission (<https://srb.europa.eu/en/content/tasks-srb>, accessed: 8.05.2018). Executing the resolution scheme is the duty of the FROB. If it is decided that SI should be liquidated, than the procedure is also carried out by national authorities (Spanish mercantile courts) (Decision of Single Resolution Board in its Executive session of 7 June 2017...) and the deposits are paid-out by the FGDEC (<https://www.fgd.es/en/index.html>, accessed: 8.05.2018). The entire procedure – governed by the provisions of the SRM Regulation (Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014...) – is shown in Fig. 1.

⁶ ITRs are internal working groups established within the SRB.

⁷ The SRB convenes in two types of sessions: plenary and executive. The plenary ones (organised at least two times in every year) are convened to discuss general issues in the management and administration of the SRB and its fund – Single Resolution Fund (SRF). The resolution issues are primarily talked over during executive sessions (apart from the cases e.g. where at least 5 billion EUR is to be used from SRF or when in the last 12 months 5 billion EUR has already been used from SRF). More detailed information: (Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014...).

⁸ Resolution college is a forum for cooperation of home and host countries in which a bank provides its services and products. The college is responsible for preparing group resolution plans and its resolvability assessment, setting the level of MREL requirement, and adopting a resolution scheme when an entity from the group is failing (Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014...; Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014...).

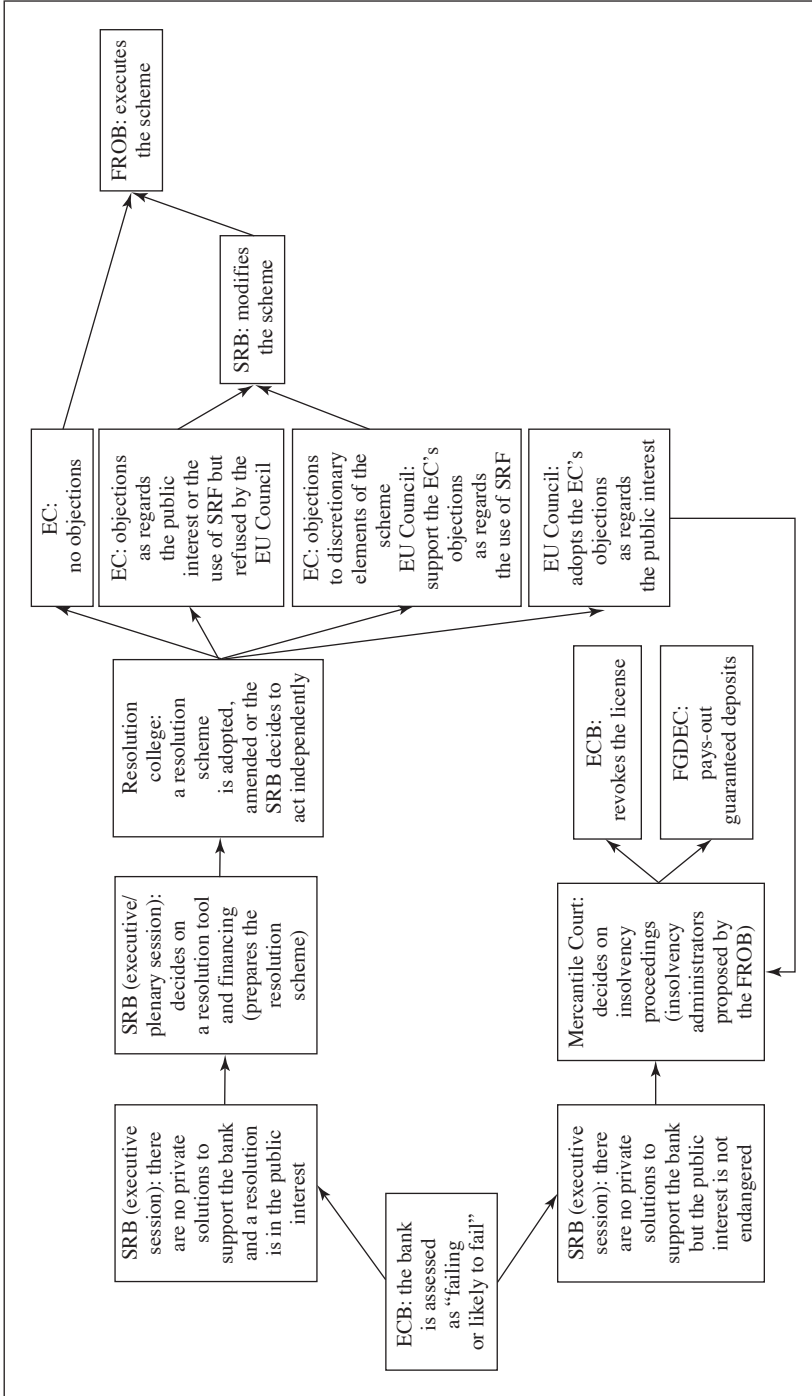


Fig. 1. Treatment of SIs in Case of Failure

Source: the author's own elaboration.

2.3. Resolution of Less Significant Institutions

In the case of LSIs, intervention in an ailing institution is substantially less complex and handled mainly on the national level. Such entities are supervised by the local authority⁹ – the Bank of Spain (although it is obliged to apply internationally agreed rules and follow the overall instructions worked out with the ECB¹⁰) and the resolution is decided and carried out by local resolution authorities, which for banks in Spain are: the Bank of Spain, which prepares resolution plans and determines if a bank is “failing or likely to fail”, and the FROB, which prepares the resolution scheme and executes it¹¹. In case of liquidation, the standard insolvency procedure is handled by a Mercantile Court, with the support from the FROB while the deposits are paid-out by the FGDEC (<https://www.bde.es/bde/en/areas/supervision/>, accessed: 8.05.2018; *Spain: Financial System...* 2017).

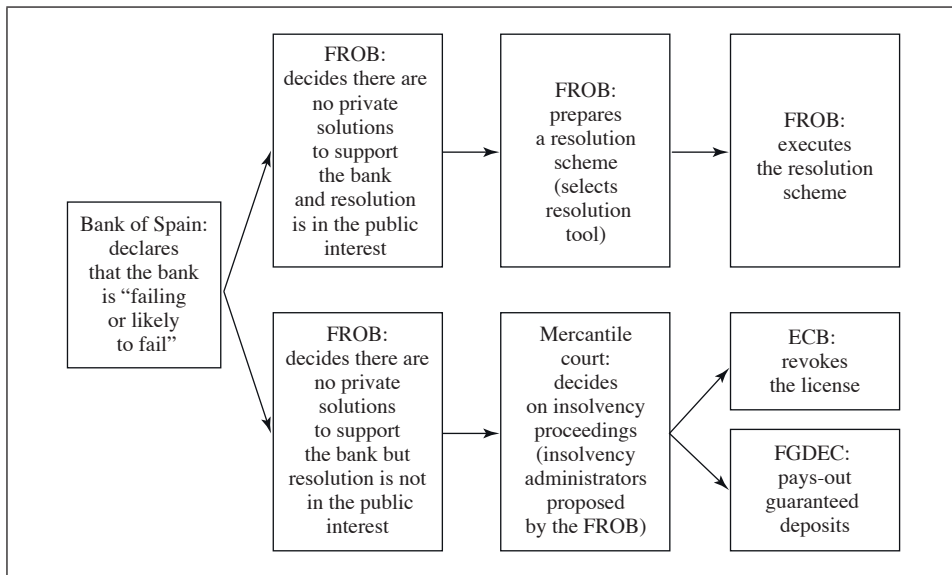


Fig. 2. Treatment of LSIs in Case of Failure

Source: the author’s own elaboration.

⁹ Nevertheless, it should be emphasised that some powers are reserved for the ECB, e.g. the ultimate formal decision on the revocation of the banking license or approval of a merger.

¹⁰ If not, the ECB has the power to overrule the national supervisor and supervise the banks on its own (Shoenmaker 2016).

¹¹ The only exception is when the resolution requires financial support from the SRF. Then, the SRB has the exclusive right to decide.

Table 2. Advantages and Disadvantages of the Crisis Management Framework in Spain

Crisis Management Framework for Significant Institutions	Crisis Management Framework for Less Significant Institutions
Advantages/benefits: high number of engaged authorities reduces the probability of abuses during resolution; involvement of international bodies involved, thus enhancing the process's independency	Advantages/benefits: procedure is simple and fast; domination of local authorities in the process may foster more immediate reaction to the problems of a bank (as they are closer to the bank); positive incentives for local supervisor to apply best practices, as otherwise it may lose the power to control entities to the benefit of the ECB
Disadvantages/risks: the broad range of engaged authorities and long procedure may delay the actions when rapid and decisive intervention is needed; the authorities that are primarily responsible for the resolution are located far away from the failing bank (communication barriers) and do not know the local specificities in the functioning of the institution (specific market and cultural issues); decision-making transferred to the international (pan-European) authorities, but ultimate financial responsibility rests on national resources (national deposit guarantee scheme; national central bank liquidity support)	Disadvantages/risks: within a mixed framework (separate procedures for SIs and LSIs) there may be a danger of "supervisory/resolution forbearance", which means that the authorities may seek to delay the intervention in order not to reveal that there are any problems at the national banks; lack of access to the international financing sources (lack of the ECB liquidity support)
The consequence of the double, parallel frameworks for the resolution of Spanish banks may be confusing for investors. As a result, the activities of the standard authorities may spark panic among market participants as a result of misunderstanding of the framework	

Source: the author's own elaboration.

Here, a concise description of the institutional framework and rules governing crisis management in the Spanish banking system provides the basis for the preliminary assessment of the resolution system in Spain. The benefits and drawbacks of the SI and LSI crisis management framework are presented in Table 2.

3. Resolution of the Banco Popular Español

3.1. Concise Description of the Banco Popular Español Activity and Reasons for Failure

Founded in 1926, the BPE for years enjoyed a good reputation for solid management and prudent investment policy. The rapid expansion of the bank's

activity came in the first decade of the 20th century, when the bank’s balance sheet nearly quadrupled and its profitability doubled (Santos 2017, p. 103).

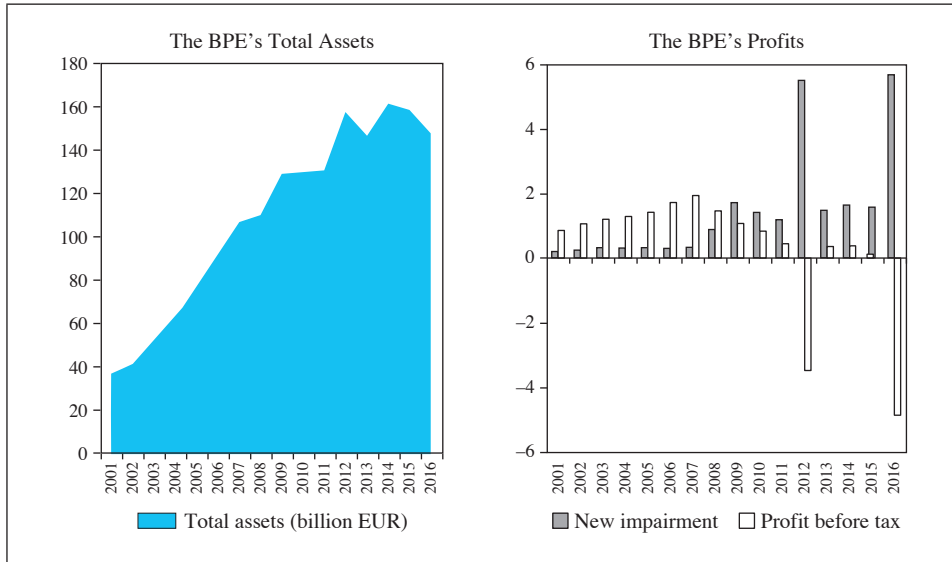


Fig. 3. The BPE’s Total Assets and Profits

Source: Santos (2017, p. 102).

As a result, in 2017, the BPE was one of six biggest banks in Spain, active both domestically and internationally (subsidiaries/investments in Portugal, USA and Mexico), with 147.11 billion EUR in assets, 1644 branches and over 10 000 employees (Decision of Single Resolution Board in its Executive session of 7 June 2017...). The BPE was acknowledged as a leader in the SME lending segment, commanding a market share ranging (depending on source) between 13.8% (Santos 2017, p. 103) and 16.7% (*Banco Popular Group...* 2016, p. 16). Additionally, the bank had engaged in the real estate lending during the pre-2008 Spanish construction sector boom. Unfortunately, the bank had lacked appropriate knowledge and expertise in the field, leading it to make unsuccessful investments. In a bid to compete aggressively with other institutions, it courted all investment opportunities, even when the market flashed signs of a downturn. As a result, many of the loans it provided failed to perform during the crisis. Despite being overburdened with toxic assets, the BPE was evaluated as a quite strong and well-performing bank. Further confirmation of its strength lay in its merger activity with other (smaller) banks and *cajas*, with whom it played the role of buyer supporting weak institutions. Nevertheless, the restructurings connected

with the takeover of a few banks allowed it to delay the recognition of its asset impairments and, as a consequence, losses connected with the engagement in the real estate sector (Santos 2017, p. 103).

In a nutshell, BPE's crisis had its roots in the following:

- an aggressive investment policy,
- non-performing real estate loans and associated massive write-offs undermining financial results,
- a weak capital position.

These problems suggest that BPE initially faced solvency issues. However, its long-term inability to strengthen its capital position caused investor confidence to wane, turning the crisis into one of liquidity. According to an ECB statement, the bank was deemed “failing or likely to fail” due to the “significant deterioration of its liquidity situation” (*Failing...* 2017). The liquidity crisis was fueled by the following events (*Failing...* 2017):

- negative results of EBA stress tests in 2016 following the issuance of new share shares;
- long-time CEO R. Angel's resignation in February 2017 and replacement by E. Saracho, who had extensive experience in investment banking, was perceived as a sign that management would look to sell the bank;
- information after an April 2017 shareholder meeting that a merger involving BPE could not be ruled out, sending the stock down 10%;
- a higher than expected loss in the first quarter of 2017 (3.5 billion EUR);
- too low a coverage ratio relative to peers and too little provisioning identified by an external audit; examples of granting loans to customers to finance the purchase of BPE share; which led to the need for corrections in 2016 financial statements;
- negative media coverage;
- the declaration by Spain's Economy Minister that the bank would not receive state support;
- ratings downgrades (February 2017 DBRS; April 2017 S&P; May 2017 Moody's);
- leaks to media concerning the failure to find the buyer for the BPE;
- a lack of appropriate collateral to obtain liquidity from the central bank.

All these factors precipitated an outflow of deposits estimated at 30 billion EUR in 2017, when the decision was taken to place BPE in resolution. This represented a slump from 51 billion EUR to 20 billion EUR (*Banco Santander Cofident...* 2017b).

The example of the BPE's failure confirms that slow-burning capital crises are usually easier to manage, provided they do not evolve into liquidity problems. Runs and other forms of deposit outflows are especially dangerous not only for

a bank (as they quickly render it unable to service its liabilities, a clear and measurable sign that a bank is failing), but also for financial safety net institutions, as liquidity crises develop rapidly, forcing them to apply rapid and decisive actions which may spark further panic among investors.

3.2. The Course of Resolution Process in Case of the Banco Popular Español

The resolution process is designed to be conducted during the so-called resolution weekend, meaning after the American market closes on Friday and before the Asian one opens on Monday. The underlying assumption for such a rule is to give resolution authorities more time to develop and implement the strategy and communicate to the market their ultimate decisions, with a view to limiting potential panic among investors. In the BPE's case, however, the resolution took place in the middle of the week so fast was the bank's liquidity position declining. The entire resolution procedure, from initiated by the SRB on Saturday (3 June 2017) to its decision to start the marketing of the BPE¹², was completed on Wednesday. The authorities navigated the following timeline (https://srb.europa.eu/sites/srbsite/files/sale_process_letter.pdf, accessed: 9.05.2018; Decision of Single Resolution Board in its Executive session of 7 June 2017...):

- 4 June – non-disclosure agreements signed between the FROB and potential buyers (banks) of the BPE;
- 5 June – making financial data available through a Virtual Data Room (VDR) and endorsing the template for the Sale and Purchase Agreement;
- 6 June – conclusion reached by the ECB that the BPE was “failing or likely to fail” (after the bank confirmed it would not be able to continue its operations); appropriate notification sent to SRB;
- 6 June 22:45 – deadline for the submission of comments on the Sale and Purchase Agreement;
- 6 June 24:00 – submission of Binding Offers;
- 7 June 01:00 – selection of winning bid;
- 7 June 05:30 – adoption of the SRB's Resolution Scheme¹³ after the assessment that:

¹² After receiving information from the ECB on Friday 2 June about the sudden outflow of deposits, which may have resulted in the bank's difficulties to service its liabilities as they came due (Decision of Single Resolution Board in its Executive session of 7 June 2017...).

¹³ SRB's Resolution Scheme was prepared (and the resolution tool was selected) based on the provisional valuation prepared within the SRB and by independent evaluator Deloitte. The latter concluded that the value of the BPE's equity in a best-case scenario was 1.3 billion EUR and in the worst to –8.2 billion EUR, with the best estimate at –2.0 billion EUR (*Hippocrates Provisional...* 2017).

- no private market solution was available to support the continuation of the operations as evidenced by unsuccessful efforts to find a buyer and obtain liquidity (also from the central bank);
- the initiation of the resolution procedure is in the public interest, as the national standard solvency procedure would not ensure the achievement of the resolution objectives according to the BRRD;
- 7 June 05:30-06:30 – acceptance of the scheme by the EC;
- 7 June 06:30 – adoption of the FROB's Implementing Act (incorporating the SRB's decision);
- 7 June 07:00 – announcement of the transaction.

The above schedule constitutes the first stage of the BPE's resolution process, also to be considered the stabilisation phase. It was intended to solve the most urgent problems, which prevented the bank from functioning properly (in this case, the lack of a sufficient liquidity buffer and limited prospects to shore up capital). The essential part of such a phase is what is known as a bail-in: CET1 and AT1 capital was written-down and T2 capital was converted into new shares. In the next step of stabilisation phase these newly issued shares were purchased by the bank's competitor Banco Santander for the symbolic price of 1 EUR and the management board was replaced (Decision of Single Resolution Board in its Executive session of 7 June 2017...). Banco Santander's primary role was to provide liquidity thanks to which the bank would be able to re-open the next day. The whole transaction was carried out without the support of the SRF and national deposit guarantee fund.

After the first stage was implemented, Banco Santander, as the owner of the BPE, started to develop and execute the next phase of the process, which covered the restructuring of the BPE and finally incorporating the BPE into Banco Santander's organisational structure (operational merger). This second part of the BPE's resolution can be considered the actual restructuring phase. Initiatives taken by Banco Santander at this stage include at least:

- reducing the number of employees as part of cost savings (initially estimated at 2600 people, later lowered to 1400) (*Banco Popular Completes...* 2017, *Santander Scales back...* 2017);
- liquidating 560 branches as a way of improving the bank's efficiency and as a result of the overlap between the BPE's and Banco Santander's branch net (*Santander cerrará...* 2017);
- recapitalising the BPE via share issuance of 7.07 billion EUR (*The Daily Dose...* 2017, *Santander Prices...* 2017, *Banco Santander Warns...* 2017);
- disposing of the BPE's non-core assets, e.g. commercial estates (*Report: Santander...* 2017), subsidiary in the US (*Santander Sells...* 2017) and stakes in WiZink (*Banco Santander to Sell...* 2018);
- reducing the stock of non-performing loans.

As the resolution of the BPE constituted the first example of the application of the European resolution framework, its initiation sparked controversies among various groups, mainly investors. They consequently sued the BPE and all authorities, undermining numerous aspects of the procedure (e.g. the valuation for the purpose of resolution or the way in which they bought the shares/bonds) (more: Kozińska 2017).

3.3. Preliminary Conclusions on the Banco Popular Español Resolution

The example of the BPE's resolution confirms that the procedure for the orderly restructuring of banks in the EU is quite complicated (institutionally). However, the fact that the mechanism is complex does not preclude that it is unable to perform its tasks. The BPE's resolution proved that European authorities are able to promptly intervene at the time of crisis and the institutional framework is able to work swiftly. Provided the action is well-prepared. Additionally, it needs strong and flawless cooperation between various authorities on different levels. For that purpose more crisis exercises – called “dry runs” should be set up to continuously test and enhance the cooperation arrangements.

The second crucial aspect that allowed the BPE's resolution to be successfully and timely implemented was the fact that the bank itself had searched for a potential buyer earlier, so there was a group of bigger and more resilient institutions that had already analysed the BPE's situation and were able to move forward with the purchase of the bank in an expedited manner. Nevertheless, that may not be the case in the future. To reduce such a problem, resolution authorities should carefully monitor not only the weakest banks, but also the strongest ones with a view to engaging them in the support of crisis management.

Another issue that will determine the credibility of the resolution mechanism in the UE is the results of the legal proceedings against the BPE, both by national and pan-European authorities, that were initiated after the BPE's resolution. Objections regarding the legitimacy of the resolution were raised, though the reason the procedure was launched was evident: lack of liquidity. Irrespective of that fact, investors, when criticising the decisions taken by the authorities, pointed mainly to issues of capital, and sought to prove that the actions taken towards the BPE were inadequate or disproportionate. That suggests that a tendency not to wind-down ailing institutions is still deeply rooted in the European financial culture. Changing this approach will take time, more resolution cases and consistent judicature on resolution issues (reinforcing the powers of resolution authorities).

Apart from strictly resolution-related issues, the crisis of the BPE also exposed other weaknesses in the financial sector, including:

- the role of rating agencies, whose untimely assessments reduced investor confidence¹⁴;
- the lack of effective, systemic solutions for the stock of non-performing loans;
- the inappropriateness of European regulations, which failed to prevent the crisis (as reported on 31 March 2017, the LCR ratio was 146% above the regulatory minimum and CET1 at 10% above) (*Banco Popular Espanol...* 2018);
- limited usefulness of stress tests as crisis warning systems, as the BPE passed all the stress tests organised after the outburst of the crisis and before 2016 (Santos 2017, p. 103), even though already in that period it was heavy loaded with troublesome toxic debt.

4. The “Sale of Business” Tool in the Spanish Financial Crisis (Period 2008–2013)

Resolution of the BPE does not constitute the first example of the “sale of business” tool being used with Spanish banks as a crisis management measure (although, as indicated, it is the first example of the tool being used as part of the European bank resolution framework). In fact, in the period 2008–2013, at least 46 savings banks were restructured, for which the main tool was takeover by or merger with another credit institution. Some entities created by such transactions were further taken over or merged with another bank (Cardenas 2013; *Report of the Banking...* 2017, p. 113). As a result (based on a central bank report as well as research and press releases), at least 51 examples of bank mergers can be enumerated. These instances were evaluated based on the criteria listed in Table 3.

Table 3. Criteria for the Assessment of Spanish Bank Mergers

Criterion	Indicator Being Evaluated (One-year Horizon)
Capital adequacy	Capital adequacy ratio
Profitability	Net profits, ROE, ROA
Leverage	Leverage ratio
Cost efficiency	Cost to income (C/I)
Quality of assets	NPL
Operational efficiency	Information whether the bank continued to provide its products and services

Source: the author’s own elaboration.

¹⁴ This conclusion follows from the results of research done by rating agencies, indicating further problems in how they functioned (Wołoszczenko-Hołda & Niedziółka 2017).

To assess the effectiveness of the mergers, the indicators listed in Table 3 were analysed (the time-horizon was one year). The mergers were deemed successful, if the indicators (capital adequacy ratio, profits, ROE, ROA, leverage ratio moved up, C/I and NPL decreased) presented positive trends and the bank functioned continuously. Table 4 breaks down the results.

Table 4. Results of the Quantitative Evaluation of Spanish Bank Mergers

Indicator (One-year Horizon)	Successful Mergers as a Percentage of All Mergers ^a
Capital adequacy ratio	80
Net profits	44.12
ROE	36.36
ROA	27.27
Leverage ratio	40
Cost to income (C/I)	57.69
Information whether the bank continued to provide its products and services	100

^a The calculation took into account only those mergers for which there was data for the assessment.

Source: the author's own elaboration.

The evaluation of the efficiency of mergers as a crisis management tool in the Spanish banking sector in 2008–2013 does not deliver positive conclusions. Although the consolidation did mostly enhance capital, the high percentage of successful interventions in this field is attributable to the FROB's capital assistance broadly provided during the financial crisis (*Report of the Financial...* 2017, pp. 110–135, 168–199). For the rest of the criteria, the level of successful mergers rarely exceeded 50%. That means that most of the interventions were ineffective in terms of a genuine bank restructuring – the problems (toxic bank assets) were not resolved, as evidenced by the fact that NPLs were not usually reduced. That contributed to continuous losses and, subsequently, marginal ROE and ROA improvements. Nevertheless, mergers were usually efficient in sustaining a bank's critical functions, which certainly had a positive impact on depositor confidence.

When evaluating mergers in the Spanish banking sector in 2008–2013, it should be emphasised that the general macroeconomic situation and forecasts were fragile at that time. This, combined with the fact that most of the banking sector had to face the consequences of imprudent credit policy before 2007, led to weak institutions merging with vulnerable ones. That meant that as a result of the mergers, usually bigger weak institutions were created in a highly sluggish environment. The consequence of these factors was that the newly established

institution (as a result of a merger) usually also collapsed or had to be taken over by a stronger one¹⁵.

Summarising, although the assessment of the “sale of business” tool in Spain’s most recent banking crisis does not create a rosy outlook for the current example of the BPE, it should be noted that it was conducted under completely different conditions: the macroeconomic forecasts are positive and the acquiring entity seems to be resilient. These factors may suggest the BPE resolution will succeed.

5. Conclusions and Recommendations

Resolution procedure applied to BPE constitutes an example of crisis management of significant institutions. The preliminary and brief assessment¹⁶ of the proceedings itself (not the other circumstances that accompanied the resolution) suggests that the institutional framework proved that the European resolution framework can work. Nevertheless, more in-depth analysis of other conditions – ones more exogenous to the procedure – indicates that there were a number of specific factors that contributed to the success, though they may not repeat themselves in the future.

As regards the effectiveness of the resolution toolkit, the financial results Banco Santander returned after its takeover of BPE suggest that the selected tool (“sale of business”) was appropriate as it enabled BPE to sustain its critical functions and, moreover, did not negatively impact Banco Santander’s financial situation. This stands in contrast to other examples of a “sale of business” tool in the Spanish banking sector in 2008–2013, where only a small portion of such interventions proved successful. That is because the smaller BPE was purchased by a larger and financially more solid entity. In 2008–2013 a number of mergers were conducted between weak institutions, resulting in the creation of even weaker large entities.

Analysis shows that the “sale of business” tool in the Spanish banking sector can be an effective solution in further restructuring Spanish banks, especially less important ones. The problem may concern cooperative banks, which, according to the International Monetary Fund suffer from a weak corporate governance culture, challenged profitability (due to high level of NPLs, especially among non-financial corporations) and limited loss-absorbing capacity (resulting e.g. from limited possibilities to raise capital). Cooperative banks are one of three

¹⁵ Similar conclusions were also drawn by J. Maudos and X. Vives after analysis of the banking sector in Spain. They conclude that mergers are not an appropriate solution when all of the entities involved are troubled. More: (Maudos & Vives 2016, p. 595).

¹⁶ A comprehensive evaluation of the BPE resolution is currently not possible due to the pending legal cases in both Spanish and international courts.

types of deposit-taking institutions in Spain, along with savings banks (*cajas de ahorros*) and commercial banks. They account for 7% of Spain's banking sector assets (the average size of a cooperative bank is only 2 billion EUR compared to 26 billion EUR for commercial banks) having strong retail focus and providing its services mainly to the economy's primary sectors (farming and fishing) and corporations. Although the sector is not significant in terms of asset size, it plays an essential role in financing industrial companies¹⁷. Therefore, when applying any solution aimed at resolving potential crisis in cooperative banks, the maintenance of lending to corporations should be taken into consideration. Using the "sale of business" tool makes it possible to support this part of cooperatives' business. At the same time, the size of such banks makes finding buyers relatively easy. They should be strong institutions to ensure that the ultimate result of the transaction is positive.

The shortcomings in the resolution procedure of the BPE offer a lesson for European decision-makers to appropriately strengthen the resolution framework in the Banking Union. The most crucial missing element seems to be a reliable source of liquidity as well as credible, coherent, detailed and single provisions regulating the valuation of the failing institution. Also, based on the observations, more crisis management exercises should be organised to ensure that the real resolution action is as smooth as possible. This also requires detailed monitoring of the weakest (potentially failing) and the strongest institutions (potentially taking over failing ones).

The analysis also holds an important lesson for other countries in the non-Banking Union. The resolution of BPE and the examples of crisis M&As shows that when such transactions are organised, the institution (institutions) that take over a failing one should be considerably bigger and viable. Only in such a case can the crisis entity be successfully restructured in terms of strategy and cost.

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¹⁷ For more about critical bank functions and bank functions: (Stiefmueller 2017, Ślęzak 2015).

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Restrukturyzacja i uporządkowana likwidacja w hiszpańskim sektorze bankowym – przykład Banco Popular Español

(Streszczenie)

Restrukturyzacja Banco Popular Español (BPE) poprzez jego przejęcie przez Banco Santander stanowiła przykład pierwszego zastosowania systemu *resolution*, pozwalający na ocenę jego efektywności. Należy jednak zaznaczyć, że podobne narzędzia kryzysowe były stosowane w hiszpańskim sektorze bankowym także w latach 2008–2013. Ich analiza może być pomocna przy dokonywaniu wyboru najbardziej odpowiednich narzędzi restrukturyzacji i uporządkowanej likwidacji banków, które Hiszpania oraz inne kraje Unii Europejskiej mogą wykorzystać w przypadku dalszej restrukturyzacji sektora bankowego lub w przypadku kryzysu bankowego. Celem artykułu jest ocena skuteczności *resolution* BPE. Dokonano także oceny innych przykładów zastosowania narzędzi zbycia działalności bankowej podczas kryzysu bankowego w Hiszpanii w latach 2008–2013. Wnioski zostały wykorzystane do oceny możliwości zastosowania podobnych narzędzi w odniesieniu do innych banków w Hiszpanii i pozostałych krajach Unii Europejskiej.

Słowa kluczowe: restrukturyzacja i uporządkowana likwidacja, unia bankowa, zarządzanie kryzysowe, sprzedaż działalności bankowej, Banco Popular Español.