Comunicado

NOTA DE PRENSA

Madrid, 17 September 2012

Roadmap for the banking recapitalization and restructuring

1 Introduction

On June 25, 2012, the Spanish Government requested external financial assistance in the context of the ongoing restructuring and recapitalization of its banking sector. This assistance was agreed upon by the Eurogroup on July 20 and reflected on the Memorandum of Understanding (MoU). The key component of the programme is a review of the vulnerable segments of the Spanish financial sector and consists of the following three elements:

- Determination of capital requirements of each bank, assessing the overall asset quality of the banking sector and a stress test, bank by bank, under a very adverse macroeconomic scenario;
- Recapitalization, restructuring and/or orderly resolution of weak banks, based on plans that address the capital deficits detected in the stress test, and
- Segregation of impaired assets in the banks that would require public support for recapitalization without this segregation, and transfer of these assets to an Asset Management Company (AMC).

On 31 August the Royal Decree Law 24/2012 on the framework for the restructuring and resolution of financial institutions was approved. It includes the procedure and functions of the agencies involved in the process of preparation, approval and monitoring of the restructuring plans and resolution of credit institutions. Also, several of the commitments made by the Spanish Government in the abovementioned MoU were met with this regulation.

2 Results of stress test exercise and AMC incorporation

On September 28, the external consultant Oliver Wyman will have completed a stress test for each of the 14 banking groups comprising 90% of the Spanish banking system in order to determine their capital needs. However, these needs will not be equivalent to the public support required by each institution. The difference will be given by the reduction of the capital requirements arising from the disposal of assets that institutions per se could undertake, from the transfer of assets to the AMC, from the voluntary or mandatory subordinated liability exercises, or from tapping the markets.

The AMC will be incorporated in September and both the perimeter of the company (assets to be transferred) and the transfer pricing will be established. The regulatory development of the AMC and the service level agreements with banks and other service providers will also be approved in November. The full implementation of the AMC is expected to happen in early December.

3 Restructuring, resolution and recapitalization plans

Regarding group 1 banks, Spanish authorities have been working on restructuring or resolution plans, in connection with the European Commission, since late July 2012. These plans will be completed with the results of the stress test and will be presented in time for the Commission to approve them in late October/early November 2012. On this basis, state aid will be granted and the plans will be immediately implemented. The transfer of the impaired assets to the AMC will start before year end. Voluntary or mandatory subordinated liability exercises will also take place for Group 1 entities (generally, for all institutions requiring public assistance).

Regarding group 2 banks, Spanish authorities must submit a restructuring or resolution plan to the European Commission, no later than October 2012. Given the need to incorporate the results of the stress test, the approval process for these plans is expected to last until the end of December, when these banks will be recapitalized or resolved in an orderly manner. Group 2 banks must consider in its restructuring plan or resolution the necessary steps to segregate their impaired assets to the AMC.

Regarding groups 1 and 2 banks, public support will be granted, if needed, as soon as the Commission approves the plans, and following the procedure agreed upon in the Financial Assistance Facility Agreement (FAFA). Thus, after the request for funds for each institution, the European Financial Stability Fund (EFSF), or, after its launch, the European Stability Mechanism (ESM), will verify that all requirements are met before the disbursement, and will submit for approval its proposal in this regard to the Euro Working Group (EWG), where national specificities required for the provision of consent by each Member State will be taken into account. In the second half of October, the Commission will carry out an assessment of compliance with the conditionality agreed upon in the MoU and will submit a report, which EFSF/ESM will take into consideration to these effects. Once approved the operation, the EFSF/ESM will transfer the corresponding bonds to be injected by the FROB in the specific institution in exchange for securities (shares or convertible bonds, to be determined).

Group 3 banks foreseen a significant increase of capital of at least 2% of risk-weighted assets will be required, as a precautionary measure, to issue convertible bonds (CoCos) under the recapitalization plan no later than December 2012, in order to meet their capital needs. CoCos will be subscribed by the FROB using programme resources and can be redeemed until June 30, 2013 if the banks succeed in raising the necessary capital from private sources. Otherwise, they will be recapitalized through the total or partial conversion of the bonds into ordinary shares. In that case, banks will have to present restructuring plans.

Group 3 banks planning a more limited equity raise corresponding to less than 2% of risk-weighted assets will be given until 30 June 2013 to do so. Should they not succeed, they will be recapitalized by means of State aid and present restructuring plans.

Group 3 banks that still benefit from public support under this programme on 30 June 2013, will be required in their restructuring plans to transfer the impaired assets to the AMC, unless it can be shown for banks requiring less than 2% of RWA in State aid that other means to achieve full off-balance sheet segregation are less costly.