

2.09.2013

## **Background note on the public financial assistance in the recapitalisation of the Spanish banking system (2009-2013)**

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With the ongoing recapitalisation and restructuring of the Spanish banking sector at a very advanced stage, the Banco de España is today publishing a summary table detailing the public financial assistance in the form of instruments qualifying as capital provided to the various bank restructuring and balance sheet clean-up processes. All such public financial assistance has been agreed in keeping with the competition-related criteria laid down by the European Commission, and subject to its approval.

Owing to their different nature, this table does not include State guarantees of issues by credit institutions, granted to smooth their access to the capital markets; nor, naturally, does it include the private support to recapitalisation and restructuring processes, in the form – for instance – of private capital increases or of the assumption of losses under subordinated liabilities exercises.

As regards the guarantees granted by the State to banks, it should be borne in mind that, in addition to entailing a cost for such banks which lessens the related cost to the Treasury, the guarantees are cancelled<sup>1</sup> as the issues mature.

The contingent support provided via asset protection schemes (APSs) in certain integration processes is not reflected in the table either. These schemes involve lower provisioning requirements for the beneficiary banks and are therefore very different from capital injections. Partial guarantees have been granted in respect of certain credit portfolios and foreclosed properties, with a total net book value of €35,681 million, and these schemes may give rise, in certain cases, to losses that will not be known until the end of the period over which each APS is in force (the estimation of expected losses is revised annually by the body that has granted the APS).

As at 31 December 2012, the present value of the current overall expected loss of the APSs stood at €6,506 million<sup>2</sup>, provisioning for which is in the financial statements of the Credit Institutions Deposit Guarantee Fund (CIDGF) and of the Fund for the Orderly Restructuring of the Banking Sector (FROB).

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<sup>1</sup> As at May 2013, 48% of the guarantees extended had been refunded.

<sup>2</sup> Total figure estimated as at 31-12-2012 according to the specific annual audits performed on the APSs by independent experts engaged by the FGDEC and the FROB (distinct from the external auditors of these bodies), except in one instance, where the audit was engaged by the APS beneficiary institution, with the approval of its auditors.

Lastly, the public stake in SAREB<sup>3</sup> (the Spanish acronym for the asset management company for assets arising from bank restructuring) is not included in the table.

Overall, the public financial assistance committed in various forms of capital since May 2009 amounts to €61,366 million<sup>4</sup>.

The table is presented grouping the various processes in chronological order, based on the acquiring institution or the resulting group.

In respect of the assistance provided, a distinction is drawn between the CIDGF and the FROB. Assistance extended by the latter is presented distinguishing between the attendant covering programmes:

- FROB 1. Established by Royal Decree-Law 9/2009 of 26 June 2009, entailing the purchase of convertible preference shares, eligible as Tier 1 capital of the issuing groups.
- FROB 2. Established by Royal Decree-Law 2/2011 of 18 February 2011, whereunder the FROB may adopt financial support measures, such as the acquisition of ordinary shares representative of the capital stock.
- Assistance provided by the FROB, pursuant to Law 9/2012 of 14 November 2012, charged to the Financial Assistance Programme entered into by the Kingdom of Spain on 20 July 2012, and which could take the form of a contribution to capital or the subscription of contingent convertible bonds (CoCos).

From the presentation of the information in the table, it can be seen how the public financial assistance initially extended under FROB 1 has subsequently turned, in some instances, into FROB 2, or how it has even been assumed by the CIDGF.

The information available on public financial assistance for the recapitalisation and restructuring of different national banking systems after the crisis broke in 2007 is rather heterogeneous and disperse, making international comparisons difficult. The Banco de España considers that it would be worthwhile promoting the publication of harmonised and rigorous data on the programmes for the recapitalisation of national banking systems that have been implemented in recent years.

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<sup>3</sup> The contribution of public capital to Sareb via the FROB amounts to €2,192 million.

<sup>4</sup> The €977 million refunded by CaixaBank in April 2013, arising from the assistance received by Banca Cívica prior to its integration into CaixaBank, should be discounted from this amount.

## RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2013: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

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|  | Group 0: banks in which no capital shortfall was identified in the stress test and which do not need to take subsequent measures                         |
|  | Group 1: banks controlled by the FROB (BFA/Bankia, Catalunya Banc, NCG Banco and Banco de Valencia). Includes BMN, although it was originally in Group 2 |
|  | Group 2: banks with a capital shortfall, identified by the stress test, which they will need State aid to cover  |
|  | Group 3: banks with a capital shortfall, identified by the stress test, which they will be able to cover without State aid                               |

| Constituent institutions which received assistance<br>(DATE OF INTEGRATION AGREEMENT) |                                 | Transaction supporting the restructuring  |                    | QUANTIFICATION OF STATE AID<br>Amounts in €m |                   |         |                              |     |       | OBSERVATIONS  |
|---|---------------------------------|---|--------------------|--|-------------------|---------|------------------------------|-----|-------|---|
|   |                                 |   |                    | Assistance provided/committed                |                   |         |                              |     |       |   |
| Initial phase of integration  | Other integrations              | Type of transaction   | Month of agreement | CIDGF capital and other contributions (2)    | FROB 1            | FROB 2  | Subsequent to Law 9/2012 (1) |     | TOTAL |   |
|   |                                 |   |                    |  | Preference shares | Capital | Capital                      |     |       | CoCos   |
| <b>Institutions making up CAIXABANK</b>   |                                 |   |                    |  |                   |         |                              |     |       |   |
| Banca Cívica: Caja Navarra, Caja Canarias, Caja Burgos, (APRIL 2010)                  | Banca Cívica Group (MARCH 2012) | Subscription of preference shares by FROB in Banca Cívica group                     | December-10        |  | 977               |         |                              |     | 977   | Banca Cívica was integrated into Caixabank and its brand disappeared. The Banca Cívica preference shares subscribed by the FROB were redeemed by the Caixa group in April 2013.   |
| Caja Sol + Caja Guadalajara (DECEMBER 2010)   |                                 |   |                    |  |                   |         |                              |     |       |   |
| Banco de Valencia (NOVEMBER 2012)   |                                 | Subscription of capital by FROB   | May-12             |  |                   | 998     |                              |     |       | Banco de Valencia, placed under official administration by the Banco de España in November 2011, was awarded to Caixabank by the FROB in December 2012.   |
|   |                                 | Subscription of capital by FROB   | December-12        |  |                   |         | 4.500                        |     | 5.498 |   |
| <b>Institutions making up BBVA</b>  |                                 |   |                    |  |                   |         |                              |     |       |   |
| UNNIM: Caixa Sabadell, Caixa Terrasa, Caixa Manlleu (MARCH 2010)                      |                                 | Subscription of preference shares by FROB   | July-10            |  | 380               |         |                              |     |       | Unnim was fully controlled by the FROB at one point and was awarded to BBVA in March 2012.  |
|   |                                 | Subscription of capital by FROB   | September-11       |  |                   | 568     |                              |     | 953   |   |
|   |                                 | Capitalisation of preference shares and assumption of investment in shares by CIDGF | March-12           | 953  | -380              | -568    |                              |     |       |   |
| <b>Institutions making up IBERCAJA</b>  |                                 |   |                    |  |                   |         |                              |     |       |   |
| Caja 3: CAI, Caja Círculo de Burgos, Caja Badajoz (JULY 2010)                         |                                 | Subscription of CoCos by FROB   | December-12        |  |                   |         |                              | 407 | 407   | In November 2012 Ibercaja and Caja3 signed an integration protocol, which was definitively approved by the institutions in May 2013, and meant that Ibercaja Banco acquired 100% of Banco Grupo Caja3 through a share swap process, which will be completed with the merger by acquisition of Banco Grupo Caja 3. The shareholder savings banks originating from Banco Grupo Caja3 (CAI, Círculo Católico Burgos and Caja Badajoz) own a joint holding of 12.2% in Ibercaja Banco since 25 July 2013. |
| <b>Institutions making up BANCO SABADELL</b>  |                                 |   |                    |  |                   |         |                              |     |       |   |
| CAM   |                                 | Capital injection by CIDGF prior to sale to Banco Sabadell                          | December-11        | 5.249  |                   |         |                              |     | 5.249 | CAM was placed under official administration by the Banco de España in July 2011 and awarded by the FROB to Banco Sabadell in December 2011. The €5,249 million capital injection from the CIDGF includes the €2,800 million committed previously by the FROB.  |
| Banco Gallego   |                                 | Subscription of capital by FROB prior to sale to Banco Sabadell                     | April-13           |  |                   |         | 245                          |     | 245   | 99% of Banco Gallego's capital stock was owned by NCG Banco, following the subscription of a capital increase amounting to €80 million. In April 2013 Banco Gallego was auctioned and awarded to Banco Sabadell, and in July 2013 approval was obtained from the European Commission for the above-mentioned acquisition under Banco Gallego's restructuring plan.  |

## RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2013: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

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|  | Group 3: banks with a capital shortfall, identified by the stress test, which they will be able to cover without State aid                               |

| Constituent institutions which received assistance<br>(DATE OF INTEGRATION AGREEMENT)  |   | Transaction supporting the restructuring                                     |                    | QUANTIFICATION OF STATE AID<br>Amounts in €m |                   |         |                              |        |       | OBSERVATIONS |  |
|--|---|--|--------------------|--|-------------------|---------|------------------------------|--------|-------|--------------|--|
|  |   |  |                    | Assistance provided/committed                |                   |         |                              |        |       |              |  |
| Initial phase of integration   | Other integrations  | Type of transaction  | Month of agreement | CIDGF capital and other contributions (2)    | FROB 1            | FROB 2  | Subsequent to Law 9/2012 (1) |        | CoCos | TOTAL        |  |
|  |   |  |                    |  | Preference shares | Capital | Capital                      |        |       |              |  |
| <b>Institutions integrating into UNICAJA BANCO</b>   |   |  |                    |  |                   |         |                              |        |       |              |  |
| Caja España, Caja Duero (MARCH 2010)   | Banco CEISS (JULY 2013)   | Subscription of preference shares by FROB                                    | March-10           |  | 525               |         |                              |        |       |              | In May 2013, the Banco de España and the European Commission approved the resolution plan for Banco CEISS which envisages its possible integration into the Unicaja Group. In July 2013 Unicaja Banco approved the commencement of the acquisition process of Banco CEISS, subject to obtaining the necessary regulatory authorisations and to the offer being accepted by 75% of the current shareholders of Banco CEISS and of the holders of mandatory convertibles (Cocos) issued by Banco CEISS, in the framework of the burden-sharing exercise. The process must be completed in November 2013. |
|  |   | Subscription of CoCos by FROB  |                    |  |                   |         |                              |        | 604   | 1.129        |  |
|  |   | Conversion of preference shares into capital                                 | May-13             |  | -525              | 525     |                              |        |       |              |  |
| <b>Institutions making up LIBERBANK</b>  |   |  |                    |  |                   |         |                              |        |       |              |  |
| Cajastur-Caja Castilla la Mancha (NOVEMBER 2009)   | Liberbank: Cajastur, Caja Cantabria and Caja Extremadura (APRIL 2011) | Subscription of preference shares and other support provided by CIDGF to CCM | From April-09      | 1.682  |                   |         |                              |        |       | 1.682        | CCM was placed under official administration in March 2009 by the Banco de España and awarded to Cajastur in November 2009. The €1,682 million contributed by the CIDGF relate to amounts invested in the balance sheet clean-up.  |
|  |   | Subscription of CoCos by FROB  | December-12        |  |                   |         |                              |        | 124   | 124          |  |
| <b>Institutions making up BANCO MARE NOSTRUM</b>   |   |  |                    |  |                   |         |                              |        |       |              |  |
| Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada (JUNE 2010)  |   | Subscription of preference shares by FROB                                    | June-10            |  | 915               |         |                              |        |       |              | The €915 million of FROB1 were converted into €552 million of capital as a result of the burden-sharing exercise, whereas the €730 million of FROB3 came with a premium pursuant to the agreement with the EC and were valued for capital purposes at €971 million (730+241). Consequently, the institution is controlled by the FROB, which after the burden-sharing exercise had been completed, owns 65% of BMN's capital.  |
|  |   | Subscription of capital by FROB  | December-12        |  |                   |         | 730                          |        |       | 1.645        |  |
|  |   | Conversion of preference shares into capital                                 | February-13        |  | -915              | 915     |                              |        |       |              |  |
| <b>Institutions making up BFA</b>  |   |  |                    |  |                   |         |                              |        |       |              |  |
| Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Rioja, Caixa Laietana, Caja Insular de Canarias (JUNE 2010). Bankia is created as a wholly-owned subsidiary of BFA. |   | Subscription of preference shares by FROB                                    | June-10            |  | 4.465             |         |                              |        |       |              | Institution controlled by the FROB, which owns 68% of Bankia following the burden-sharing exercise. The €17,959 million from the ESM in the form of capital include €4,500 million advanced by the FROB in September 2012 to restore the regulatory capital position of the group.   |
|  |   | Conversion of preference shares into capital                                 | May-12             |  | -4.465            | 4.465   |                              |        |       | 22.424       |  |
|  |   | Subscription of capital by FROB  | December-12        |  |                   |         |                              | 17.959 |       |              |  |

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| Constituent institutions which received assistance<br>(DATE OF INTEGRATION AGREEMENT) |                    | Transaction supporting the restructuring     |                    | QUANTIFICATION OF STATE AID<br>Amounts in €m |                   |         |                              |       |       | OBSERVATIONS  |   |
|---|--------------------|--|--------------------|--|-------------------|---------|------------------------------|-------|-------|---------------|---|
|   |                    |  |                    | Assistance provided/committed                |                   |         |                              |       |       |               |   |
| Initial phase of integration  | Other integrations | Type of transaction                          | Month of agreement | CIDGF capital and other contributions (2)    | FROB 1            | FROB 2  | Subsequent to Law 9/2012 (1) |       | TOTAL |               |   |
|   |                    |  |                    |  | Preference shares | Capital | Capital                      |       |       | CoCos         |   |
| <b>Institutions making up NCG BANCO - NOVACAIXGALICIA</b>                             |                    |  |                    |  |                   |         |                              |       |       |               |   |
| Caixa Galicia, Caixanova (JUNE 2010)  |                    | Subscription of preference shares by FROB    | June-10            |  | 1.162             |         |                              |       |       | 8.981         | Institution controlled by the FROB, with 63% of capital following the burden-sharing exercise. The remainder of the capital is distributed as follows: 26% for the CIDGF, due to NCG Banco shares acquired as a result of the offer to provide liquidity made to hybrid instrument holders; 9% for the old hybrid instrument holders which did not accept the CIDGF's liquidity offer; and the remaining 2% is own shares.    |
|   |                    | Subscription of shares by FROB               | September-11       |  |                   | 2.465   |                              |       |       |               |   |
|   |                    | Conversion of preference shares into capital | December-12        |  | -1.162            | 1.162   |                              |       |       |               |   |
|   |                    | Subscription of capital by FROB              | December-12        |  |                   |         |                              | 5.425 |       |               |   |
|   |                    | Sale of shares of NCG to third parties       |                    |  |                   |         | -71                          |       |       |               |   |
| <b>Institutions making up CATALUNYA BANC</b>  |                    |  |                    |  |                   |         |                              |       |       |               |   |
| Caixa Catalunya, Caixa Tarragona, Caixa Manresa (MARCH 2010)                          |                    | Subscription of preference shares by FROB    | March-10           |  | 1.250             |         |                              |       |       | 12.052        | Institution controlled by the FROB, with 66% of capital following the burden-sharing exercise. The remainder of the capital is distributed as follows: 32.4% for the CIDGF, due to the CX shares acquired as a result of the offer to provide liquidity made to hybrid instrument holders; 1.2% for the old hybrid instrument holders which did not accept the CIDGF's liquidity offer; and the remaining 0.4% is own shares. |
|   |                    | Subscription of shares by FROB               | September-11       |  |                   | 1.718   |                              |       |       |               |   |
|   |                    | Conversion of preference shares into capital | December-12        |  | -1.250            | 1.250   |                              |       |       |               |   |
|   |                    | Subscription of capital by FROB              | December-12        |  |                   |         |                              | 9.084 |       |               |   |
| <b>TOTALS</b>   |                    |  |                    | 7.884  | 977               | 13.427  | 37.943                       |       | 1.135 | <b>61.366</b> |   |

(1) Contributions of €38,833 million, made under the Financial Assistance Programme.

(2) The Credit Institution Deposit Guarantee Fund (CIDGF) receives from its member banks annual contributions that depend on the deposits they have attracted.

**MEMORANDUM ITEM. Restructuring support at subsidiaries of financial groups, the effect of which is included in the above figures.**

| <b>Institutions making up BFA</b> |                    |  |                             |   |        |        |                              |  |       |  |
|-----------------------------------|--------------------|--|-----------------------------|---|--------|--------|------------------------------|--|-------|--|
| Initial phase of integration      | Other integrations | Type of transaction  | Month of agreement          | CIDGF capital and other contributions (2) | FROB 1 | FROB 2 | Subsequent to Law 9/2012 (1) |  | TOTAL | OBSERVATIONS   |
| Bankia                            |                    | BFA intra-group transactions in relation to Bankia, due to capital injection and subscription of preference shares | December-10 and December-12 |   | 5.017  |        | 10.621                       |  |       | FROB 1 injected €4,465 million into BFA which permitted leverage at Bankia of €5,017 million when it was incorporated (the savings banks contributed €7,068 million of BFA's initial holding of €12,085 million in Bankia). This holding was written off in full. Additionally, BFA contributed €10,621 million of capital in Bankia. This assistance of €15,638 million (€5,017 million when Bankia was created and €10,621 million of subsequent contributions) are included in the above figures for BFA. |