

Restructuring and Recapitalisation of the Banking Sector: the Asset Management Company (Sareb)

29 October 2012

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1. Context and purpose of Sareb (I)

Process of restructuring and recapitalisation of the Spanish banking sector

- **The national authorities have made great progress** in the roadmap established in the **Memorandum of Understanding (MoU)** for the restructuring and recapitalisation of the Spanish banking sector, in particular, in reviewing the vulnerable segments of the sector:
 - ✓ **Determination of the capital needs** of each bank by means of stress tests (top-down and bottom-up analyses)
 - ✓ **Recapitalisation, restructuring and/or** resolution plans for the most vulnerable banks
 - ✓ **Segregation of the troubled assets** of banks that need public support for their recapitalisation and transfer to an asset management company.

SAREB

1. Context and purpose of Sareb (II)

Objectives of the Asset Management Company

- **Key element in the process of cleaning up banks' balance sheets, as it**
 - ✓ Permits the segregation of assets from the balance sheets of banks requiring public assistance,
 - ✓ Substantially reduces any uncertainty regarding the viability of such banks
 - ✓ And facilitates the centralised management of the problematic assets so that they can be managed and divested in an orderly manner over a period of 15 years.
- For this purpose **a for-profit vehicle has been designed**, on the basis of prudent valuations, which will not be part of the public sector.
- Specifically, Sareb will:
 - Optimise the levels of preservation and recovery of value
 - Minimise possible market distortions that may derive from its activities
 - Use capital efficiently
 - Be a for-profit company, and will therefore seek to minimise the use of public funds and the cost to the taxpayer.

2. Current situation

Design of the Asset Management Company

- **The MoU establishes** that the blueprint and framework will be prepared by the Spanish authorities, in consultation with the European Commission (EC), the European Central Bank (ECB), the European Stability Mechanism (ESM) and the International Monetary Fund (IMF).
- **Royal Decree-Law 24/2012** on restructuring and resolution of credit institutions currently before parliament will incorporate greater details on aspects such as:
 - Supervisory and sanctioning regime for Sareb
 - Tax regime
- Finally, the **Royal Decree** setting out the legal regime of the asset management companies and of their segregated assets, which was at the public-consultation stage until last week, will finalise details of the governance of Sareb, of the transferable assets and of the methodology to determine the transfer value.

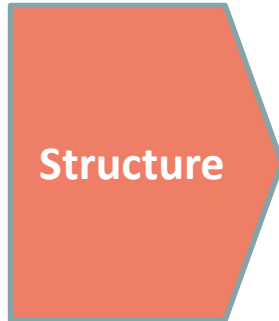
3. Main characteristics of Sareb (I)



Governance
of Sareb

- The company is initially set up as the only **company or legal vehicle** that **may create funds of specific assets**.
- The company's **governing bodies** will be those stipulated in the Share Capital Companies Law for corporations with the following particular features:
 - **Board of Directors** with a minimum of 5 and a maximum of 15 members, at least one-third of which are independent. Comprising persons of recognised business and professional integrity.
 - **Audit Committee and Remuneration and Appointments Committee** with a majority of independent members.
 - In turn it will have a **Management Committee, Risk Committee, Investment Committee and Assets and Liabilities Committee**.
- Additionally, it shall have a **Monitoring Committee** formed by four parties (Ministry of Economic Affairs and Competitiveness, Ministry of Finance, Banco de España and CNMV), to oversee compliance with the general aims for which the company was formed.

3. Main characteristics of Sareb (II)



- Sareb's **capital** will be approximately 8% of the volume of total assets
- Its **capital structure** will comprise a non-majority holding of the FROB and another majority holding of private investors.
- A portion of its capital could be in the form of **subordinated bonds**.

3. Main characteristics of Sareb (III)



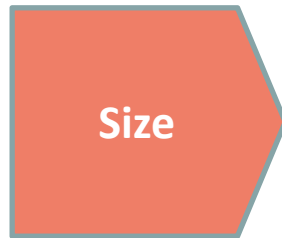
- Initially the assets of **Group 1** banks will be transferred



- At a second stage, assets of **Group 2 banks** will be transferred

Asset type	Characteristics
Foreclosed assets	<ul style="list-style-type: none"> Foreclosed real estate assets whose net carrying amount does not exceed €100,000
Loans/credits to developers	<ul style="list-style-type: none"> Loans whose net carrying amount is higher than €250,000, defined as the total per borrower.
Corporate holdings	<ul style="list-style-type: none"> Controlling corporate holdings linked to the real estate sector

3. Main characteristics of Sareb (IV)



- The volume of assets to be transferred taking into account only the portion corresponding to Group 1 banks is estimated to be **€45 billion**.
- This **will increase** after the assets of **Group 2** banks are **included** in 2013.
- **Under no circumstances**, as stipulated by the Royal Decree currently before parliament, **will the volume exceed €90 billion**.

3. Main characteristics of Sareb (V)



- The **transfer price** will be set on the basis of two different components:
 - ✓ The **real economic value** of the assets
 - ✓ **Additional adjustments by asset type** as a result of the transfer of assets to Sareb due to aspects such as:
 - En bloc acquisition of assets
 - Coverage of certain risks of Sareb
 - Consideration of certain expenses borne by banks' income statements and which must now be assumed by the company
 - And outlook for divestment of assets transferred to Sareb
- The **transfer price** is not a reference for the valuation of non-transferred bank assets.

3. Main characteristics of Sareb (VI)



- **These prices**, taking into account the above-mentioned discounts, represent approximately a **haircut** of 63% on the gross carrying amount for foreclosed assets and of 45.6% on loans.

Asset type	Average haircut	Asset type	Average haircut
1. Loans	45.6%	2. Foreclosed assets	63.1%
1.1 Finished housing	32.4%	New housing	54.2%
1.2 Unfinished projects	40.3%	Developments in progress	63.2%
1.3 Urban land	53.6%	Land	79.5%
1.4 Other land	56.6%		
1.5 Other with collateral	33.8%		
1.6 Other without collateral	67.6%		

3. Main characteristics of Sareb (VII)



Provisional
business
plan

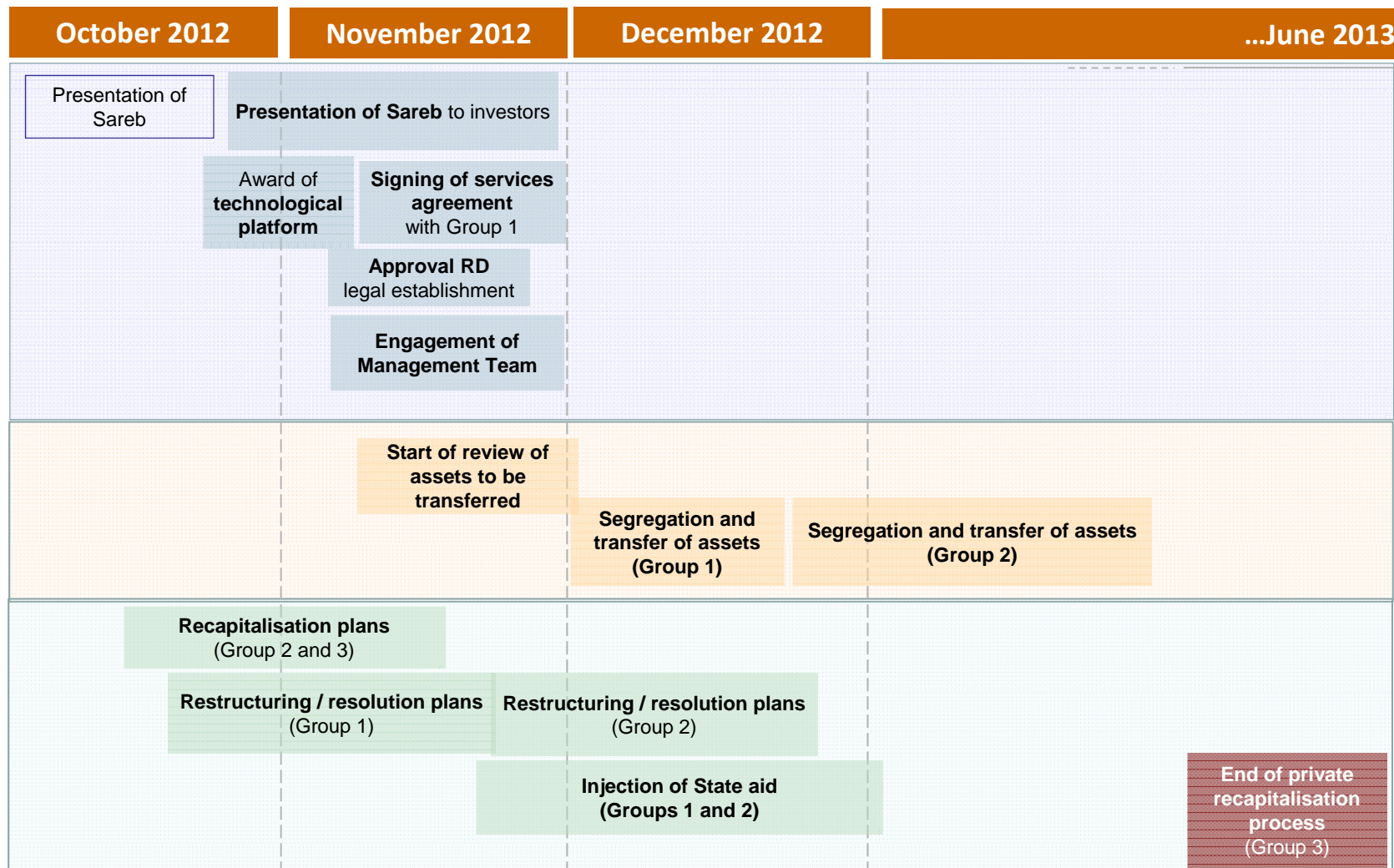
- **A provisional business plan** is being designed with a horizon of 15 years which envisages the macroeconomic and financial developments in the Spanish economy and in the real estate market in particular.
- The market's absorption capacity based on **each asset type and the region** in which they are located is also considered.
- The company will have an **expected return on equity (ROE) of around 14-15%** in a conservative scenario
- As a result of the characteristics of Sareb's business and developments in the real estate cycle, the above-mentioned rate of return will be in keeping with modest results in the early years.



Financial
structure

- The company will have the following **sources of funding**:
 - **State-guaranteed senior debt** which will be issued by Sareb as consideration for the assets received from banks
 - **Subordinated debt and common equity** subscribed the majority by private investors and the rest by the FROB.

4. Next steps



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