

PRESS RELEASE

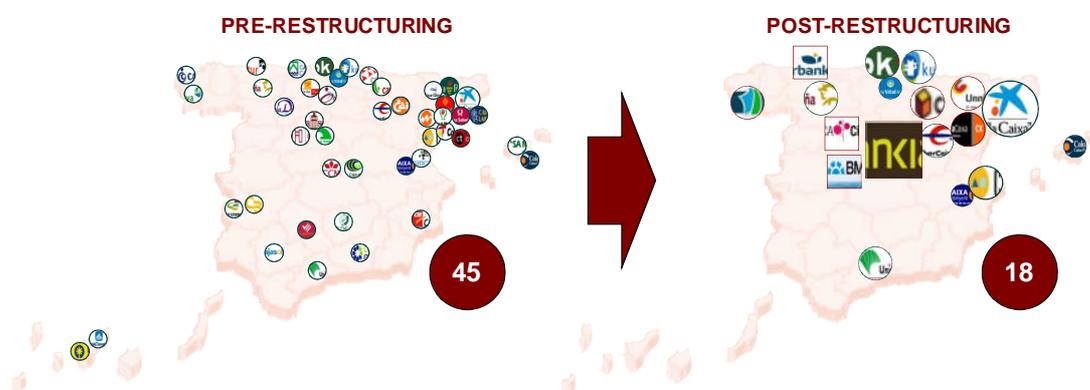
Madrid, 21 July 2011

Note on the state of implementation of Royal Decree-law (RD-I) 2/2011 on recapitalisation following the stock market listings of CaixaBank, Bankia and Banca Cívica

The Banco de España views the stock market listings of CaixaBank, Bankia and Banca Cívica very favourably since they mark, quantitatively and qualitatively, fundamental progress in the reform of savings banks and in compliance with the requirements made of credit institutions by RD-I 2/2011, which was approved last March by the Spanish Parliament.

The restructuring of the banking system, centred essentially on the transformation of savings banks, has been an extremely time-consuming process. This has not only been due to the variety and significance of the regulatory changes needed to adapt centenarian institutions to current times, but also, and above all, because the legislator opted for a process which, while incentive-based, also depended on the voluntary participation of all those involved. That explains the number of different authorities who have had to take various decisions, and the numerous governing bodies of the institutions involved who have had to adopt resolutions in respect of mergers, the setting up of IPSs and conversion into commercial banks. All these resolutions have been highly complex and, in many cases, have entailed negotiations involving numerous agents.

Situation of the savings bank sector in Spain



Another aim of the legislator was to limit as far as possible the burden on Spanish taxpayers. In addition to promoting integration processes that would lessen the costly winding up of the weakest entities, this also led

regulators to forgo models used in other countries consisting of the swift and huge injection of public capital into banking institutions. Making public aid in Spain subject to rigorous conditions has led to capacity-reduction plans being required beforehand, plans whose voluntary approval was no easy matter. The objective of encouraging recourse to private capital rather than public aid has also required complex processes to be undertaken, such as the stock market listing of certain institutions.

Table of additional capital needs published in March 2011

BANKS	pp to achieve target level (8-10%)	need for additional capital (€ m)
Barclays	2.8	552
Deutsche Bank	1.6	182
Bankinter	1.1	333
Bankpyme	2.0	8
SAVINGS BANKS		
Bankia	2.9	5,775
Banca Cívica	1.9	847
Grupo BMN	1.6	637
Effibank	(*)	519
CAM	(*)	2,800
Catalunyacaixa	3.5	1,718
Novacaixagalicia	4.8	2,622
Caja España Inversiones	1.8	463
Unnim	3.3	568

(*) Institutions belonging to the Banco Base project at the time of approval of RD-I 2/2011. Capital needs initially calculated for the project as a whole (€1,447m) and reassessed upon its break-up.

Following the listing of CaixaBank, which met the new capital levels required by RD-I 2/2011, this week has seen another milestone in the process: the stock market listings of Bankia and Banca Cívica. Both institutions have successfully implemented their recapitalisation strategy, which involved their market launch prior to 30 September so as to meet the capital requirement under RD-I 2/2011. The listing of these three savings bank groups, which had transferred their financial activity to a commercial bank as had most savings banks, is worthy of mention since it was carried out against the backdrop of complex circumstances on international markets in record time, RD-I 2/2011 having been approved only four months ago.

Significantly, in addition to the difficulties inherent in the restructuring process, savings banks are converting and recapitalising themselves against a highly complex background. On the liabilities side they are subjected to the tightening and higher cost of funding conditions as a result of the considerable widening of the Spanish spread. And on the asset side they are also experiencing a decline in their main business – extending loans – as a result, among other reasons, of the fall in the solvent demand for credit, and they are also suffering the consequences of the impairment caused by bad debts resulting from insufficient economic activity and the rise in unemployment.

Bankia and Banca Cívica are part of a small group of institutions – 13 in total, of the 114 examined by the Banco de España in March – that had to recapitalise in order to comply with the new capital requirements of 8% and 10% which, on top of the requirements demanded by European directives, all banking institutions operating in Spain will have to meet under the terms of RD-I 2/2011. With these market launches, there are now many institutions that have taken the steps needed to comply with the timetable and objectives set by Parliament. Only a small number of savings banks have still to finalise their recapitalisation in the two months remaining to 30 September, the deadline set by the regulators.

In fact, following the stock market listing of Bankia and Banca Cívica, the process is now very close to completion: the two subsidiaries of foreign banks (Deutsche Bank and Barclays) have received an injection of capital from their parents; Bankinter has issued bonds qualifying as core capital, and Bankpyme is working to see through its strategy. Along with Bankia and Banca Cívica, which are now listed, Effibank and Grupo BMN are making progress, fulfilling the various stages of their recapitalisation timetables to obtain private capital in September, and Caja España de Inversiones is negotiating merging with another more capitalised institution, with the support of the FROB should it prove necessary.

There are then only four institutions (CatalunyaCaixa, Unnim, Novacaixagalicia and CAM) that have included in their strategy an application for public funds as a primary option for recapitalisation, and whose business plans (efficiency, profitability, leverage levels, liquidity, etc.) have been presented to the Banco de España for it to decide on the potential application for aid from the FROB. In these four cases, the RD-I provides for two options: 1) having a viable business plan that enables the FROB to capitalise them and dispose of its stake within a period which may in no circumstances exceed five years; or 2) if the plan were not approved or could not be carried out, the institution involved would have to be rapidly assigned to a third party through a competitive procedure.

Recapitalisation situation by institution

Barclays	Recapitalised by parent					
Deutsche Bank	Recapitalised by parent					
Bankinter	Has issued instruments qualifying as capital					
Bankpyme	Has undertaken to increase capital					
Bankia	Stock market listing in July					
Banca Cívica	Stock market listing in July					
Grupo BMN	Negotiating with private investors					
Effibank	Negotiating various capitalisation alternatives					
Caja España Inversiones	Negotiating integration with another institution					
<table border="1"> <tr> <td>CAM</td> <td rowspan="4">Have requested as a first option direct assistance from the FROB and submitted business plans to Banco de España</td> </tr> <tr> <td>Catalunyacaixa</td> </tr> <tr> <td>Novacaixagalicia</td> </tr> <tr> <td>Unnim</td> </tr> </table>		CAM	Have requested as a first option direct assistance from the FROB and submitted business plans to Banco de España	Catalunyacaixa	Novacaixagalicia	Unnim
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RD-I 2/2011 of 18 February 2011 on the strengthening of the Spanish financial system was approved by Parliament on 10 March. That same day the Banco de España published the capital needs of all banking

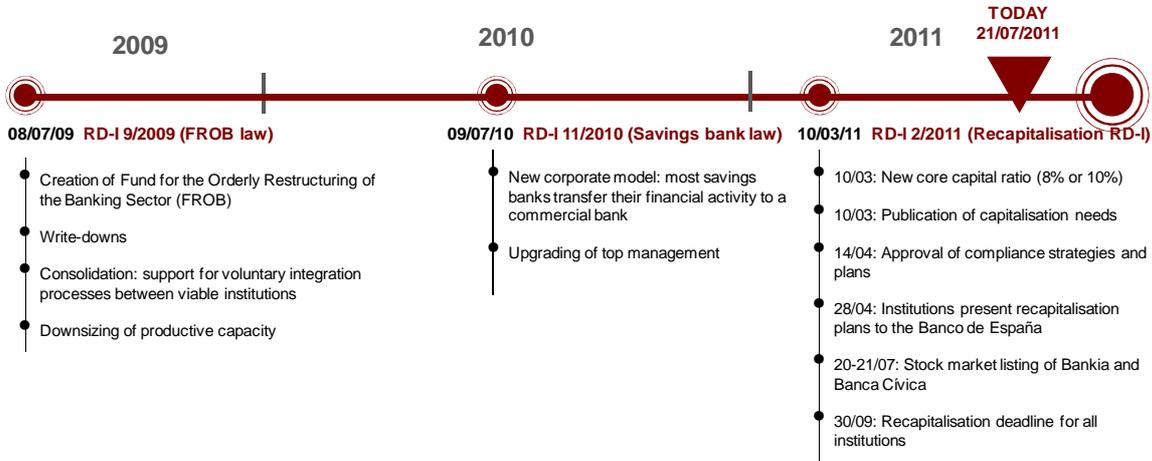
institutions, which amounted to €15.15 billion. At that time (see [press release dated 10 March 2011](#)), it was indicated that the overall amount was subject to changes owing to the possible saving on aid that might arise from capital being raised on the markets.

Firstly, some institutions announced that, as their first option, they were envisaging raising funds from investors for at least 20% of their capital. Insofar as this has been the case at some institutions, and at those which have fulfilled the conditions set under RD-I 2/2011 on market access, the 8% core capital ratio shall be applied to them and, therefore, the total amount of additional capital needed will differ.

Institutions were also offered the possibility of adjusting their capital ratio by means of extraordinary operations, such as those indicated in Article 1 of Transitional Provision One of the RD-I (sales of branches, strategic holdings or asset portfolios). If these materialise, it will reduce the need to obtain new capital.

These factors mean that the overall figure of capital needed does not match that estimated in March. It will be necessary to wait until 30 September 2011 to know the exact amount of additional capital necessary. The same can be said of the volume of public funds provided since, on the basis of the operations completed to date, there will be a considerable saving on the maximum figure estimated on 10 March. In any event, recapitalisation will have been undertaken in scarcely six months following the completion of the different stages of balance-sheet write-downs, mergers, changes in corporate model with the conversion of almost all savings banks into commercial banks and improved governance.

The ongoing transformation of the Spanish banking system can be graphically depicted as follows:



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