BANCO DE ESPAÑA
Eurosistema

# RESTRUCTURING OF THE FINANCIAL SECTOR

## RESULTS OF THE RECAPITALISATION PROCESS

Madrid
30 September 2011

RESTRUCTURING PROCESS

# BROAD OBJECTIVES

| | OBJECTIVES | INSTRUMENTS |
|---|---|---|
| 1 | **Clean up institutions' balance sheets before recapitalising them** | • Build-up of provisions<br>• Restructuring with a charge to reserves in mergers |
| 2 | **Downsize the financial system** | • Consolidation of institutions<br>• Capacity reduction plans |
| 3 | **Promote the entry of private investors** | • Incentives for the entry of private capital |
| 4 | **Improve the governance of institutions** | • Incentives for the conversion of savings banks into banks |
| 5 | **Reduce the cost for taxpayers** | • Boost to restructuring through consolidation processes<br>• Entry of private investors |
| 6 | **Calm the markets** | • Increase in solvency and recapitalisation requirements<br>• Transparency:<br>    • Detailed disclosure of each institution's exposure to property development and real estate credit risk<br>    • Inclusion of the entire sector in EU stress tests |

## RECAPITALISATION PROCESS

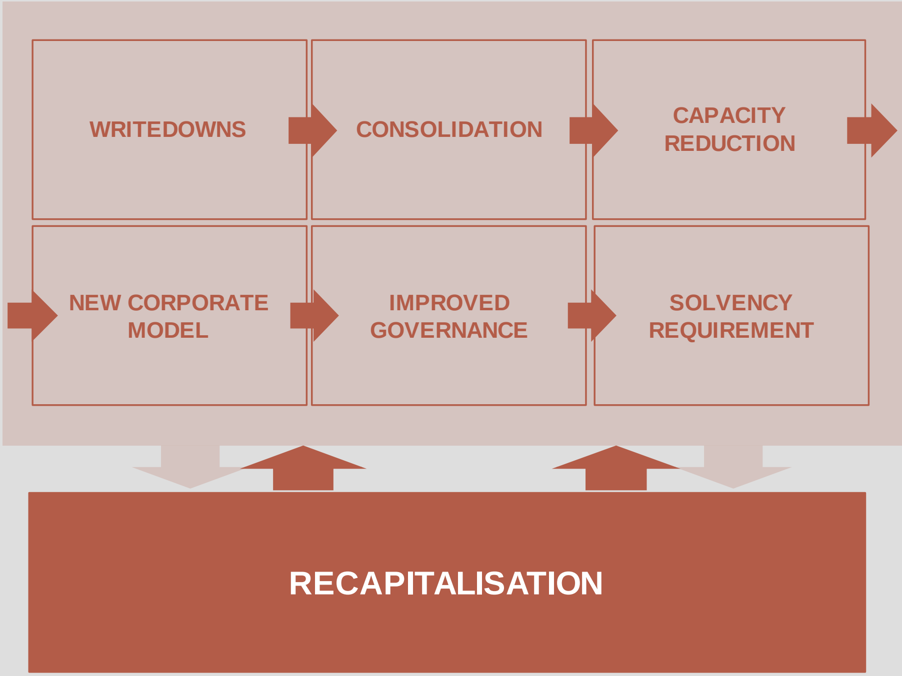
# GENERAL ASSESSMENT

- **As at 30 September, the recapitalisation process to comply with the requirements of RD-I 2/2011 is complete**

- **The roadmap of the Royal Decree-law has been strictly adhered to:**

    - All institutions will meet the new required level of capital (8 or 10%)

    - 2 institutions are finalising the entry of private investors (their assets account for scarcely 3.6% of the sector's total)



# RECAPITALISATION PROCESS
# TIMELINE

| JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|

- **Background:** Irish crisis → bail-out → worsening of the debt crisis → Spain decides to raise solvency requirements

**•Approval of RD-l 2/2011 (18/02/2011):**

- Raises the solvency threshold required of institutions
- New requirement: 8% or 10%


BOLETÍN OFICIAL DEL ESTADO

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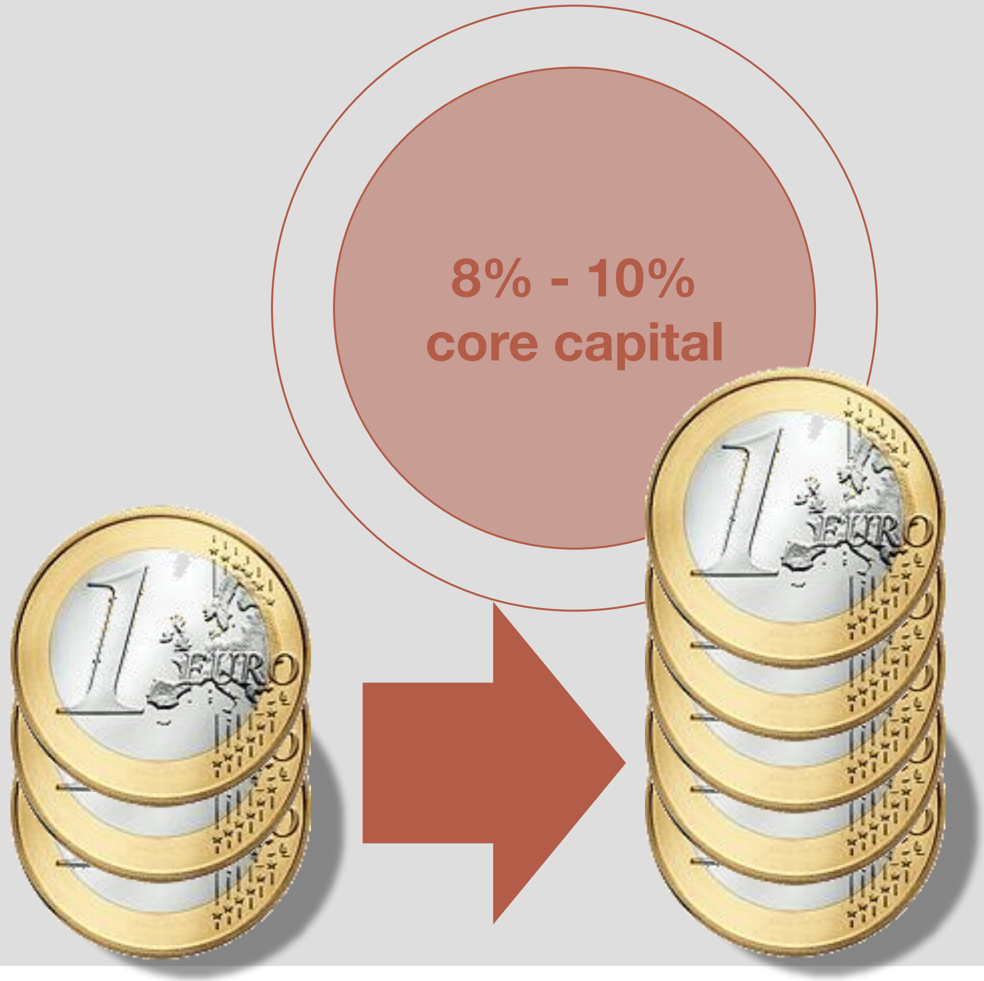
I. DISPOSICIONES GENERALES

JEFATURA DEL ESTADO

3254 *Real Decreto-ley 2/2011, de 18 de febrero, para el reforzamiento del sistema financiero.*

I

Las tensiones a las que se ha enfrentado el sistema financiero internacional desde el comienzo de la crisis han dificultado el cumplimiento de su función esencial como



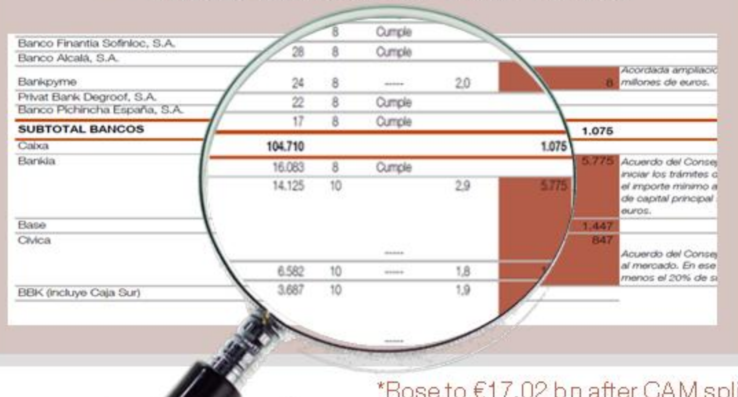
# RECAPITALISATION PROCESS
# TIMELINE

| JAN | FEB | **MAR** | APR | MAY | JUN | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|

**•Approval of RD-I 2/2011 (10/03/2011)**

**•Determining institutions' capital needs:**

- 8% or 10% minimum depending on wholesale funding and private investors
- Initial estimate: €15.15 bn



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Banco Finantia Sofinloc, S.A. | | 8 | Cumple | | | | |
| Banco Alcalá, S.A. | 28 | 8 | Cumple | | | | |
| Bankpyme | 24 | 8 | ----- | 2,0 | | 8 | Acordada ampliació millones de euros. |
| Privat Bank Degroof, S.A. | 22 | 8 | Cumple | | | | |
| Banco Pichincha España, S.A. | 17 | 8 | Cumple | | | | |
| SUBTOTAL BANCOS | | | | | | 1.075 | |
| Caixa | 104.710 | | | | 1.075 | | |
| Bankia | 16.083 | 8 | Cumple | | | 5.775 | Acuerdo del Conse iniciar los trámites el importe mínimo de capital principal euros. |
| | 14.125 | 10 | | 2,9 | 5.775 | | |
| Base | | | | | | 1.447 | |
| Cívica | | | ----- | | | 847 | Acuerdo del Conse al mercado. En ese menos el 20% de s |
| | 6.582 | 10 | ----- | 1,8 | | | |
| BBK (incluye Caja Sur) | 3.687 | 10 | | 1,9 | | | |

*Rose to €17.02 bn after CAM split from Banco Base

**Of the 114 financial institutions registered in Spain:**

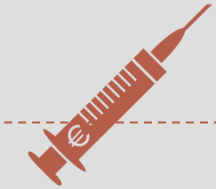
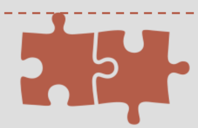
•**101** met the new solvency levels laid down under RD-I 2/2011

•**13** needed to raise their core capital

## RECAPITALISATION PROCESS
# TIMELINE

JAN | FEB | MAR | **APR** | MAY | JUN | JUL | AUG | SEP

- Approval of compliance strategies
- Submission of recapitalisation plans to the Banco de España in the case of resort to the FROB

| Institutions | | Strategies |
| --- | --- | --- |
| Barclays<br>Deutsche Bank |  | Capitalisation by parent |
| Bankinter<br>Bankpyme | | Capital increase and corporate operation |
| Bankia<br>Banca Cívica |  | Market flotation |
| Grupo BMN<br>Liberbank |  | Search for investors |
| Novacaixagalicia<br>Catalunyacaixa<br>CAM<br>Unnim | FROB | Entry of the FROB |
| Caja España-Duero |  | Consolidation with another institution |

## RECAPITALISATION PROCESS
# TIMELINE

| JAN | FEB | MAR | APR | **MAY** | **JUN** | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|

- **Viability analysis of recapitalisation plans**
- **The change in corporate model is being finalised:**
  - Most savings banks (98.3% of the sector's assets) transfer their financial activity to a bank
  - Many savings banks not obliged to do so are nevertheless doing this

### Savings banks that will now operate as banks

| | |
|---|---|
| Caixa | √ |
| Ibercaja | √ |
| Bankia | √ |
| Banca Cívica | √ |
| Grupo BMN | √ |
| Liberbank | √ |
| Unicaja | √ |
| Caja España-Duero | √ |

98.3 %

| | |
|---|---|
| Novacaixagalicia | √ |
| Catalunyacaixa | √ |
| Unnim | √ |
| CAM | √ |
| BBK | √ |
| Kutxa | √ |
| Vital | √ |
| Caja 3* | X |
| Ontinyent | X |
| Pollença | X |

*Bank set up. Approval of the separation of its banking business to the bank is pending

# RECAPITALISATION PROCESS
# TIMELINE

| JAN | FEB | MAR | APR | MAY | JUN | **JUL** | **AUG** | SEP |
|---|---|---|---|---|---|---|---|---|

- •Market listings: CaixaBank, Bankia and Banca Cívica

- •Banco de España replaces the directors of CAM

- •The stress tests substantiate the solvency of Spanish institutions

- •Setting in train of the valuation of institutions that have requested capital contributions from the FROB



**STRESS TESTS 2011**


| Institutions | solvency ratio adverse scenario with prov. | without | Institutions | solvency ratio adverse scenario with prov. | without |
|---|---|---|---|---|---|
| Santander | 8,9 | 8,4 | Ibercaja | 7,3 | 6,7 |
| BBVA | 10,2 | 9,2 | Unicaja | 12,3 | 9,4 |
| BFA-Bankia | 6,5 | 5,4 | Liberbank | 8,3 | 6,8 |
| Caixa | 9,2 | 6,4 | Pastor | 5,6 | 3,3 |
| Popular | 7,4 | 5,3 | BBK | 11,3 | 8,8 |
| Sabadell | 8,0 | 5,7 | Unnim | 6,2 | 4,5 |
| Catalunyacaixa | 6,2 | 4,8 | Kutxa | 10,5 | 10,1 |
| Novacaixagalicia | 6,5 | 5,3 | Caja3 | 6,6 | 4,0 |
| Banca Cívica | 9,4 | 5,6 | March | 27,8 | 23,5 |
| CAM | 5,1 | 3,0 | Vital | 9,2 | 8,7 |
| Grupo BMN | 9,3 | 6,1 | Ontinyent | 7,2 | 5,6 |
| Bankinter | 6,8 | 5,3 | Pollensa | 8,0 | 6,2 |
| C. España-Duero | 8,4 | 7,3 | | | |

# RECAPITALISATION PROCESS
# TIMELINE

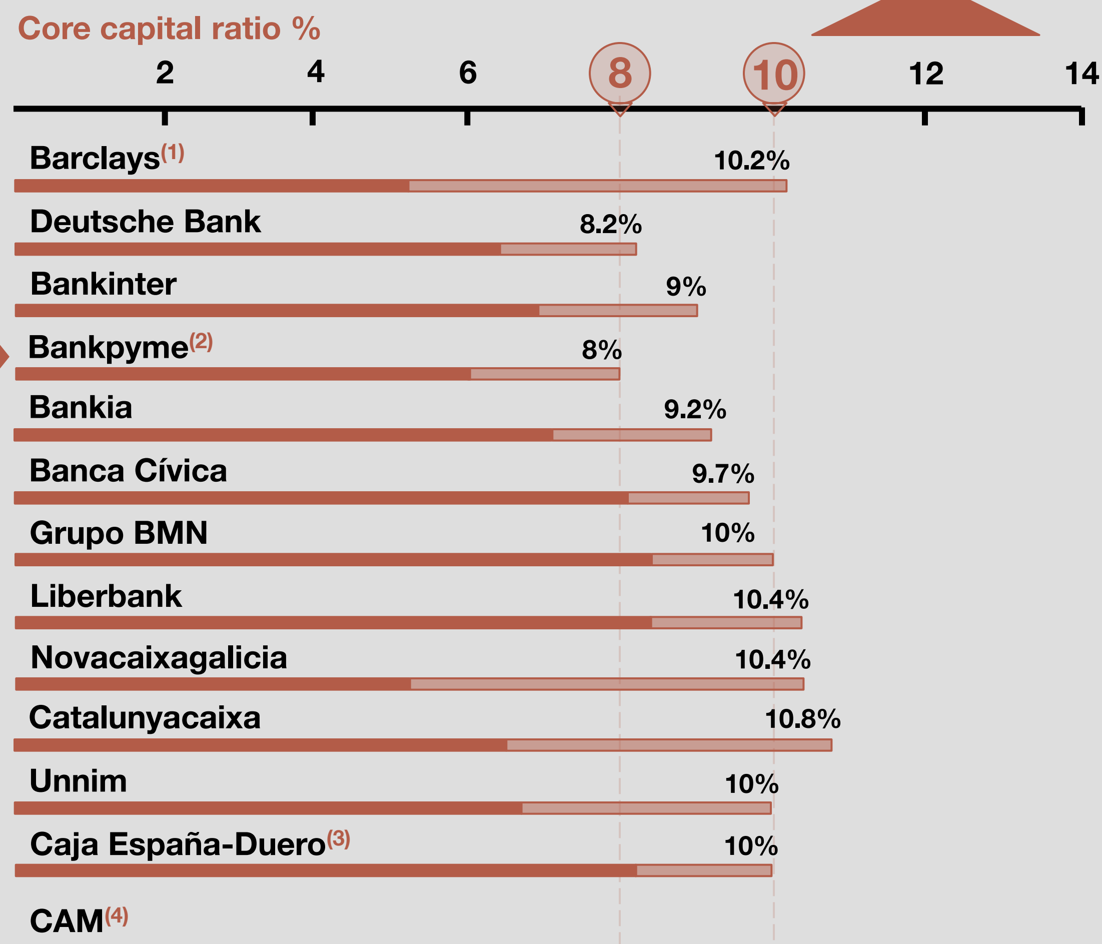
JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | **SEP**

**•Completion of the recapitalisation process:**

- All Spanish financial institutions will meet the new minimum solvency ratio
- Most institutions (96.4% of the sector's assets) have completed their recapitalisation

Solvency ratio **BEFORE** recapitalisation

Solvency ratio **AFTER** recapitalisation




(1) Following the first capital increase, a further, voluntary increase made raising the ratio to 13.8%

(2) Pending corporate transaction.

(3) Core capital ratio following the merger with Unicaja.

(4) Currently subject to a bidding process.

## RECAPITALISATION PROCESS
# TIMELINE

| JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | **SEP** |
|---|---|---|---|---|---|---|---|---|

**Completion of the recapitalisation process:**

All Spanish financial institutions will meet the new minimum solvency ratio

Most institutions (96.4% of the sector's assets) have completed their recapitalisation

| INSTITUTIONS | PROCEDURES UNDER WAY |
|---|---|
| • **Grupo BMN**<br>• **Liberbank** | • They have a 25-day extension to formalise the entry of private capital |
| • **Novacaixagalicia**<br>• **Catalunyacaixa**<br>• **Unnim** | • The FROB will participate with the necessary additional capital: it will take 93.2% of NCG, 90% of CC and 100% of Unnim |
| • **CAM** | • Subject to bidding process |

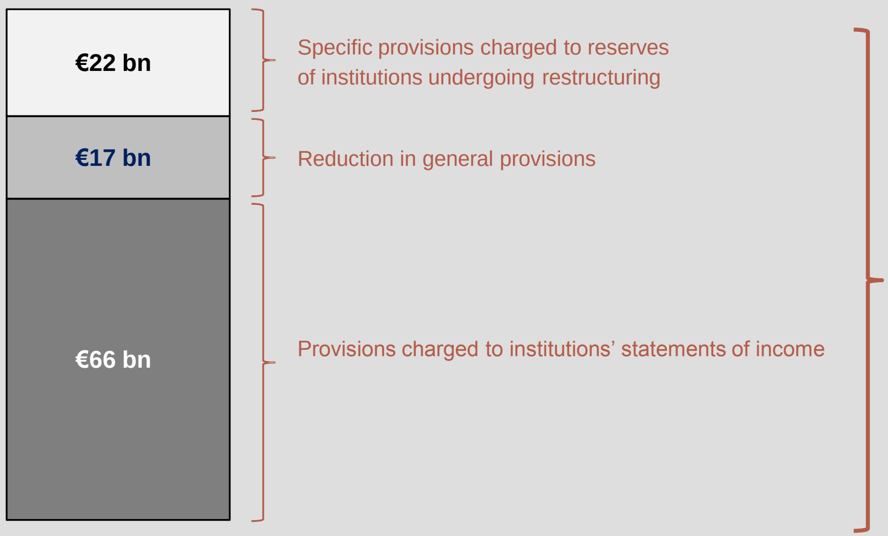
# RESTRUCTURING PROCESS ASSESSMENT

| RD-I 9/2009 FROB Law | RD-I 11/2010 Savings Bank Law | RD-I 2/2011 Recapitalisation Law |
|---|---|---|

- **Writedowns**
- Consolidation
- Capacity reduction
- New corporate model
- Improved governance
- Solvency requirement
- Recapitalisation

| | |
|---|---|
| **€105 bn** | **Consolidated provisions: Jan-08 to Jun 11** |
| **10%** | **% of GDP accounted for by provisioning** |
| **59%** | **Equivalent % of total core capital** |

**Provisions by source**




**TOTAL PROVISIONS**

**€105 bn**

# RESTRUCTURING PROCESS ASSESSMENT

| RD-I 9/2009<br>FROB Law | RD-I 11/2010<br>Savings Bank Law | RD-I 2/2011<br>Recapitalisation Law |
|---|---|---|

- Writedowns
- **Consolidation**
- Capacity reduction
- New corporate model
- Improved governance
- Solvency requirement
- Recapitalisation

| | |
|---|---|
| 45 | No. of savings banks before restructuring |
| 15 | No. of savings banks after restructuring |

# RESTRUCTURING PROCESS ASSESSMENT

| RD-I 9/2009 FROB Law | RD-I 11/2010 Savings Bank Law | RD-I 2/2011 Recapitalisation Law |
|---|---|---|

- Writedowns
- Consolidation
- **Capacity reduction**
- New corporate model
- Improved governance
- Solvency requirement
- Recapitalisation

| | |
|---|---|
| 16,9% | Average staff cuts in merged institutions |
| 17,2% | Average reduction in merged institutions' commercial network offices |

| Capacity reduction | Before restructuring | During restructuring |
|---|---|---|
| Employees/staff | ▼ 4% | ▼ 9-23% |
| Offices | ▼ 5% | ▼ 10-30% |

# RESTRUCTURING PROCESS ASSESSMENT

RD-I 9/2009 FROB Law | **RD-I 11/2010 Savings Bank Law** | RD-I 2/2011 Recapitalisation Law

- Writedowns
- Consolidation
- Capacity reduction
- New corporate model
- **Improved governance**
- Solvency requirement
- Recapitalisation

| **100%** | **All savings banks renewed their senior management teams** |
|---|---|

**Qualitative renewal of senior management teams**

- Voluntary
- Prompted by the entry of new capital, whether public or private
- Prompted by conversion into banks

**Growing competitive pressure**

- Due to economic circumstances
- Due to savings banks' exposure to market discipline

# RESTRUCTURING PROCESS ASSESSMENT

| RD-I 9/2009 FROB Law | RD-I 11/2010 Savings Bank Law | RD-I 2/2011 Recapitalisation Law |
|---|---|---|

- Writedowns
- Consolidation
- Capacity reduction
- New corporate model
- Improved governance
- **Solvency requirement**
- **Recapitalisation**

| | |
|---|---|
| **100%** | **Institutions meeting the requirements of RD-I 2/2011** |
| **€15.15 bn** | **Initial estimate of the sector's capital needs (*)** |
| **€5.84 bn** | **Capital covered by private investment** |
| **€7.56 bn** | **Capital contributed by the FROB** |

| Institutions | Capital needs | Private investment | FROB investment |
|---|---|---|---|
| **Bankinter** | 333 m | 405 m | 0 |
| **Barclays** [1] | 552 m | 700 m | 0 |
| **Deutsche** | 182 m | 223 m | 0 |
| **Bankpyme** | 8 | 8 | 0 |
| | | | |
| **Bankia** | 5.78 bn | 3.09 bn | 0 |
| **Banca Cívica** | 847 m | 600 m | 0 |
| | | | |
| **Grupo BMN** | 637 m | 485 m | 0 |
| **Liberbank** | 519 m | 325 m | 0 |

| Institutions | Capital needs | Private investment | FROB investment |
|---|---|---|---|
| **Novacaixagalicia** | 2.62 bn | 0 | 2.47 bn |
| **Catalunyacaixa** | 1.72 bn | 0 | 1.72 bn |
| **CAM** [2] | 2.8 bn | 0 | 2.8 bn |
| **Unnim** | 568 m | 0 | 568 m |
| | | | |
| **C. España –Duero** [3] | 463 m | 0 | 0 |
| | | | |
| **SUB-TOTALS** | | **5.84 bn** | **7.56 bn** |
| **TOTAL** | | **€13.39 bn** | |

(*) For a solvency ratio of 10% at savings banks. Rose to €17.02 billion as Banco Base split.
(1) Following the first increase, a further, voluntary increase of €598 million was made.
(2) Subject to bidding process
(3) Needs no capital contribution following the merger with Unicaja

## RESTRUCTURING PROCESS

# OUTLOOK FOR THE SECTOR

| RD-I 9/2009<br>FROB Law | RD-I 11/2010<br>Savings Bank Law | RD-I 2/2011<br>Recapitalisation Law |
|---|---|---|

- Recapitalisation
- Solvency requirement
- Improved governance
- New corporate model
- Capacity reduction
- Consolidation
- Writedowns

→

- More solvency
- More market discipline
- More efficiency

→

**Greater COMPETITIVENESS**

## RESTRUCTURING PROCESS
# FINAL CONSIDERATIONS

- **Positive assessment, all more so against a background of exceptional uncertainty such as that experienced in the past seven months**
- **A clear strategy has been pursued, one adapted to the circumstances prevailing at each point in time and which has been progressively revised in the light of fresh problems that have emerged**
- **The measures adopted to date are sufficient, even in an adverse macroeconomic scenario such as that used in the July stress tests**
- **The RD-I is a permanent change in the law: greater impairments in the future will necessitate an increase in capital to comply with the required ratios**
- **The markets have now turned their attention to the big European banks, opening the debate on their need to increase capital as a result of worsening sovereign risk**