

**TESTIMONY BY THE CHAIRMAN OF THE GOVERNING COMMITTEE OF THE FROB
BEFORE THE PARLIAMENTARY COMMITTEE ON ECONOMIC AFFAIRS AND
COMPETITIVENESS**

5 February 2014

Thank you Mr Chairman, honourable members.

In accordance with the oversight mandate included in Article 56 of Law 9/2012 on the restructuring and resolution of credit institutions, of 14 November 2012, I appear before this Committee on Economic Affairs and Competitiveness as Chairman of the Governing Committee of the Fund for the Orderly Restructuring of the Banking Sector (FROB) which, as you know, is made up of representatives of the Banco de España, the Ministry of Economic Affairs and Competitiveness, and the Ministry of Financial Affairs and Public Administration.

The purpose of this appearance is to report on the activities of the FROB since 10 September 2013, when I last appeared before the Sub-Committee on Bank Restructuring and Financial Reorganisation set up by this Committee and through which, to date, the legal obligation of accountability had been fulfilled.

Allow me first to remind you that the financial assistance programme (agreed in July 2012) was completed in January. This was after the assessments of the European Commission, the ECB and the IMF, whose final report will be published in the coming days, attested to the fulfilment of the conditions included in the Memorandum of Understanding and affirmed that all its objectives have been met.

Since the start of the programme, the FROB has been engaged, in close collaboration with the Banco de España, in formulating and implementing the recapitalisation and restructuring plans for the institutions that have received State aid, in cleaning up the balance sheets of those institutions through the transfer of assets to Sareb and in pursuing the complex burden-sharing exercises involving the shareholders and creditors of the institutions and the public finances authorities.

In recent months, the focal point of activity has shifted from these restructuring and resolution planning and management activities to others relating to the disposal of the FROB's stakes in financial institutions and the promotion of corporate operations.

The report I have for you, which will detail the measures taken in the past quarter, addresses firstly the course of the sale processes for institutions under resolution, i.e. those considered unviable on their own. I refer to Banco Gallego, NCG Banco and Catalunya Banc.

Secondly, I shall inform you of the current status of the Banco CEISS- Unicaja Banco corporate operation.

Thirdly, I shall briefly outline the sale of Caja Rural Comarcal de Mota del Cuervo as part of its resolution process.

Fourthly, I shall discuss the current status of the arbitration processes initiated by FROB-investee institutions, aimed at investors who may have been affected by the mis-selling of hybrid instruments.

Finally, I shall refer to the monitoring arrangements for the restructuring and resolution plans the FROB must conduct in the exercise of the functions conferred on it by Law 9/2012, I shall briefly address Sareb's activities over this period and I shall conclude with an overview of the FROB's financial position.

Turning first to the sale processes of institutions under resolution, I shall begin with NCG Banco.

1. SALE PROCESSES FOR INSTITUTIONS UNDER RESOLUTION

a. NCG BANCO

The resolution plan for NCG BANCO established the obligation for the Spanish authorities to initiate contacts with potential buyers of the institution by mid-2015 at the latest, with every effort being made to conclude the sale no later than end-2016.

As you will recall, on 25 March 2013 the Governing Committee of the FROB awarded, further to a competitive tender, the project to draw up a report describing and assessing the various management strategies of the FROB investee institutions, including NCG, to McKinsey, the international consultancy. McKinsey considered the swift divestment of this institution as the best possible option, given the risk of impairment of the franchise, with the subsequent loss for the public coffers. Accordingly, in July 2013, the Governing Committee of the FROB awarded the agreement for the analysis and future sale of NCG to BNP Paribas (BNP).

This agreement stipulated that the process would be a two-phase one: an initial phase, in which BNP would analyse the institution's economic and financial position and sound out market appetite, so that the FROB could decide whether the conditions were right or not to

launch the sale process; and a second, shorter phase, in which a decision may be made regarding the award of the institution following the related competitive procedure.

BNP informally contacted different credit institutions and private equity funds. The invitation to non-bank financial institutions was new in this type of process, and was made with a view to maximising the effectiveness of the competitive process. However, to ensure the proper management of the institution, once privatised, and to have certainty regarding the commitment of the potential buyers, the Banco de España stipulated a series of supplementary conditions that those investment and private equity funds interested had to meet. They were made aware of these conditions by the investment bank engaged.

Having identified potential buyers with an interest in the institution, these were given access to the necessary information in order to value the institution.

Included under the sale were shares representing 62.75% of the capital of NCG Banco controlled by the FROB, and shares representing 25.58% of the capital stock owned by the Deposit Guarantee Fund, obtained following the application of the liquidity mechanism offered by this latter body to the minority shareholders who, at the time, purchased hybrid instruments from the institution. Left outside the sale process, therefore, were the NCG shares delivered in exchange to holders of the preference shares and subordinated debt affected by the burden-sharing exercises, and who did not have access to the Deposit Guarantee Fund's liquidity mechanism.

Likewise, the letter of invitation shaped what would be a two-phase selection process: an initial phase, in which the bids submitted by institutions invited to participate would be evaluated; and a second phase, involving only the three potential buyers that had submitted the best bids in the first phase. This second phase would only take place if the bid in second place in the first phase were not to differ by more than 50% and by more than €200 million from the highest bid.

Potential buyers had also to submit their bids initially before Friday, 13 December, a deadline which was extended to 16 December.

The agreement underpinning the sale, which was also delivered to potential purchasers, included specific commitments or guarantees in favour of NCG, which is an habitual practice in this type of operation, but it included no asset protection scheme (APS) on any of the institution's portfolios.

Six bids were received in the sale process, and were duly analysed by the FROB's technical services, with the collaboration of BNP, in keeping with the above-mentioned criteria.

The analysis revealed that the binding offer submitted by Banco Etcheverría-Grupo Banesco received the best evaluation. As the second-placed bid differed by more than 50% and by more than €200 million from the first bid, that precluded the launch of the second phase.

The total price bid by Banco Etcheverría-Grupo Banesco was €1,003 million, comprising €913 million for the basic perimeter, and an additional €90 million for the written-off loan portfolio. The bid did not propose material amendments to the agreement.

The consideration offered in the binding bid would be paid as follows:

- €313 million as at the date the operation were concluded (plus the €90 million for the written-off loan portfolio)
- €100 million on 30 June 2016
- €200 million on 30 June 2017
- And €300 million on 30 June 2018

Accordingly, on 18 December 2013, the Governing Committee of the FROB awarded the sale agreement for 88.33% of the shares representing the capital stock of NCG Banco to Banco Etcheverría-Grupo Banesco, with the private sale agreement being signed on the same date.

The effectiveness of the agreement is conditional upon compliance with the legally envisaged prerequisites, which include obtaining mandatory authorisations from national and Community authorities.

In sum, the overriding aim of the sale of the institution has been to ensure at all times the most efficient use of public funds, in keeping with the principles of Law 9/2012, once the viability of the merger of NCG Banco into the Banesco Group has been guaranteed, further to the mandatory ratification by the Banco de España. As a result, the legal mandate whereunder the FROB is required to implement a competitive, transparent and non-discriminatory procedure that maximises the sale price and minimises the use of public funds has been fulfilled.

I shall now discuss the conclusion of the Banco Gallego sale.

b. BANCO GALLEGO

As I pointed out, the resolution of Banco Gallego was originally envisaged to form part of the NCG Banco resolution; the arrangements foresaw its sale before 30 April 2013 or, otherwise, the orderly winding-up of the institution.

On 19 April 2013, the Governing Committee of the FROB agreed to award Banco Gallego to Banco Sabadell, considering that the latter's bid was the most competitive under the evaluation criteria established.

The successful conclusion of the operation was conditional upon obtaining the pertinent authorisations, a capital injection by the FROB for €245 million and the burden-sharing exercises. The FROB formalised these measures, having obtained the necessary authorisations, on 30 September 2013. Finally, on 28 October, the agreement whereby Banco Sabadell acquired 100% of Banco Gallego took effect.

That marked the fulfilment and conclusion of the Banco Gallego resolution plan, entailing the institution's integration into a sound financial group and avoiding the alternative scenario of winding-up proceedings, which would have meant a bigger drain on the public coffers.

c. CATALUNYA BANC (CX)

As you are aware, the resolution plan for Catalunya Banc envisages its disposal through a competitive bidding process, no later than end-2016.

As in the case of NCG, the consultancy McKinsey advised the FROB to implement the divestment in the short term in order to minimise the institution's resolution costs for taxpayers.

Consequently, on 18 July 2013 the Governing Committee of the FROB, following a competitive process, awarded N+1 Corporate Finance, S.A. the agreement for the analysis and sale of Catalunya Banc.

This agreement stipulated that the process is a two-phase one: an initial phase, of market analysis and comparison, which enables the FROB to assess whether the conditions for selling the institution are in place; and a second, shorter phase, in which the sale may proceed.

The initial analysis has been practically completed. N+1 engaged Ernst&Young to undertake the financial, labour-related, fiscal and legal due diligence (DD) of Catalunya Banc. In parallel, N+1 is identifying the contingencies and value levers of the institution.

As part of the strategy for the divestment process, the possibility of commencing in parallel the sale of any of the institution's portfolios is envisaged, provided that such sale increases the return obtained by the FROB, in accordance with the legally envisaged principles and objectives.

2. UNICAJA-BANCO CEISS CORPORATE OPERATION

To conclude the first section of my address, I shall describe the current situation of the corporate operation whereby Unicaja would acquire a controlling stake in Banco CEISS, within the framework of the latter's resolution plan. Considerable progress has been made with this operation in recent weeks.

As you are aware, in May 2013 both the FROB and the Executive Commission of the Banco de España, and subsequently the European Commission, approved the modification of the Banco CEISS resolution plan, so as to include the Unicaja Banco bid for capital instruments issued by Banco CEISS.

The Unicaja Banco bid, approved by its board of directors on 15 July 2013, took effect on 26 November 2013, with the registering with the CNMV of the prospectus outlining the bid to

acquire Banco CEISS capital instruments that had been obtained by investors in the latter's hybrid instruments, following the burden-sharing exercise undertaken by the FROB.

This bid comprised the swap of Banco CEISS shares held by wholesale investors for shares in Unicaja Banco S.A., and, for the retail investors, the swap of instruments convertible into shares of Banco CEISS for a basket of instruments convertible into shares of Unicaja Banco.

The bid was based on two reports by independent experts,¹ which demonstrated that the value of the securities offered by Unicaja Banco was higher than the market value of the CEISS instruments, with an average premium of 46%.

Furthermore, the above-mentioned bid stipulated two prerequisites for its success: firstly and irrevocably, to attain coverage of 75% of the face value of CEISS shares held by wholesale investors and, secondly, a condition which may not be enforced by Unicaja Banco, to attain coverage of 75% of the overall face value of convertible shares and bonds of CEISS. Similarly, under the bid it was compulsory for the investors to agree to waive any claim against CEISS or Unicaja, in relation to the selling of hybrid capital instruments by the former.

Under these conditions, the success of the bid would have prevented the retail investors who accepted it from being compensated for the costs arising from potential mis-selling of subordinated debt and preference shares by the savings banks which constituted Banco CEISS.

For this reason, on 26 November 2013 the FROB published the approval of a mechanism. Retail investors who accepted Unicaja Banco's bid and who filed the corresponding request, provided that the bid was successful, could avail themselves of this mechanism, whereby an independent expert would review the previous selling of preference shares and subordinated debt of CEISS to them. This review would be undertaken in accordance with the criteria stipulated by the Subordinated Debt Monitoring Committee set up under Royal Decree-Law 6/2013.

Thus, provided that the operation proceeds, those investors who have availed themselves of the review mechanism and obtain the backing of the independent expert will receive compensation in cash from the FROB for their initial investment net of the value of the Unicaja Banco instruments received in the swap and the difference in respect of the interest received.

This action falls within the framework established by Law 9/2012, which empowers the FROB to act so as to reduce the cost for public coffers of the resolution of inviable institutions. In fact, the review mechanism not only affords similar protection for retail investors of CEISS to that offered to retail investors which acquired the hybrid instruments issued by other institutions under resolution; it has further reduced the obstacles to the conclusion of a corporate operation which entails considerable benefits both for the institutions involved and for the public purse.

¹ Oliver Wyman and Analistas Financieros Internacionales.

Similarly, Unicaja Banco approved the so-called “accompaniment mechanism”, whereby the retail investors who had accepted the bid and did not obtain a positive result from the review mechanism would be compensated by Unicaja Banco, provided that the operation succeeded, with a cash figure representing an average of 17.5% of the initial nominal value invested in preference shares or subordinated debt and which will be added to the value of the securities offered by Unicaja in the swap.

On 21 January 2014 the deadline for accepting the bid ended and the related data are as follows:

- Acceptance in the wholesale tranche (shareholders of CEISS): 99.16%
- Overall acceptance: 60.66%

Consequently, the first irrevocable condition of Unicaja Banco is met, since the acceptance by shareholders amply exceeds the minimum set. This does not apply, however, to the second condition, which required that overall acceptance should exceed 75% of the total face value of the instruments to which the bid was addressed.

Under these conditions, Unicaja Banco was willing to waive compliance with the second condition and, consequently, to proceed to swap the instruments of the investors that had accepted its bid, provided that the FROB agreed to offer additional guarantees to cover potential litigation as a step prior to the waiver taking effect. The FROB considered it appropriate to accept Unicaja's offer, based on its assessment of the offer's impact on the resolution cost of Banco CEISS.

Note that the alternative scenario to the culmination of the corporate operation would mean the nationalisation of the institution, converting €604 million of obligatory convertible bonds, remunerated at over 8% and subscribed by the FROB as financial support, into non-remunerated (in principle) capital. This would involve, furthermore, the need to cover – through fresh capital contributions – the minimum regulatory capital required under the solvency test to be performed by the single supervisory mechanism this year. And, finally, it would mean the injection, in any event, of fresh funds to cover the contingencies which have arisen, precisely due to the arbitration or legal proceedings associated with the selling of the hybrid instruments.

That is to say, not accepting the guarantees requested would not prevent the FROB from having to foreseeably meet the contingencies covered by the guarantees were it to take charge of the institution in the event of the bid not being successful. And it would also be exposed to the risk of losing all or part of the capital invested in a potential competitive bid process.

Indeed, the additional cost for the FROB of the resolution of this institution, if the operation with Unicaja Banco were not to proceed, could amount to close to €1 billion, according to a FROB-commissioned report prepared by an independent expert.

Taking into account the foregoing, a request has been made to the European Commission to authorise the extension of the above-mentioned guarantee to cover the potential litigation of the investors that have not accepted Unicaja's bid.

Granting this aid represents an additional maximum cost for the FROB of €241 million. The FROB would cover, up to this amount, 71% of the negative impact of the claims of holders of bonds mandatorily convertible into shares and of contingent convertible bonds who did not accept the bid, and Banco CEISS would cover the remaining 29%.

In order to grant the guarantees requested, the Banco CEISS resolution plan must be modified together with the term sheet attached to the decision of the European Commission of 13 May 2013, to which certain changes in the restructuring commitments of Banco CEISS must be added. That responds to the need to adjust the downsizing envisaged in the original plan to the increase in the State aid this institution would receive. In any event, the FROB has defined the outline of the modification of the resolution plan, which has been agreed by the Banco de España. The envisaged revision is at an advanced stage of negotiations with the technical services of the European Commission, whose College of Commissioners must formally approve the reform of the plan.

Once the necessary formal authorisations have been obtained, Unicaja will waive the condition of a minimum acceptance of the bid, which will permit the implementation of the swap of securities whereby Unicaja Banco would acquire the control of Banco CEISS. It is envisaged that the process will be finalised in the coming weeks and, in any event, before 31 March 2014.

That will allow the culmination of an operation which benefits the financial system as a whole and involves a considerable saving of public funds.

3. CAJA RURAL COMARCAL MOTA DEL CUERVO

Having reviewed the processes of sale of the institutions under resolution, I shall now analyse, because of its exceptional nature, the sale of Caja Rural Comarcal Mota del Cuervo, which however falls outside the processes of resolution and restructuring undertaken within the framework of the financial assistance programme.

Caja Rural Comarcal Mota del Cuervo (hereafter "CRCMC") is a very small cooperative bank with total assets of €82.55 million (0.003% of the total assets of the Spanish banking system) and deposits of nearly €74 million.

On 3 January 2014 the Banco de España informed the FROB of the result of its inspection of CRCMC, which disclosed major impairment of the banking book. The consequent underprovisioning was so significant that the own funds of CRCMC, per its financial statements as at 30 June 2013, stood at a negative amount of €1.2 million, with a resulting regulatory capital shortfall of €5.8 million relative to the minimum requirement.

The Banco de España inspection also detected significant deficiencies in credit risk control and over-concentrations of exposures, which, together with the institution's small size, its lack of profitability and the deficient corporate governance at that time, evidenced CRCMC's inability to remedy these weaknesses on its own and ensure its future viability.

In its letter the Banco de España also informed the FROB of the existence of a preliminary memorandum of understanding for the possible integration of CRCMC in Caja Rural de Albacete, Ciudad Real y Cuenca, Sociedad Cooperativa de Crédito (Globalcaja) dated 2 December 2013, which would have resolved CRCMC's difficulties.

The aforementioned memorandum of understanding was submitted by CRCMC's board of directors to its general assembly for approval on 29 December 2013.

CRCMC's general manager read to the assembly a summary report on the Banco de España inspection setting out the deficiencies detected in CRCMC's operations and internal control and its financial and economic position as at 30 June 2013. That report expressly indicated CRCMC's failure to comply with solvency regulations at that date due to its own funds and core capital shortfalls and acknowledged that by itself it was unable to return to compliance with those solvency rules.

Despite that information reported by the general manager, the assembly decided to reject the agreement to merge with Globalcaja, which prompted the resignation of all the members of the institution's board of directors.

In this situation, on 14 January 2014 the Banco de España decided to initiate the process of resolution of CRCMC, since it considered the institution to be unviable on its own, and ordered the replacement of the governing body, designating the FROB as provisional administrator.

On that same date, immediately after the Banco de España decided to resolve CRCMC, the FROB entered into an agreement to sell CRCMC's business as an urgent measure. It did this in exercise of its powers under current law after concluding that such sale was the best way of resolving the institution.

Also, as required by law, the Governing Committee of the FROB approved, also as an urgent measure, the economic value of CRCMC, which stood at a negative amount of €698,000 and its liquidation value, which was a negative amount of €19.81 million.

The FROB conducted a competitive urgent sale due to the circumstances of the case. The outcome was that Caja Rural de Albacete, Ciudad Real y Cuenca (Globalcaja) was declared the successful bidder. It had offered a price of €1,275,800 for the total contributions to CRCMC, the nominal value of the total contributions being €383,000. Consideration in cash was received by the members for their contributions.

I emphasise that the sale was made expediently at no cost to the taxpayer or to depositors or creditors. There was not even any cost for the members of the cooperative, who received a consideration exceeding the value of their contributions.

The alternative, consisting of winding-up proceedings, would, by contrast, have put at risk the assets of the depositors not covered by the Deposit Guarantee Fund and, since it would have affected the net worth of the latter, would have entailed a cost for the public purse.

Thus this sale fully meets the principles and objectives of public interest set forth in credit institution restructuring and resolution regulations.

4. MONITORING OF ARBITRATION PLANS AND PROCESSES

a. Restructuring and resolution plans

I shall now comment briefly on the restructuring and resolution plans in the sector, and on the arbitration processes in which the FROB participates.

As you know, a key element of the Spanish banking sector restructuring is the need to downsize the industry to adapt business to the new demand conditions.

To include this in the resolution and restructuring plans of the institutions which have received State aid, stringent requirements have been imposed to gradually reduce staff, branches and assets. Moreover, these measures are essential to comply with EU regulations on State aid and to minimise the distortion of competition.

Hence the plans (both of FROB investee institutions and of those which received State aid through FROB subscription of contingent convertible bonds) include an average reduction of 35% in office numbers, of 30% in staff and of 25% in balance sheets.

The latest available data, which relate to end-2013, point to notable progress in the implementation of these plans, since there have been reductions of 27% in offices, 23% in staff and 16% in assets.

In any event, the plans include further requirements, such as compliance with certain solvency, efficiency and liquidity objectives. All these commitments are being fulfilled satisfactorily.

In the specific case of the BFA-Bankia Group, appreciable headway has been made since my last testimony.

The BFA-Bankia restructuring plan envisaged that by 31 December 2013 the Group was to address the simplification of its structure. To do so, it had to opt for one of the following two strategies: merger of the two institutions into one, or relinquishment by BFA of its banking licence to transform itself into a holding company whose main asset would be the shares of Bankia.

To fulfil this commitment, last December the FROB chose the second option, viz relinquishment by BFA of its banking licence, and made plans to implement it over the coming months.

As regards the possible sale of the FROB's holding in Bankia through BFA, which amounts to 68.39% of the capital, in the next few days the FROB will engage an investment bank or independent financial advisor to analyse the divestment strategy.

It is a large-scale transaction which must only be undertaken after identifying the right time and modus operandi in order to maximise the return to the public finances.

b. Arbitration procedures

Let me now turn to the arbitration procedures relating to the marketing of preference shares and subordinated debt of FROB investee institutions (BFA-Bankia, NCG Banco and Catalunya Banc) to retail customers. These have now been concluded or are at an advanced stage.

As you know, the arbitration procedures have been conducted in accordance with the criteria published on 17 April 2013 by the committee for monitoring hybrid capital and subordinated debt instruments, created by Royal Decree-Law 6/2013 of 22 March 2013.

NCG Banco has now concluded the process, which began in July 2012. A favourable arbitral award was obtained by somewhat more than 58,000 customers, or 62% of those who applied to the institution for arbitration, amounting to €496 million.

Catalunya Banc initiated the process in October 2012 and the deadline for submitting applications for arbitration expired in July 2013. So far the independent expert has admitted claims by 37,176 holders (35.1% of those submitted), amounting to €338 million. The arbitration procedure is scheduled to finish in the next few months.

Finally, at BFA-Bankia the deadline for submitting applications for arbitration was extended from 18 April to 16 July 2013. The independent expert has so far admitted the applications of 174,100 holders, representing 76.3% of those submitted, for an amount of €2,245 million. The awards are proceeding apace and favourable awards amounting to €1,056 million have been made to 117,685 customers. The institution considers that the arbitration process will finish in the first half of 2014.

In short, under the arbitration processes conducted more than 260,000 customers have already obtained or will shortly obtain compensation equal to the nominal value of their investment. This represents more than half of the retail investors who had access to arbitration and more than 60% of those who applied for it. These figures will rise somewhat in the coming weeks as the procedures under way are completed.

5. SAREB

Let me now move on to Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (asset management company for assets arising from bank restructuring, hereafter “Sareb” by its Spanish abbreviation), which continues to progressively step up its asset management and disposal activity.

The commercial activity of Sareb (a non-financial corporation in which the FROB has a 45% holding) has expanded rapidly in the sale of real-estate and financial assets through the envisaged channels, i.e. sale of wholesale portfolios, sale of single assets and retail sales through the transferor banks. In particular, following the adoption of a new commercial strategy in the second half of the year, Sareb sold more than 9,000 real estate assets in 2013 as a whole.

The gross cash flow exceeding €3.8 billion in 2013 allowed the redemption in cash of bonds issued in payment of transferred assets amounting to €1,445 million.

Lastly, the start-up of the first BAFs (bank asset funds), which are instruments unique to Sareb aimed at professional investors and registered with the CNMV, has triggered great interest because of the flexibility they offer.

6. FINANCIAL POSITION OF THE FROB

To wind up my testimony today, I shall briefly look at the financial position of the FROB. As I mentioned in my last appearance before you, the net worth of the FROB at end-2012 was - 21,832 million, due to the impairment of the economic value of its portfolio of equity instruments of credit institutions under restructuring or resolution.

The Financial Assistance Facility Agreement between the FROB, the Kingdom of Spain and the ESM, despite considering the Kingdom of Spain to be the debtor vis-à-vis the ESM, provides that the entire loan shall be transferred to the FROB, either in the form of a loan or as a capital contribution so that the FROB can in turn pass the funds on to financial institutions in addition to Sareb. In view of this, consideration was given to converting part of the State loan to the FROB (mirroring the ESM loan to the Treasury) into equity.

This possibility is expressly envisaged in the agreement between the two parties, although it requires prior written authorisation from the ESM. This authorisation was given on 8 November 2013.

Consequently, effective 11 December 2013 it was agreed to convert part, i.e. up to €27,170 million, of the loan to the Treasury into a capital contribution to the FROB.

This transaction thus appreciably strengthens the financial position of the FROB which currently has a positive net worth of nearly €5 billion.

7. CONCLUSIONS

Let me now conclude.

Within the framework of the financial assistance programme which has just been completed, the FROB has worked intensely in close cooperation with the supervisor to facilitate the process of balance sheet clean-up, recapitalisation and restructuring of the Spanish financial system at a minimum cost to the taxpayer. Although this cost has been much higher than desired, it is comparable to that in other European countries which did not need financial support from the EU and is much lower, in GDP terms, than that granted to the other countries which received financial assistance programmes.

I sincerely believe that the FROB has contributed to mitigating the social cost of the mis-selling of hybrid instruments, particularly through its management of arbitration procedures which have so far proved effective in giving satisfaction to the most vulnerable investors.

Finally, I consider that the FROB has made notable headway in disposing of government holdings in nationalised institutions and in promoting, in coordination with the Banco de España, corporate transactions which help to improve the organisation of the financial industry and reduce the public cost associated with its necessary restructuring.

Following the sale of Banco de Valencia, Banco Gallego and Nova Caixa Galicia and the processes to integrate Cajatres in the Ibercaja Group and Banco CEISS in the Unicaja Group, the transactions remaining relate to three institutions still under the control of the FROB: BFA-Bankia, Catalunya Banc and Banco Mare-Nostrum.

I have commented on the plans for the divestment process which will naturally be guided by the objectives of public interest dictated by law and, in particular, by the need to minimise the cost to the taxpayer of restructuring our banking system.

Thank you.