



PRESS RELEASE

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The European Commission's approval marks the finalisation of the plans for the banks in which the FROB has a majority stake

The European Commission has today announced its [approval of the restructuring/resolution plans](#) for the four banks in which the FROB has a majority stake, namely BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia. This follows the approval of these plans by the Banco de España on Tuesday. One of the milestones of the Memorandum of Understanding (MoU) agreed on 20 July 2012 by the Spanish and European authorities has thus been reached. That will allow the banks classified in Group 1 to receive the funds needed to meet their capital requirements from the European Stability Mechanism (ESM) during the month of December. The details of the restructuring/resolution plans will be communicated in the coming days once the European Commission authorises their publication.

The four banks in Group 1 will receive €37 billion. The capital needs identified in the stress tests conducted by the consultant Oliver Wyman have been reduced thanks to the transfer of problem assets that will be made to the Asset Management Company for Assets Arising from Bank Restructuring (Sareb) and to the assumption of losses by holders of hybrid instruments such as preference shares and subordinated debt.

The transfer of problem assets to Sareb by the banks in Group 1 will take place in December once, in the coming days, the management bodies of Sareb are formally established, as scheduled in the MoU.

The plans approved today include, as required under European rules on State aid, significant business adjustment measures and staff and office network cuts by the recipient banks.

In addition to these restructuring measures, the plans also include a burden-sharing exercise which affects shareholders and holders of hybrid instruments, in line with the general principles of the rules on State aid applied by the European Commission and which are detailed in the MoU.

Pursuant to these principles in European rules, and in order to minimise the cost to taxpayers, the shareholders will assume a reduction in the value of their holding based on the losses the bank posts or on the economic valuation of the bank. Furthermore, they must bear the dilution effect brought about by the sizable capital injections the FROB will make. Holders of hybrid instruments issued by the banks receiving State aid should contribute as much as possible to the coverage of capital needs. In this connection, they must accept, after the application of appreciable haircuts, the conversion of their securities into assets eligible as top-quality equity.

The haircuts and the specific capital instruments that will be offered to these investors will differ in each case depending on the type of hybrid instrument subject to conversion, the interest rate on the issue and, where appropriate, the maturity date.

Before the conversion, each instrument will be valued using standard models that will take into account the above-mentioned characteristics and stringent discount rates. This value will be the basis for determining the recoverable value, which will be expressed as a proportion of the initial investment in preference shares and subordinated debt.

For BFA/Bankia, NCG Banco and Catalunya Banc, the recoverable value will range from a minimum of 30% to a maximum of 70% for holders of preference shares and perpetual subordinated debt, depending on the specific conditions for each instrument.

For holders of subordinated debt with a maturity, a particular regime has been established so that such debt may be exchanged, at the holder's choice, for shares – with a percentage of recoverable value generally standing at 90% – or for a debt instrument, after applying a haircut on the face value which will depend on the term remaining to maturity.

A singular case in the loss-assumption regime is that of Banco de Valencia, given its classification as a bank that is not viable on its own. The particularity of its financial position, under the resolution plan approved for the bank, presages a situation in which, under European Commission guidelines, the assumption of losses by current shareholders will be particularly rigorous, and in which the recoverable value for holders of preference shares and of subordinated debt will be appreciably below the range mentioned for the other banks in which the FROB has a stake.

In the case of unlisted instrument-issuing banks whose acquisition by a listed bank or whose stock market flotation in the near future is not foreseen, mechanisms will be set in place to promote the liquidity of the ordinary shares received by retail investors who so wish this.

BFA group/Bankia

The BFA group plan entails capital support of €17,959 million, calculated on the basis of the needs derived from the adverse stress testing scenario (€24,743 million) adjusted for the effects derived from the transfer of real estate assets to SAREB and from the hybrids management exercise. Of the total amount of aid, €4,500 million were advanced by the FROB last September, so the additional capital injection to be made amounts to €13,459 million.

The plan envisages continuing with staff and office reductions, focusing on the retail and SME segments in the institution's traditional market areas, achieving positive income as from 2013 and maintaining at all times adequate solvency levels above the regulatory minima.

Catalunyabanc

The CatalunyaBanc plan entails capital support of €9,084 million, calculated on the basis of the needs derived from the adverse stress testing scenario (€10,825 million) adjusted for the effects of real estate asset transfers to Sareb and of the hybrids management exercise. The plan envisages continuing with

staff and office reductions in order to focus activity on the retail and SME segments in Catalonia, achieving positive income as from 2015 and maintaining at all times adequate solvency levels above the regulatory minima. At the same time, the sale process for the bank has been resumed and will foreseeably be completed in the coming months.

NCG Banco

The NCG Banco plan involves capital support of €5,425 million, calculated on the basis of the needs derived from the adverse stress testing scenario (€7,176 million) adjusted for the effect of real estate asset transfers to Sareb and for the contribution from hybrid security holders. The plan envisages continuing with staff and office reductions in order to focus activity on the retail and SME segments in Galicia, León and Asturias, achieving positive income as from 2013 and maintaining at all times adequate solvency levels above the regulatory minima. The plan envisages the sale of the bank, which will take place as soon as conditions are suitable.

Banco de Valencia

The Banco de Valencia plan involves the sale of its shares held by the FROB for a price of €1, after the reduction of capital for the absorption of losses – which will be high – by the current shareholders and the subsequent increase of capital, whereby the FROB will inject €4,500 million. It further entails the transfer of real estate assets to Sareb and capital hybrid and subordinated debt management actions, which will mean higher haircuts than those that will be applied for the other banks in which the FROB has a stake. Finally, the operation includes the granting of an asset protection scheme in respect of a specific portfolio, with the FROB assuming 72.5% of the amount by which losses may exceed the provisions set aside. Prior to the start of the competitive sale process, the bank had already reached an agreement with employee representatives on the redundancy programme presented, which involves the shedding of 360 jobs and the closure of 67 branches, mainly belonging to the network outside the Valencia region.

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