BANCO DE ESPAÑA
Eurosistema
Communication Department

PRESS RELEASE
Madrid, 20 December 2012

The recapitalisation plans for all banks requiring injections of public funds have been approved

The European Commission has today announced the approval of the restructuring plans for the so-called Group 2 banks, namely Caja3, Banco Mare Nostrum, Banco Ceiss and Liberbank, following the approval of these same plans on Wednesday by the Banco de España.

The capital that the four Group 2 banks will receive is estimated to be approximately €1.87 billion. This amount is less than the figure for capital needs identified by Oliver Wyman in the stress tests, since such needs have been reduced thanks to the transfer of problem assets to Sareb and to the assumption of losses by holders of preference shares and subordinated debt. Other mitigating measures carried out by the banks, such as the disposal of assets and other capital gains included in the restructuring plans, have also been considered. This figure may alter slightly once the measures envisaged in the plans are formally implemented.

Overall, the total figure of public capital that banks which have required State aid (those comprising Groups 1 and 2) will receive is €38.83 billion, appreciably below the €52.45 billion identified in the Oliver Wyman stress test for these banks. This reduction is essentially due to the hybrid instruments management (burden-sharing) exercise and, to a lesser extent, to the transfer of assets to Sareb and to the banks' capital gains.

The decision marks a milestone in the Spanish banking sector restructuring process. Following the decision on 28 November on the Group 1 banks, the decision announced today by the European Commission concludes the approval of all the restructuring/resolution plans for banks that require State aid to cover the capital needs identified in the stress test conducted by Oliver Wyman. As a result, the banks will be recapitalised and will meet the 9% requirement for top-quality equity.

The other two banks identified in the aforementioned stress test as having capital shortfalls, namely Banco Popular and Ibercaja, have not required aid since they have the capacity to cover their needs by their own means.

In the case of the Group 2 banks, whose plans have been approved today, the transfer of problem assets to Sareb will foreseeably take place in February 2013.

Further, the loss-assumption exercises for holders of hybrid instruments, such as preference shares

and subordinated debt, will be conducted during January and February, so as to comply with the burden-sharing measures affecting shareholders and holders of hybrid instruments, as laid down in European State aid rules and in the Memorandum of Understanding (MoU) signed with the European authorities.

As with the Group 1 banks, and pursuant to European regulations, the shareholders of Group 2 banks will, in order to minimise the cost to taxpayers, assume a reduction in the value of their stake based on the losses the banks post or on the economic valuation of the banks. They will likewise be affected by the dilution effect prompted by the capital injections the FROB will make and the increase in capital resulting from the burden-sharing exercises. Holders of hybrid instruments issued by the banks that receive State aid should contribute to the coverage of capital needs. In this connection, they must accept, following the application of the corresponding haircuts in each case, the conversion of their securities into assets eligible as top-quality equity.

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

In keeping with the requirements and procedures established by the European Commission, before the conversion each instrument will be valued on the basis of standard models taking into account the above-mentioned characteristics, along with stringent discount rates. Recoverable value will be determined on the latter value, which will be expressed as a proportion of the initial investment in preference shares and subordinated debt.

For the Group 2 banks, recoverable value will range from a minimum of 30% to a maximum of 75% for the holders of preference shares and perpetual subordinated debt, depending on the specific conditions for each instrument.

For holders of dated subordinated debt, particular arrangements have been established so that the debt may be exchanged, at the holder's choice, for assets eligible as top-quality equity (with the recoverable value percentage generally standing at 90%) or for a debt instrument, after applying a haircut to the face value which will depend on the term remaining to maturity.

In the case of unlisted instrument-issuing banks which are not expected to be floated on the market in the near future, mechanisms will be set in place to promote the liquidity of the ordinary shares received by retail investors who so wish this.

Finally, as with the Group 1 banks and among other measures, the plans also include - as the European authorities have demanded under European State aid rules - staff and office network reduction targets over the coming years.

Banco Mare Nostrum

The BMN plan involves capital support of €730 million, calculated on the basis of the needs identified in the stress test (€2.21 billion) adjusted for the effects of the transfer of problem assets to Sareb and

the burden-sharing exercise. These needs have been reduced by other mitigating measures, including most notably the sale of the Caixa Penedès network to Banco Sabadell.

The bank's recapitalisation will be formalised through the subscription of ordinary shares by the FROB and the burden-sharing exercise, following the absorption of losses. Adhering to the State aid rules as demanded by the European Commission means that once the process is completed, the FROB will be the majority shareholder of BMN.

In addition to the sale of the Caixa Penedès network (33% of the BMN network), the plan envisages continuing with staff and office cuts in order to focus activity on retail and SME segments in the bank's regions of origin, except Catalonia, achieving positive returns as from 2013 and maintaining at all times appropriate solvency levels above the regulatory minimum.

It is planned to list the bank before end-2017 as a measure to facilitate the recovery of the State aid injected.

Banco Ceiss

The Banco Ceiss plan involves capital support of €604 million, calculated on the basis of the needs identified in the stress test (€2.06 billion) adjusted for the transfer of real estate-related assets to Sareb and for the burden-sharing exercise.

The bank's recapitalisation will be formalised through the subscription of ordinary shares by the FROB and the burden-sharing exercise, following the capital reduction for the absorption of losses. Adhering to the State aid rules as demanded by the European Commission means that once the process is completed, the FROB will be the majority shareholder of Banco Ceiss.

The plan envisages continuing with staff and office cuts in order to focus activity on the retail and SME segments in the bank's regions of origin, achieving positive returns as from 2013 and maintaining at all times adequate solvency levels above the regulatory minimum. The plan also foresees the sale of the bank, which will take place once the time is right.

Caja3

The restructuring plan for Caja3 involves capital support of €407 million, calculated on the basis of the needs identified in the stress test (€779 million) adjusted for the effects of the transfer of problem assets to Sareb, the burden-sharing exercise and other capital gains. The bank's recapitalisation will be formalised by means of the subscription by the FROB of contingent convertible bonds (CoCos) and the burden-sharing exercise.

The plan envisages continuing with staff and office cuts, and it will be pursued under the framework of the bank's integration into Ibercaja. Initially, Caja3 will become a 100%-owned subsidiary of Ibercaja Banco and, subsequently, following the full commercial and operational integration of the banks, these will merge. The three shareholder savings banks of Caja3 will receive shares from Ibercaja Banco as consideration for this operation.

Liberbank

The restructuring plan for Liberbank involves capital support of €124 million, calculated on the basis of the needs identified in the stress test (€1.2 billion) adjusted for the effects of the transfer of problem assets to Sareb, the burden-sharing exercise and the disposal of assets. The bank's recapitalisation will be formalised by means of the subscription by the FROB of CoCos and the burden-sharing exercise.

The plan envisages continuing with staff and office cuts in order to focus activity on the retail and SME segments in the bank's regions of origin, achieving positive returns as from 2013 and maintaining at all times appropriate solvency levels above the regulatory minimum.

The listing of the bank as soon as possible is envisaged as a measure to provide liquidity to the new holders of ordinary shares arising from the conversion of preference shares and subordinated debt.

Update on Group 1 banks

The Group 1 banks are in the final stage of their recapitalisation, as scheduled in the MoU. This week the FROB has published the economic valuations made of NGC Banco (-€3.9 billion), Catalunya Banc (-€6.67 billion) and the liquidation valuation of Banco de Valencia (-€6.34 billion). In the case of BFA-Bankia, the economic valuation will be disclosed shortly.

These valuations will be a point of reference ahead of the loss-assumption exercises by these banks' shareholders and for the burden-sharing envisaged in the recapitalisation or resolution plans for the banks. The FROB has now published the outcome of the application of this mechanism in the case of Catalunya Banc. In the coming days, the FROB will offer details of the agreements needed for the implementation of the plans, enabling the immediate recapitalisation of the Group 1 banks, in keeping with the schedule set in the MoU.

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