BANCO DE ESPAÑA
Eurosistema

Communication Department

**PRESS RELEASE**
Madrid, 17 April 2012

# The Banco de España approves credit institutions' plans to comply with Royal Decree-Law 2/2012 on the balance-sheet clean-up of the financial sector

The Executive Commission of the Banco de España has today finalised the process of formal approval of the plans that credit institutions or groups of credit institutions submitted prior to 31 March for complying with the provisions of Royal Decree-Law (RD-L) 2/2012 on the balance sheet clean-up of the financial sector, which laid down further provisioning and capital requirements for real estate activity-related assets. Overall, credit institutions have communicated additional provisioning needs totalling €29.08 billion and higher core capital requirements amounting to €15.58 billion, following the extraordinary write-downs of €9.19 billion made in advance at the close of 2011.

On the information received, 90 institutions have, as at 31 March 2012, fully covered the requirements of the above-mentioned RD-L. The remaining 45 institutions have informed the Banco de España of their plans for compliance within the scheduled time frame. Among these, two institutions, Caja 3 and CEISS, have stated their intention to merge with another two institutions, Ibercaja and Unicaja, respectively, in order to meet the new requirements. A further three institutions are controlled by the Fund for the Orderly Restructuring of the Banking Sector (FROB), namely Banco de Valencia, Catalunya Banc and NCG Banco. These will be restructured through the entry of new shareholders via a sell-off, the details of which will be determined by the FROB, as provided for in RD-L 9/2009 of 26 June 2009 on bank restructuring and the strengthening of credit institutions' capital. In the case of the first two institutions mentioned, the process was set in train last week.

The plans submitted notify of a further five merger and acquisition operations in which 11 institutions are participating. These operations are at different stages of completion. Additionally, 12 credit cooperatives may participate in processes of this nature, according to their current intentions, without prejudice to the compliance plans submitted by them on an individual basis.

The overall figure for new provisions will be partly met through the use of €3.92 billion of general provisions. The other write-downs will be made with a charge to the income statement and, in the case of mergers, the related portion of the assets of the institutions having "acquiree" status, with a charge to equity, pursuant to merger accounting regulations.

The new requirements have to be met during the course of 2012, with the exception, where applicable, of those institutions that engage in mergers this year in accordance with the requirements of Article 2 of the RD-L, which will have a deadline of 12 months from the date the merger is authorised.

The plans submitted also show that all the institutions can comply with their core capital requirements by the scheduled date, including the special capital surcharge for real estate risk introduced by the new regulations. Compliance will be based on contributions of capital for around €12.5 billion and retained earnings. Also, many institutions have a sufficient core capital buffer. In some cases, the plans include measures for placing capital

with third parties entailing a reduction of the legally required core capital threshold from the current 10% to the ordinary ratio of 8%.

This latest milestone in the financial reform process initiated in 2009 marks an extremely important step and an extra effort for Spanish institutions. Their income statements will reflect the impact of the required extraordinary clean-up, which will reduce their profits and, in some cases, possibly cause them to post a loss for 2012. On the upside, credit institutions will be better placed for the future, because the high real estate risk provisions, even for performing loans, will free their income statements from the need for any unusual efforts regarding these exposures in the coming years, and will strengthen their financial position and external confidence in their solvency.

It should be recalled that, under RD-L 2/2012, the impact on the 2012 income statement of the required extraordinary write-downs of real estate loans will not affect the rights of preference shareholders or convertible bondholders to receive the contractually stipulated remuneration, which may be deferred if the institution does not have sufficient profit or distributable reserves or if it has a capital shortfall.

In short, the clean-up required by the new Royal Decree-Law has already been or will be carried out by most credit institutions without major difficulty thanks to their sound solvency and profit situation. In other cases, the plans submitted indicate that compliance with the new clean-up and recapitalisation obligations will foreseeably be more exacting, but reasonably likely to be met. In these cases, the Banco de España, in addition to tightening its monitoring of compliance with the plans, has required additional measures to those initially proposed and extra contingency measures to redress deviations and ensure the scheduled deadline is met should there be changes in the projections.

However if, any credit institution should, due to the considerable clean-up and recapitalisation effort required by RD-L 2/2012, ultimately fail to reach the level of core capital required by Spanish regulations, either alone or participating in a merger operation with another institution, it can always turn to the FROB for the assistance envisaged in RD-L 9/2009.