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Background note on public financial assistance in the restructuring of the Spanish banking sector (2009-2015)

On 2 September 2013, the Banco de España published a first background note on public financial assistance in the restructuring of the Spanish banking sector, updating it in June 2014. The aim of this note is to update that information once again bearing in mind the latest available data.

For readier comprehension, the assistance provided during the banking sector restructuring process is grouped into five categories: 1) financial assistance disbursed for the recapitalisation of banks; 2) contributions by the Credit Institutions Deposit Guarantee Fund (FGDEC) for the acquisition of unlisted shares stemming from the burden-sharing exercise; 3) guarantees and asset protection schemes (APSs); 4) credit facilities granted to financial institutions; 5) contribution of public capital to Sareb (the asset management company for assets arising from bank restructuring), through the FROB (Fund for the Orderly Restructuring of the Banking Sector).

The note does not refer to private recapitalisation and restructuring processes in the form of capital increases or of those instances involving the assumption of losses by the subordinated creditors of the institutions themselves arising from burden-sharing.¹

1.- The first category includes public financial assistance in the form of instruments eligible as capital.

The accompanying table offers a detailed breakdown of the public financial assistance provided to the various bank recapitalisation processes. All such assistance was agreed within the framework of the competition criteria set by the European Commission and was submitted to the latter for approval.

Overall, since May 2009, the public financial assistance committed in various forms of capital has amounted to €61,495 million, €53,553 million of which has been provided by the FROB and €7,942 million by the banking industry through the FGDEC. Currently, €2,666 million has been recouped², with the stakes in Banco Mare Nostrum and BFA (Bankia) remaining in the hands of the FROB, along with the mandatorily convertible bonds

¹ Previously, the shareholders of the banks had assumed the related loss.

² This amount, broken down as follows, relates in full to assistance granted by the FROB:

- €977 million returned by CaixaBank in April 2013, arising from the assistance received by Banca Cívica before its integration into CaixaBank.
 - €782 million obtained by the sale of its stake in Catalunya Banc.
 - €712 million obtained by the sale of its stake in NCG and €71 million from a sale in 2012.
 - €124 million repaid early by Liberbank from a mandatorily convertible bond issue .
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corresponding to Banco CEISS and Banco Grupo Caja 3 for a total of €1,011 million; and it is expected that €1,304 million obtained from the divestment by BFA in Bankia may be recorded as a refund of assistance, once the payment of this amount is made to the FROB in its capacity as sole shareholder of BFA.

2.- Secondly, the FGDEC set in place a procedure for providing liquidity, namely by purchasing from retail investors unlisted shares in FROB-controlled banks³, such shares having been received under the conversion processes for hybrid capital instruments. The funds committed by the FGDEC in this connection totalled €1,803 million. The FGDEC has sold all these shares, receiving a sum of €673 million for them.

3.- The third category refers firstly to the guarantees granted by the State to credit institutions and, secondly, to the guarantees granted to the purchaser, in the sales of institutions, essentially asset protection schemes.

Regarding the State guarantees to banks for a total amount of €110,895 million, their ongoing cancellation has continued and, as at 21 April 2015, guarantees totalling €105,641 million have been discharged, 95% of those granted, following the maturity of the related issues.

No loss from these guarantees will foreseeably arise for the State, which receives commission fees for them.

The asset protection schemes extended in certain integration processes, which entail fewer provisioning requirements for the beneficiary banks of such schemes, have meant that certain partial guarantees have been granted in respect of specific credit and foreclosed property portfolios which may give rise, in certain cases, to losses that cannot be accurately determined until the end of the period over which each of these schemes are in force (the estimated expected loss is revised annually).

As at 31 December 2014, the present value of the aggregate loss currently expected from the APSs amounted to €9,215 million⁴ (€9,581 million in nominal terms), provisioning for which is in the financial statements of the FGDEC and the FROB. Of this amount of €9,215 million, €1,039 million correspond to the FROB. To date, they have entailed no disbursement of funds, except in the cases of Caja Castilla-la Mancha (CCM) and Cajasur, where amounts were forwarded at the expense of the final settlements of the guarantee.

It should further be indicated that, as part of the bank divestment processes, other guarantees were granted to the buyer institutions. The aim of such coverage, which is usual in this type of operation, is to limit the liability of the new purchaser to specific, previously identified contingencies. Should the covered contingency materialise, a disbursement by the FROB or the FGDEC would be necessary⁵. The total estimated value

³ These banks are NCG (Nova Galicia Banco) and CX (Catalunya Banc).

⁴ Estimated data, provided by the FROB and the Deposit Guarantee Fund, pending final revision by the auditor with a view to the publication of the annual accounts for 2014 of both organisations.

⁵ These contingencies are varied in nature, the most significant being the coverage of future claims for mis-selling of hybrid instruments, guarantees related to the sale of the Hercules portfolio under the Catalunya Banc divestment process and errors arising in transfers to SAREB, among others.

of these contingencies is €1,945 million⁶, €902 million of which have been disbursed. Of these amounts, €1,553 million of the estimated total and €729 million of a portion that has already been disbursed correspond to the FROB.

4.- The fourth category comprises extraordinary credit lines to provide liquidity. These lines were granted to banks in some of the restructuring processes, with an aggregate drawdown limit of up to €16,300 million. They were made available either by the Banco de España, backed by a State guarantee or by assets of the recipient bank itself, or the FROB. All the amounts drawn down on these credit facilities have been repaid and the lines have been cancelled following the recapitalisation or, where appropriate, the sale of the beneficiary institutions.

5.- Finally, in the fifth category, mention is made of the contribution of public funds to Sareb via the FROB, which amounted to €2,192 million, and of the public guarantees granted by the State on debt issued by Sareb for a current amount of €45,028 million.⁷

Summary of assistance

Since 2009, the State has, through the FROB, provided public funds amounting to €53,553 as financial assistance for the restructuring of the Spanish banking system in various forms of capital. When the €2,250 million provided by the FGDEC are taken into account,⁸ this figure drops to €51,303 million. Of this amount, €2,666 million have to date been recovered. The €1,304 million obtained from the divestment already carried out by BFA of part of its holding in Bankia should be added to the amount recovered when this sum has been received by the FROB, in its capacity as sole shareholder of BFA, as should the redemption expected before 2018 of convertible bonds in Caja 3 and CEISS totalling €1,011 million. The result of divestment of holdings in Bankia and BMN will also eventually have to be taken into account.

Furthermore, the FROB has granted various guarantees to the purchaser in the sales of institutions, among which the asset protection schemes are notable. The expected loss, as at 31 December 2014, of the APS amounted to €1,039 million. Other guarantees granted are valued at €1,553 million, of which to date €729 million have been disbursed.

Guarantees totalling €110,895 million have been granted by the State to credit institutions, an amount of €105,641 million having been cancelled, so that a balance of €5,254 million remains outstanding. It is unlikely that there will be no loss arising from these State guarantees.

The FGDEC, for its part, which is wholly financed by contributions from the industry, has provided €7,942 million as assistance committed in various forms of capital, in addition to the €2,250 million provided to the FROB in 2009. Also, it has acquired shares in unlisted institutions controlled by the FROB that had been obtained by retail investors in the hybrid

⁶ According to data provided by the FROB which, for the purposes of the preparation of its annual audited accounts, must provide estimates of the guarantees granted.

⁷ As at 28 February 2015 .

⁸ The FGDEC held €2,250 million of the capital of the FROB. This investment was lost when the FROB reduced its capital to zero in 2012 given the net worth resulting from the accounts of the FROB in 2011. Accordingly, part of the assistance granted by the FROB has been financed by funds provided by the FGDEC.

instrument conversion processes for a value of €1,803 million. These shares have been sold for a consideration of €673 million.

In addition, the FGDEC has granted guarantees to the purchaser in the sale of institutions in the form of asset protection schemes. Its expected loss, as at 31 December 2014, totalled €8,176 million. Other guarantees granted by the FGD amount to €392 million.

Finally, strictly outside the banking sector, the FROB has contributed €2,192 million to Sareb.

RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2015: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

Group 0: banks in which no capital shortfall was identified in the stress test (2012) and which did not need to take subsequent measures.
Group 1: banks controlled initially by the FROB (BFA/Bankia, Catalunya Banc, NCG Banco and Banco de Valencia). Includes BMN, although it was originally in Group 2.
Group 2: banks with a capital shortfall, identified by the stress test (2012), which they would be unable to cover without State aid.
Group 3: banks with a capital shortfall, identified by the stress test (2012), which they would be able to cover without State aid.

Constituent institutions that received assistance (DATE OF INTEGRATION AGREEMENT)		Transaction supporting the restructuring		QUANTIFICATION OF PUBLIC ASSISTANCE Amounts in €m						OBSERVATIONS	
				Assistance provided/committed							
				FGDEC capital and other contributions (2)	FROB 1 Preference shares	FROB 2 Capital	Subsequent to Law 9/2012 (1)		CoCos		TOTAL
Capital	Capital										
Initial phase of integration	Other integrations	Type of transaction	Month of agreement								
Institutions making up CAIXABANK											
Banca Cívica: Caja Navarra, Caja Canarias, Caja Burgos, (APRIL 2010)	Banca Cívica Group (MARCH 2012)	Subscription of preference shares by FROB in Banca Cívica group	December-10		977					977	Banca Cívica was integrated into Caixabank and its brand disappeared. The Banca Cívica preference shares subscribed by the FROB were redeemed by the Caixa group in April 2013.
Caja Sol + Caja Guadalajara (DECEMBER 2010)											
Banco de Valencia (NOVEMBER 2012)		Subscription of capital by FROB	May-12			998					Banco de Valencia, placed under official administration by the Banco de España in November 2011, was awarded to Caixabank by the FROB in December 2012.
		Subscription of capital by FROB	December-12				4,500			5,498	
Institutions making up BBVA											
UNNIM: Caixa Sabadell, Caixa Terrasa, Caixa Manlleu (MARCH 2010)		Subscription of preference shares by FROB	July-10		380					953	Unnim was fully controlled by the FROB at one point and was awarded to BBVA in March 2012.
		Subscription of capital by FROB	September-11				568				
		Capitalisation of preference shares and assumption of investment in shares by FGDEC	March-12	953	-380	-568					
CATALUNYA CAIXA: Caixa Catalunya, Caixa Tarragona, Caixa Manresa (MARCH 2010)		Subscription of preference shares by FROB	March-10		1,250					12,052	The FROB held 66% of the capital, following the burden-sharing exercise, and the FGDEC 32.4%, due to the purchase of shares, to provide liquidity, received by retail hybrid instrument holders. On 24 April 2015 the shareholdings of both the FROB and the FGDEC were sold to BBVA for a total of €1,165 million: €782 million for the FROB and €383 million for the FGDEC. The divestment included the sale of an asset portfolio to the Blackstone group. Overall, the sale of the portfolio and of the banking business resulted in a net positive value, taking into account the value of the guarantees provided, of €328 million.
		Subscription of shares by FROB	September-11				1,718				
		Conversion of preference shares into capital	December-12		-1,250	1,250					
		Subscription of capital by FROB	December-12					9,084			
Institutions making up IBERCAJA											
Caja 3: CAI, Caja Circulo de Burgos, Caja Badajoz (JULY 2010)		Subscription of CoCos by FROB	December-12						407	407	In November 2012 Ibercaja and Caja3 signed an integration protocol, which was definitively approved in May 2013, and meant that Ibercaja Banco acquired 100% of Banco Grupo Caja3 through a share swap process which granted the shareholder savings banks of Banco Grupo Caja3 an overall share of 12.2% of Ibercaja Banco. The integration process was completed in October 2014 with the merger by acquisition of Banco Grupo Caja 3 by Ibercaja Banco. In 2014 the maturity of the €407 million CoCos was extended by one year to December 2017.
Institutions making up BANCO SABADELL											
CAM		Capital injection by FGDEC prior to sale to Banco Sabadell	December-11	5,249						5,249	CAM was placed under official administration by the Banco de España in July 2011 and awarded by the FROB to Banco Sabadell in December 2011. The €5,249 million capital injection from the FGDEC includes €2,800 million committed previously by the FROB.
Banco Gallego		Subscription of capital by FROB prior to sale to Banco Sabadell	April-13				245			245	NCG Banco held 99% of Banco Gallego's capital stock, following the subscription of a capital increase amounting to €80 million. In April 2013 Banco Gallego was auctioned and awarded to Banco Sabadell, and in July 2013 approval was obtained from the European Commission for the above-mentioned acquisition under Banco Gallego's restructuring plan.

RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2015: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

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Constituent institutions that received assistance (DATE OF INTEGRATION AGREEMENT)		Transaction supporting the restructuring		QUANTIFICATION OF PUBLIC ASSISTANCE Amounts in €m						OBSERVATIONS	
				Assistance provided/committed							
				FGDEC capital and other contributions (2)	FROB 1		FROB 2		Subsequent to Law 9/2012 (1)		TOTAL
Preference shares	Capital	Capital	CoCos								
Initial phase of integration	Other integrations	Type of transaction	Month of agreement								
Institutions integrating into UNICAJA BANCO											
Caja España, Caja Duero (MARCH 2010)	Banco CEISS (JULY 2013)	Subscription of preference shares by FROB	March-10		525						
		Subscription of CoCos by FROB	April-13					604			
		Conversion of preference shares into capital	May-13	-525	525					1,129	In May 2013, the Banco de España and the European Commission approved the resolution plan for Banco CEISS which envisaged its possible integration into the Unicaja Group. At that point the FROB lost the €525 million, as the capital stock of Banco CEISS was reduced to zero to absorb losses. In November 2013 UNICAJA registered the takeover bid on Banco CEISS with the Spanish National Securities Market Commission (CNMV). On 11 March 2014 the Executive Commission of the Banco de España approved an amendment to the Resolution Plan of Banco CEISS, an amendment which was then approved by the European Commission also in March 2014. The €604 million in CoCos subscribed by the FROB must be repaid by Banco CEISS, or by the combined institution if Banco CEISS were not in a position to do so, within a period of four years from their issuance (April 2013).
Institutions making up LIBERBANK											
Cajastur-Caja Castilla la Mancha (NOVEMBER 2009)	Liberbank: Cajastur, Caja Cantabria and Caja Extremadura (APRIL 2011)	Subscription of preference shares and other support provided by FGDEC to CCM	From April-09	1,740						1,740	CCM was placed under official administration in March 2009 by the Banco de España and awarded to Cajastur in November 2009. The €1,740 million contributed by the FGDEC relate to amounts invested in the balance sheet clean-up. In December 2014 the €124 million in CoCos were early redeemed by Liberbank.
		Subscription of CoCos by FROB	December-12					124	124		
Institutions making up BANCO MARE NOSTRUM											
Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada (JUNE 2010)	Subscription of preference shares by FROB	June-10		915							The €915 million of FROB1 were converted into €552 million of capital as a result of the burden-sharing exercise, whereas the €730 million of FROB3 came with a premium pursuant to the agreement with the EC and were valued for capital purposes at €971 million (730+241). Consequently, the institution is controlled by the FROB which, following conclusion of the burden-sharing exercise, owns 65% of BMN's capital.
	Subscription of capital by FROB	December-12				730				1,645	
	Conversion of preference shares into capital	February-13	-915	915							
Institutions making up BFA											
Caja Madrid, Bancocaja, Caja Ávila, Caja Segovia, Caja Rioja, Caixa Laietana, Caja Insular de Canarias (JUNE 2010). Bankia is created as a wholly-owned subsidiary of BFA.	Subscription of preference shares by FROB	June-10		4,465							The FROB currently owns 100% of BFA and, indirectly through BFA, 62.899% of Bankia. Following the burden-sharing exercise, BFA owned 68.39% of Bankia. On 28 February 2014, BFA disposed of 7.5% of Bankia, for a sum of €1,304 million, which gave rise to a consolidated capital gain of €301 million. Since then the percentage has gradually increased to 62.899% as a consequence of the enforcement of final court decisions relating to mis-selling of hybrid instruments. The €17,959 million in capital from the ESM include €4,500 million advanced by the FROB in September 2012 to restore the group's regulatory capital position.
	Conversion of preference shares into capital	May-12	-4,465	4,465						22,424	
	Subscription of capital by FROB	December-12					17,959				

RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2015: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

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Constituent institutions that received assistance (DATE OF INTEGRATION AGREEMENT)		Transaction supporting the restructuring		QUANTIFICATION OF PUBLIC ASSISTANCE Amounts in €m					OBSERVATIONS	
				Assistance provided/committed						
				FGDEC capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)			TOTAL
Preference shares	Capital	Capital	CoCos							
Initial phase of integration	Other integrations	Type of transaction	Month of agreement							
Institutions making up NCG BANCO - NOVACAIXAGALICIA										
Caixa Galicia, Caixanova (JUNE 2010)		Subscription of preference shares by FROB	June-10		1,162				9,052	The FROB held 63% of the capital following the burden-sharing exercise, and the FGDEC 25% owing to the acquisition of shares, to provide liquidity, received by the retail hybrid instrument holders of NCG Banco. In June 2014, 89% of the bank was awarded to Banesco, with €712 million corresponding to the FROB and €290 million to the FGDEC. 40.2% of the sale was paid in cash. Prior to the approval of the Resolution Plan for the institution, in 2012, shares totalling €71 million were sold, as a result of the partial exercise of the purchase option held by the bank.
		Subscription of shares by FROB	September-11			2,465				
		Conversion of preference shares into capital	December-12		-1,162	1,162				
		Subscription of capital by FROB	December-12				5,425			
TOTALS				7,942	977	13,498	37,943	1,135	61,495	

(1) Contributions of €38,833 million, made under the Financial Assistance Programme; €37,943 million of capital contributions subsequent to Law 9/2012, plus €1,135 million of CoCos, less €245 million of capital contributions to Banco Gallego that were not from ESM funds.

(2) The Credit Institution Deposit Guarantee Fund (FGDEC) receives from its member banks annual contributions that depend on the deposits they have attracted.

MEMORANDUM ITEM

Restructuring support to Bankia, subsidiary of the BFA group (this support is already considered in the above table, in the section "Institutions making up BFA").

Constituent institutions which received assistance (DATE OF INTEGRATION AGREEMENT)		Transaction supporting the restructuring		QUANTIFICATION OF PUBLIC ASSISTANCE Amounts in €m					OBSERVATIONS	
				Assistance provided/committed						
				FGDEC capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)			TOTAL
Preference shares	Capital	Capital	CoCos							
Initial phase of integration	Other integrations	Type of transaction	Month of agreement							
Institutions making up BFA										
Bankia		BFA intra-group transactions in relation to Bankia, due to capital injection and subscription of preference shares	December-10 and December-12				15,638			This assistance of €15,638 million breaks down into €5,017 million when Bankia was created (€4,465 million from the FROB 1 injection into BFA and €552 million relating to the surplus of assets over liabilities at the time of segregation of Bankia) and €10,621 million contributed subsequently by means of a capital increase. These figures are included in the above figures relating to BFA.