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Briefing note on public financial assistance in the restructuring of the Spanish banking sector (2009-2016)

Since 2013, the Banco de España has regularly published briefing notes on the financial assistance provided in the restructuring of the Spanish banking sector.¹ The aim of this note is to update that information using the data available as at 31 December 2016.²

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

The note does not refer to private recapitalisation and restructuring processes in the form of capital increases or of the assumption of losses by the institutions' subordinated creditors due to burden-sharing.⁴

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.

¹ Previous versions of this note were published in [September 2016](#), [May 2015](#), [June 2014](#) and [September 2013](#)

² The digital version of the [Report on the financial and banking crisis in Spain](#), 2008-2014 (Chapter 5) is also updated at www.bde.es, along with this note, after the approval of the 2016 accounts of the FROB.

³ The figures presented in this note do not include income obtained by the State, the FROB and the FGDEC from interest, fees and dividends, etc. or the related transaction expenses.

⁴ Previously, the shareholders of the banks had assumed the related loss.

Since May 2009, the public financial assistance committed in various forms of capital has amounted to €54,353 million provided by the FROB. As at 31 December 2016, €3,873 million⁵ had been recouped, an amount which will increase with the sale of the FROB's stakes in BFA (Bankia) and BMN and with the redemption of mandatorily convertible bonds of Banco CEISS amounting to €604 million.⁶ If this latter operation is included, the estimated recoverable amount in this respect at end-2016 is €10,402 million.

Support from the financial sector, which was granted through the FGDEC, in the above-mentioned period amounted to €7,942 million. Furthermore, in 2009 the FGDEC contributed €2,250 million of capital to the FROB.⁷

2.- Secondly, the FGDEC set in place a procedure to purchase unlisted shares in FROB-controlled banks⁸ which retail investors had received under hybrid capital instrument conversion processes designed to provide liquidity. 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 to the guarantees granted by the State to credit institutions and to the guarantees granted to the purchaser, in the sale of institutions, essentially in the form of asset protection schemes (APSS).

As regards the State guarantees granted to banks for a total of €110,895 million, following the maturities of the related issues, all these guarantees are now extinguished. No loss has arisen from these guarantees for the State which has received fees for them.

The APSS extended in certain integration processes, which entail fewer provisioning requirements for the beneficiary banks of such schemes, have meant that 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 determined precisely until the end of the

⁵ This amount is broken down as follows:

- €977 million returned by CaixaBank in April 2013, arising from the assistance received by Banca Cívica before its integration into CaixaBank.
- €800 million of non-voting equity units of CajaSur issued in May 2010 which were repaid in the same year as the restructuring plan was approved
- €782 million obtained by the sale of its stake in Catalunya Banc.
- €783 million obtained by sale of its stake in NCG.
- €407 million repaid early by Ibercaja Banco from a mandatorily convertible bond issue carried out by Caja 3.
- €124 million repaid early by Liberbank from a mandatorily convertible bond issue.

⁶ On 1 September Unicaja announced through a significant event to the CNMV that it had repaid the FROB in full for this assistance, in a settlement made the previous day.

⁷ The FGDEC held €2,250 million of the capital of the FROB. It had to write off this investment in full 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.

⁸ These banks are NCG (Nova Galicia Banco) and CX (Catalunya Banc).

period over which each of these schemes are in force (a provision is recorded⁹ in the balance sheets of the FROB and the FGDEC in respect of the estimated expected loss which is revised annually).

As at 31 December 2016, the estimated aggregate loss of the APSs granted by the FROB amounted to €883 million (€392 million relating to CajaSur which have already been disbursed and settled; and €491 million relating to Banco Valencia which have not yet required any disbursement by the FROB).

Also, the FGDEC granted APSs amounting to €10,008 million (€5,844 million at Banco CAM, €2,475 million at Caja Castilla-La Mancha – CCM – and €1,689 million at Unnim Banc). To date, these guarantees have entailed disbursements of funds amounting to €4,283 million (€2,475 million in the APS granted to CCM, where the total amount of the guarantee extended was forwarded at the expense of its final settlement, and €1,808 million in the APS granted to Banco CAM).

It should further be indicated that, as part of the bank divestment processes, other guarantees were granted to 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 necessary.¹⁰ The total estimated value of these contingencies is €1,629 million in the case of the FROB,¹¹ which has entailed disbursements of €979 million, and €389 million in the case of the FGDEC, of which €246 million have been disbursed.

If the net capital contributions, APSs and guarantees listed so far are added together, the provisional estimate of the net funds to support the financial system provided by the FROB and the banking industry, via the FGDEC, stand at €41,150 million and €21,604 million, respectively. These net contributions cannot be calculated definitively until the final settlement of all the assets.

4.- The fourth category comprises the extraordinary credit lines granted to banks in some of the restructuring processes from 2009 to 2013. This credit was granted as an urgent, temporary provision of liquidity either by the Banco de España (€9,800 million), through the emergency liquidity assistance mechanism, backed by a State guarantee or by assets of the recipient bank itself, or by the FROB (€6,500 million). All the amounts drawn down on

⁹ The estimated figure as at 31 December 2016 is obtained from the specific annual audits, to which the APSs are subjected by independent experts engaged by the FGDEC and the FROB (different from the external auditors of these bodies), except in one case, where the audit is engaged by the beneficiary bank of the APS and which has the approval of its auditors.

¹⁰ 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 Hércules portfolio under the Catalunya Banc divestment process and errors arising in transfers to Sareb, among others.

¹¹ In addition to this amount, the FROB has granted a guarantee to the FGDEC amounting to €115 million relating to the purchase of shares described in point 2 of this note.

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,¹² and of the public guarantees granted by the State on debt issued by Sareb for an amount of €40,925 million as at 31 December 2016.

¹² This contribution of €2,192 million took the form of shares (€540 million) and subordinated bonds (€1,652 million). In December 2015, Sareb posted negative net worth. For this reason, in 2016 the Sareb General Meeting adopted various resolutions, geared to equity re-balancing, which included a reduction in capital and the capitalisation of 60% of the subordinated debt issued. The FROB's percentage holding in Sareb has not changed significantly from the original situation. Following the events described above, the value of the investment in Sareb recorded in the FROB's books is €1,497 million, after provisions of €695 million.