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Background note on public financial assistance in the restructuring of the Spanish banking system (2009-2013)

On 2 September 2013, the Banco de España published a background note on public financial assistance in the restructuring of the Spanish banking system (2009-2013). The aim of this note is to update that information bearing in mind the latest available data.

For reader comprehension, the public assistance provided during the restructuring of the banking sector is grouped into five categories: 1) financial assistance disbursed in the form of contributions to capital for the recapitalisation of banks; 2) contributions by the Credit Institutions Deposit Guarantee Fund (CIDGF) 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 bail-ins (involving the assumption of losses by the subordinated creditors of the institutions themselves) arising from burden-sharing exercises.¹

1.- The first group should include 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.

On the whole, since May 2009, the public financial assistance committed in various forms of capital has amounted to €61,495 million, of which at present €1,760 million have been recouped.²

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

² The breakdown is as follows:

- €977 million returned by CaixaBank in April 2013, arising from the assistance received by Banca Cívica before its integration into CaixaBank.
- €712 million obtained by the FROB from the sale of its stake in NCG and €71 million from a sale in 2012.

2.- Secondly, the CIDGF set in place a procedure for providing liquidity to the minority holders of unlisted shares in FROB-controlled banks³ who had received such shares under the conversion processes for hybrid capital instruments. The funds committed by the CIDGF in this connection totalled €1,803 million, of which, following the sale of NCG, is expected the recovery, at present value, of an amount of €225 million.

At the close of 2013, the CIDGF estimated the potential losses arising from this acquisition of shares at €754 million, covered by the related provisions.

3.- The third group detailing financial assistance refers firstly to the guarantees granted by the State to credit institutions and, secondly, to asset protection schemes.

Regarding the State guarantees to banks for a total amount of €103,436 million, their ongoing cancellation has continued and, as at 30 April 2014, guarantees totalling €71,350 million have been discharged, 69% 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 to losses that cannot be 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 2013, the present value of the aggregate loss currently expected from the APSs amounted to €7,888 million⁴, provisioning for which is in the financial statements of the CIDGF and 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 settlement of the guarantee.

It should further be indicated that, in the resolution of Banco CEISS, it was agreed to review the selling of the hybrid instruments of those minority holders who proceeded to exchange them for capital instruments of Unicaja. For the FROB, this process involved committing an additional outlay of €188 million.

4.- The fourth group 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

³ NCG and CX (Nova Galicia Banco and Caixa Catalunya)

⁴ Estimated total figure as at 31-12-2013 according to the specific annual audits performed on the APSs by independent experts engaged by the CIDGF and the FROB (distinct from the external auditors of these bodies), except in one instance, where the audit was engaged by the APS beneficiary institution, with the approval of its auditors.

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, mention should be made of the public capital contribution to the FROB, totalling €2,192 million.

Summary

Since 2009, the public funds provided as financial assistance in various forms of capital in the restructuring of the Spanish banking system have amounted to €61,495 million, of which €1,760 million have so far been recouped.

The CIDGF has acquired shares in FROB-controlled unlisted banks obtained by minority investors in the hybrid instrument conversion processes for a total of €1,803, estimating that, at present value, €225 million will be recovered; further, the FROB has committed payment of €188 million under the review of the selling of Banco CEISS hybrid instruments held by minority investors who took up the conversion offer made by Unicaja.

The guarantees granted by the State to credit institutions totalled €103,436 million; as at 30 April 2014, €71,350 million of these had been cancelled, thus leaving a remaining balance of €32,086 million to be cancelled.

As regards the various asset protection schemes, the related expected loss, as at 31 December 2013, amounted to €8,337 million in nominal terms (€7,888 million, at present value); the maximum nominal amount of the guarantee assumed by the FROB and the CIDGF and, therefore, the maximum theoretical total loss over the period these schemes are in force⁵ is, in nominal terms, €28,667 million.⁶

Finally, the FROB has contributed capital totalling €2,192 million to Sareb.

⁵ The last of these protection schemes concludes in September 2022.

⁶ For a loss of this amount to materialise, virtually all of the protected assets would have to be worthless.

RESTRUCTURING OF THE SPANISH BANKING SECTOR 2009-2013: PUBLIC FINANCIAL ASSISTANCE FOR RECAPITALISATION

	Group 0: banks in which no capital shortfall was identified in the stress test and which do not need to take subsequent measures
	Group 1: banks controlled 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, which they will need State aid to cover
	Group 3: banks with a capital shortfall, identified by the stress test, which they will be able to cover without State aid

Constituent institutions which received assistance (DATE OF INTEGRATION AGREEMENT)		Transaction supporting the restructuring		QUANTIFICATION OF PUBLIC ASSISTANCE Amounts in €m						OBSERVATIONS	
				Assistance provided/committed							
				Initial phase of integration	Other integrations	Type of transaction	Month of agreement	CIDGF capital and other contributions (2)	FROB 1		FROB 2
Preference shares	Capital	Capital							CoCos		
Institutions making up CAIXABANK											
Banca Cívica: Caja Navarra, Caja Canarias, Caja Burgos, (APRIL 2010) Caja Sol + Caja Guadalajara (DECEMBER 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.
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						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				953	
		Capitalisation of preference shares and assumption of investment in shares by CIDGF	March-12	953	-380	-568					
Institutions making up IBERCAJA											
Caja 3: CAI, Caja Círculo 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 by the institutions in May 2013, and meant that Ibercaja Banco acquired 100% of Banco Grupo Caja3 through a share swap process, which will be completed with the merger by acquisition of Banco Grupo Caja 3. The shareholder savings banks originating from Banco Grupo Caja3 (CAI, Círculo Católico Burgos and Caja Badajoz) have owned a joint holding of 12.2% in Ibercaja Banco since 25 July 2013.
Institutions making up BANCO SABADELL											
CAM		Capital injection by CIDGF 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 CIDGF includes the €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	99% of Banco Gallego's capital stock was owned by NCG Banco, 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.

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				Assistance provided/committed							
Initial phase of integration	Other integrations	Type of transaction	Month of agreement	CIDGF capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)		TOTAL		
					Preference shares	Capital	Capital			CoCos	
Institutions integrating into UNICAJA BANCO											
Caja España, Caja Duero (MARCH 2010)	Banco CEISS (JULY 2013)	Subscription of preference shares by FROB	March-10		525					1.129	In May 2013, the Banco de España and the European Commission approved the resolution plan for Banco CEISS which envisages its possible integration into the Unicaja Group. In July 2013 Unicaja Banco approved the commencement of the acquisition process of Banco CEISS, subject to obtaining the necessary regulatory authorisations and to the offer being accepted by 75% of the current shareholders of Banco CEISS and of the holders of mandatory convertibles (Cocos) issued by Banco CEISS, in the framework of the burden-sharing exercise.
		Subscription of CoCos by FROB						604			
		Conversion of preference shares into capital	May-13		-525	525					
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 CIDGF 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 CIDGF relate to amounts invested in the balance sheet clean-up.
		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					1.645	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 after the burden-sharing exercise had been completed, owns 65% of BMN's capital.
		Subscription of capital by FROB	December-12				730				
		Conversion of preference shares into capital	February-13		-915	915					
Institutions making up BFA											
Caja Madrid, Bancaja, 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					22.424	Institution controlled by the FROB, which owns 68% of Bankia following the burden-sharing exercise. The €17,959 million from the ESM in the form of capital include €4,500 million advanced by the FROB in September 2012 to restore the regulatory capital position of the group. On 28 February 2014, BFA disposed of 7.5% of Bankia, for an amount of €1,304 million, which gave rise to a consolidated capital gain of €301 million.
		Conversion of preference shares into capital	May-12		-4.465	4.465					
		Subscription of capital by FROB	December-12					17.959			

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				Assistance provided/committed							
Initial phase of integration	Other integrations	Type of transaction	Month of agreement	CIDGF capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)		CoCos	TOTAL	
					Preference shares	Capital	Capital				
Institutions making up NCG BANCO - NOVACAIXGALICIA											
Caixa Galicia, Caixanova (JUNE 2010)		Subscription of preference shares by FROB	June-10		1.162					9.052	The FROB acquired 62.7% of the capital following the burden-sharing exercise, and the CIDGF 26% owing to the acquisition of shares, to provide liquidity, that the minority holders NCG Banco hybrids had received. On 18 December 2013 the auctioning of the bank concluded with its award to Banesco for €1,003 million, meaning that €712 million correspond to the FROB for the disposal of its stake. This sale is awaiting all the mandatory administrative authorisations required. Prior to the approval of the Resolution Plan for the institution, in 2012, shares totalling €71 million had been sold, as a result of the partial exercise of the purchase option the institution had.
		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				
Institutions making up CATALUNYA BANC											
Caixa Catalunya, Caixa Tarragona, Caixa Manresa (MARCH 2010)		Subscription of preference shares by FROB	March-10		1.250					12.052	Institution controlled by the FROB, with 66% of capital following the burden-sharing exercise. The remainder of the capital is distributed as follows: 32.4% for the CIDGF, due to the CX shares acquired as a result of the offer to provide liquidity made to hybrid instrument holders; 1.2% for the old hybrid instrument holders which did not accept the CIDGF's liquidity offer; and the remaining 0.4% is own shares.
		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				
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 (CIDGF) receives from its member banks annual contributions that depend on the deposits they have attracted.

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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							
Initial phase of integration	Other integrations	Type of transaction	Month of agreement	FROB 1		FROB 2		Subsequent to Law 9/2012 (1)		TOTAL	
				CIDGF capital and other contributions (2)	Preference shares	Capital	Capital	CoCos			
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 relating to the FROB 1 injection into BFA and €552 million to the surplus of assets over liabilities at the time Bankia was segregated) and €10,621 million contributed subsequently through a capital increase. These figures are included in the above figures for BFA.