BANCO DE **ESPAÑA**
Eurosistema

26.12.2012

Information on the sale of Banco de Valencia

Banco de Valencia (BdV) has been sold to CaixaBank in an operation involving an estimated cost to public funds of around €5 billion. This amount derives from the €4.5 billion recapitalisation of BdV by the FROB, prior to its sale to CaixaBank, and the granting by the FROB to the purchaser of an asset protection scheme (EPA) for a credit portfolio of BdV, the final cost of which is estimated to be between €300 million and €600 million. Taking into account the €1 billion provided in May 2012 by the FROB, the total public funds committed to BdV may be estimated to be around €6 billion.

The situation of BdV meant that it was not possible to consider recapitalising the bank in order to enable it to remain a going concern, and therefore the only alternatives were to wind up or sell this institution.

It has been less costly to the State to sell BdV than to wind it up (which, as explained below, would have cost more than €6 billion). All the legal requirements for the sale have been strictly complied with. In addition to saving public funds, the sale of BdV has contributed to the stability of the Spanish financial system as a whole.

Background

The stress test envisaged in the Memorandum of Understanding (MoU) signed in July by Spain and the European authorities identified the capital needs of the main Spanish institutions, including BdV. The capital needs of such institutions were assessed on a going concern basis under two scenarios: the baseline scenario and a stressed scenario, over a three-year time horizon in both cases. The minimum level of capital to be held by the institutions was set at 9% and 6% for the baseline scenario and the stressed scenario, respectively.

The capital needs of BdV according to the stress test conducted by the consultants Oliver Wyman were €3.462 billion under the stressed scenario; this amount was additional to the €1 billion contributed to BdV in May 2012 by the FROB. That is to say, for BdV to be able to remain a going concern would have required a further recapitalisation by the FROB of around €3.5 billion.

Compared with these amounts, the injection of state aid into BdV to achieve its sale to CaixaBank has been, in total, €4.5 billion, plus the cost of an EPA for certain portfolios of BdV, the final cost of which is estimated to be between €300 million and €600 million.

The first option, i.e. ensuring that BdV remains a going concern, was not feasible however. Unlike the other Group 1 institutions, the situation of BdV, in the opinion of the European

Commission, the FROB and the Banco de España, involved irreparable damage to the franchise. This was apparent from the following phenomena:

- a chronic loss of deposits, which began in summer 2011 and, although stemmed somewhat following the intervention by the Banco de España in November 2011, accelerated from April 2012;

- the compromised liquidity situation, compounded by the loss of status as an eligible counterparty for Eurosystem monetary policy operations, and the impossibility of accessing the markets as a consequence of a very deteriorated credit rating (BB-);

- excess capacity, in the form of a branch network and workforce that are too large relative to turnover;

- a projected income statement that is markedly fragile and subject to a high degree of uncertainty on account of, first, the low quality of the credit portfolio (heavily concentrated in real-estate development and in the Spanish east coast region, as a result of the lending policy of recent years) and, second, the excess capacity mentioned in the previous point;

- and, finally, the existence of negative net worth as a consequence of accumulated losses.

All the above, along with the loss of public confidence in this bank and its recent performance, meant that it was not possible for a capital injection from the FROB to make BdV a viable going concern.

The decision to sell BdV

Consequently, the European Commission, the FROB and the Banco de España considered that the only viable options for BdV were either its sale or its immediate winding up. Therefore, it was necessary to compare:

- the estimated cost of winding up BdV

- the cost of selling BdV to CaixaBank

The estimated cost of winding up BdV was obtained, firstly, through the expedited procedure envisaged in Article 68 of Law 9/2012, for which purpose the FROB received assistance from Oliver Wyman. According to this initial estimate, the cost of a winding up ranged from a maximum of €7.4 billion to a minimum of €5.6 billion, depending on the various assumptions about the financing needed to realise BdV's assets over a lengthy winding up. However, it was estimated that, in the current situation, the cost of the winding up was more likely to be closer to the maximum figure than the minimum one.

Furthermore, pursuant to the provisions of Article 5 of Law 9/2012 and the supplementary rules approved by the FROB, this body requested three additional reports on the costs of a winding up from three independent experts, namely BDO, Lazard and Société Générale. On the basis of these three estimates and in accordance with the relevant regulations, the cost of the winding up was calculated as €6.34 billion. This cost confirmed Oliver Wyman's initial estimate and was higher than the cost of selling BdV to CaixaBank.

The decision to sell BdV, instead of winding it up, contributed to shoring up the confidence of depositors and investors and avoided possible negative effects on the availability and cost of funding for Spain and its financial institutions on international markets.

Finally, the decision to sell took into account the large direct and indirect presence of the State and of the Eurosystem among BdV's creditors, through, among other items: a liquidity facility of €2 billion provided by the FROB to BdV; an ICO (Official Credit Institute) intermediated credit facility of €1.099 billion; and guarantees given by the State for BdV bond issues totalling €1.5 billion. In fact, had insolvency proceedings been initiated, with the repayment of deposits but not senior debt, risks would have been generated for the stability of the banking system, without any positive effect on public finances, since practically all of BdV's senior debt is held by public bodies.

The sale of BdV was conducted through a competitive process, managed by the investment bank Nomura, involving three institutions. The offer of CaixaBank, which eventually acquired BdV, consisted of:

- the injection by the FROB of €4.5 billion of capital into BdV prior to its sale for €1,
- the protection given by the FROB against future losses on BdV's loan portfolio not considered by Oliver Wyman in its stress tests, whose cost is estimated at between €300 million and €600 million.