FROB Fondo de Reestructuración Ordenada Bancaria

The FROB implements the recapitalisation of all of the Group 1 banks

Press release – 26 December 2012

The Governing Committee of the Fund for the Orderly Restructuring of the Banking Sector (FROB), at its meeting today, has adopted the necessary agreements, subject to the non-opposition of the Ministry of Financial Affairs and Public Administration, to conclude the recapitalisation of the four banks in which the FROB has a majority holding – BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia – through the related decisions for the injection of funds, according to the provisions of the restructuring/resolution plans approved on 27 November by the Spanish authorities and on 28 November by the European Commission.

The four banks included in Group 1, according to the terminology of the Memorandum of Understanding (MoU), will thus be recapitalised at the end of 2012 and together with the burden-sharing exercises, will meet the high-quality capital requirements of 9% and the capital requirements identified in the stress test published on 28 September. The banks will receive in the coming days a total of €36.97 billion, after deducting the capital needs identified in the stress tests through the burden-sharing exercises and the transfer of problem assets to Sareb.

The capital injections will be implemented through the related operations of capital reduction and increase at NCG Banco, Catalunya Banc, Banco de Valencia and BFA. In the case of Bankia, the recapitalisation will be undertaken through the issuance of contingent convertible bonds subscribed by BFA which will be transformed into capital after the capital reduction operation that will take place at the beginning of 2013.

These actions will be complemented by the corresponding burden-sharing exercises – preference shares and subordinated debt – which will be undertaken in the first quarter of 2013.

Decisions about BFA-Bankia

Pursuant to the provisions of Law 9/2012, the Governing Committee of the FROB determined the economic values of Bankia and of Banco Financiero y de Ahorros (BFA), which were prepared in accordance with the procedures established by the FROB and based on the reports commissioned from three independent experts:

- The economic valuation of the BFA Group is -€10.44 billion.

- The economic valuation of the listed bank Bankia is -€4.15 billion.

These economic valuations provide the basis for the implementation of the public financial support envisaged in the restructuring plans of the two institutions approved on 28 November by the European Commission.

Having determined the economic value, the Governing Committee has adopted as of today the following agreements in order to proceed to inject the funds required in accordance with the terms and conditions stipulated in the Financial Assistance Agreement signed on 29 November:

- The capital increase at BFA amounting to €13.46 billion. This capital increase, which is in addition to that of €4.5 billion undertaken on 3 September, will be subscribed through the non-monetary contribution of securities of the European Stability Mechanism (ESM) which will be subscribed and paid by the FROB.

- The swap of Treasury bills advanced on 3 September amounting to €4.5 billion for securities of the ESM.

- The issuance by Bankia of contingent convertible bonds without a preferential subscription right amounting to €10.7 billion, which will be subscribed by BFA.

The implementation of these decisions in the coming days will permit the BFA-Bankia Group to be recapitalised before the end of 2012. At the beginning of 2013, there will be a capital reduction at Bankia in order to restore the equilibrium between capital and equity or economic value, which is when the contingent convertible bonds that have been subscribed will be converted into ordinary shares. Thus, the principles established in Law 9/2012 on restructuring and resolution of credit institutions will be safeguarded, under which shareholders are the first to bear losses or restructuring costs.

Decisions about NCG Banco

Having determined its economic value pursuant to the provisions of Article 5 of Law 9/2012, at -€3.09 billion, the Governing Committee of the FROB has adopted, at its meeting today, the following agreements aimed at granting NCG Banco the public financial support envisaged in its resolution plan:

- To reduce current capital to zero in order to increase voluntary reserves, which is necessary in order to comply with the provisions of Article 4 of Law 9/2012. These reserves will be used to absorb the substantial losses estimated or expected in the financial year and which are recognised in the bank's resolution plan.

- To encourage the conversion of the preference shares subscribed by the FROB into ordinary shares of NCG Banco amounting to €1.16 billion.

- To once again reduce capital to zero by transferring it to voluntary reserves in order to subsequently absorb losses.

- To increase the capital of NCG Banco through the subscription by the FROB of €5.42 billion of the bank's ordinary shares through the contribution of securities issued by the ESM.

As a result of the above agreements, the FROB will become the owner of 100% of the bank's share capital.

Decisions about Banco de Valencia

Having determined the liquidation value, established in Article 44.2.b) of Law 9/2012, at -€6.34 billion and in order to comply with the Resolution Plan which envisages the transfer of the shares of Banco de Valencia owned by the FROB to CaixaBank, the Governing Committee of the FROB has agreed:

- To approve its audited balance sheet at 31 October 2012 from which losses of €3.31 billion can be deduced.

- To reduce share capital through the decrease of the nominal value of shares from €0.20 per share to €0.01 per share in order to absorb losses. Capital is reduced by €1.04 billion to €55 million.

- To increase capital through the subscription by the FROB of €4.5 billion of the bank's ordinary shares, through the contribution of securities issued by the ESM.

As a result of the above operations, the FROB will become the owner of approximately 99% of the bank's share capital. With this recapitalisation, the sale of this holding to Caixabank will be completed.

Decisions about Catalunya Banc

Pursuant to the provisions of Article 5 of Law 9/2012, the Governing Council of the FROB at its meeting on 17 December determined that the economic valuation of Catalunya Banc was -€6.67 billion and agreed to the operation for the conversion of convertible preference shares subscribed by the FROB in 2010. As a result of the foregoing, the FROB became the owner of 100% of the bank's share capital.

The Governing Committee of the FROB has adopted, at its meeting today, the following agreements aimed at completing the transfer to Catalunya Banc of the public financial support envisaged in its resolution plan:

- Reduction of share capital to zero, through the redemption of current shares. The amount of the reduction will be used to increase voluntary reserves so as to absorb the substantial losses estimated or expected in the financial year and which are recognised in the bank's resolution plan.

- Simultaneous increase of Catalunya Banc's capital through the subscription by the FROB of €9.08 billion of the bank's ordinary shares, through the contribution of securities issued by the ESM.