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

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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 and in May 2015. The aim of this note is to update that information once again bearing in mind the latest available data, although the changes observed since May last year are relatively minor ones.

For reader 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) extraordinary 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 FROB.

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.<sup>1</sup>

**1.-** The first category 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.

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, €2,686 million has been recouped<sup>2</sup>, with the stakes in Banco Mare Nostrum and BFA (Bankia)

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<sup>1</sup> Previously, the shareholders of the banks had assumed the related loss.

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

remaining in the hands of the FROB, along with the mandatorily convertible bonds corresponding to Banco CEISS and Banco Grupo Caja 3 for a total of €991 million. To be added to these figures are the €1,304 million obtained from the divestment by BFA in Bankia.

**2.-** Secondly, the FGDEC set in place a procedure for providing liquidity, namely by purchasing from retail investors unlisted shares in FROB-controlled banks<sup>3</sup>, 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 to the guarantees granted by the State to credit institutions and 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 28 June 2016, guarantees totalling €109,836 million have been discharged, 99% of those granted, following the maturities 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 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 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 2015, the present value of the aggregate loss currently expected from the APSs amounted to €10,390 million<sup>4</sup> (€10,948 million in nominal terms), provisioning for which is in the financial statements of the FGDEC and the FROB. Of this amount of €10,390 million, €918 million correspond to the FROB. To date, funds have been disbursed 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, and in the APS granted to Banco CAM,

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- €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.
  - €20 million partially repaid by Ibercaja Banco from a mandatorily convertible bond issue.

<sup>3</sup> These banks were NCG (Nova Galicia Banco) and CX (Catalunya Banc).

<sup>4</sup> Total estimated figure as at 31-12-2015 according to 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.

S.A., in which, in February 2016, the FGDEC made a first payment for an amount of €826 million.

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 necessary.<sup>5</sup> The total estimated value of these contingencies is €1,922 million<sup>6</sup>, €1,182 million of which have been disbursed. Of these amounts, €1,532 million of the estimated total and €963 million of the portion that has already been disbursed correspond to the FROB.

**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 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<sup>7</sup>, and of the public guarantees granted by the State on debt issued by Sareb for an amount of €43,476 million<sup>8</sup>.

### **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<sup>9</sup>, this figure falls to €51,303 million, of which €2,686 million have been recouped to date. The €1,304 million obtained from the divestment already carried out by BFA in Bankia should be added to this amount, along with the foreseeable repayments before 2018 of convertible

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<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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, 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. FROB's percentage holding in Sareb has not changed significantly from the original situation.

<sup>8</sup> As at 31 December 2015.

<sup>9</sup> 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.

bonds in Caja 3 and in CEISS totalling €991 million. In due course, the outcome of the future divestment in Bankia and BMN will also have to be recorded.

The FROB has likewise 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 2015 of the APS amounted to €918 million. Other guarantees granted are valued at €1,532 million, of which to date €963 million have been disbursed.

Guarantees totalling €110,895 million have been granted by the State to credit institutions, with an amount of €109,836 million having been cancelled, so that a balance of €1,059 remains outstanding. No loss from these guarantees will foreseeably arise for the State.

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 instrument conversion processes for a value of €1,803 million the 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 2015, totalled €9,472 million. Other guarantees granted by the FGD amount to €390 million.

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

	Group 0: Banks at which no capital shortfall was identified in the stress test (2012) and no subsequent measures were needed.
	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) that they would be unable to cover without State aid.
	Group 3: Banks with a capital shortfall identified by the stress test (2012) that they would be able to cover without State aid.

Constituent institutions that received support (DATE OF INTEGRATION AGREEMENT)		Restructuring support operations		QUANTIFICATION OF PUBLIC FINANCIAL SUPPORT (€ million)						OBSERVATIONS		
				Support provided/committed								
				CIDGS capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)		Contingent convertible bonds (CoCos)		TOTAL	
Preference debt instruments (participaciones preferentes)	Capital	Capital										
Initial integration phase	Other integrations	Type of operation	Date of agreement									
Institutions included in CAIXABANK												
Banca Cívica: Caja Navarra, Caja Canarias, Caja Burgos (APRIL 2010)	Banca Cívica group (MARCH 2012)	Banca Cívica group preference debt instruments subscribed by the FROB	December 2010		977				977	Banca Cívica was integrated into Caixabank and its brand disappeared. The preference debt instruments in Banca Cívica subscribed by the FROB were redeemed by the Caixa group in April 2013.		
Caja Sol + Caja Guadalajara (DECEMBER 2010)												
Banco de Valencia (NOVEMBER 2012)		Capital subscribed by the FROB	May 2012			998			5,498	Banco de Valencia, which was placed under official administration by the Banco de España in November 2011, was awarded to Caixabank by the FROB in December 2012.		
		Capital subscribed by the FROB	December 2012			4,500						
Institutions included in BBVA												
UNNIM: Caixa Sabadell, Caixa Terrasa, Caixa Manlleu (MARCH 2010)		Preference debt instruments subscribed by the FROB	July 2010	953	380	568			953	Unnim was fully controlled by the FROB at one stage and was awarded to BBVA in March 2012.		
		Capital subscribed by the FROB	September 2011									
		Preference debt instruments capitalised and investment in shares assumed by the CIDGS	March 2012								-380	-568
Catalunya Banc: Caixa Catalunya, Caixa Tarragona, Caixa Manresa (MARCH 2010)		Preference debt instruments subscribed by the FROB	March 2010		1,250	1,718			12,052	The FROB held 66% of the capital, following the burden-sharing exercise, and the CIDGS 32.4%, owing 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 CIDGS were sold to BBVA for a total of €1,165 million: €782 million for the FROB and €383 million for the CIDGS. 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 sum, taking into account the value of the collateral provided, of €329 million.		
		Shares subscribed by the FROB	September 2011									
		Preference debt instruments converted into capital	December 2012								-1,250	1,250
		Capital subscribed by the FROB	December 2012									
Institutions included in IBERCAJA												
Caja 3: CAI, Caja Circulo de Burgos, Caja Badajoz (JULY 2010)		Contingent convertible bonds subscribed by the FROB	December 2012					407	407	In November 2012 Ibercaja and Caja3 signed an integration protocol, which was definitively approved in May 2013, and which entailed acquisition by Ibercaja Banco of 100% of Banco Grupo Caja3 through a share swap process that granted the shareholder savings banks of Banco Grupo Caja3 an overall share of 12.2% of Ibercaja Banco. The integration was completed in October 2014 with the merger by absorption of Banco Grupo Caja3 by Ibercaja Banco. In 2014 the maturity of the €407 million in contingent convertible bonds was extended by one year to December 2017. In March 2016 Ibercaja Banco redeemed 5% of that issue (€20 million).		

	Group 0: Banks at which no capital shortfall was identified in the stress test (2012) and no subsequent measures were needed.
	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) that they would be unable to cover without State aid.
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Constituent institutions that received support (DATE OF INTEGRATION AGREEMENT)		Restructuring support operations		QUANTIFICATION OF PUBLIC FINANCIAL SUPPORT (€ million)						OBSERVATIONS	
				Support provided/committed							
				CIDGS capital and other contributions (2)	FROB 1	FROB 2	Subsequent to Law 9/2012 (1)		Contingent convertible bonds (CoCos)		TOTAL
Initial integration phase	Other integrations	Type of operation	Date of agreement		Preference debt instruments (participaciones preferentes)	Capital	Capital				
Institutions included in BANCO SABADELL											
CAM		Capital injected by the CIDGS before the sale to Banco Sabadell	December 2011	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 CIDGS includes €2,800 million committed previously by the FROB.	
Banco Gallego		Capital subscribed by the FROB before the sale to Banco Sabadell	April 2013				245		245	NCG Banco held 99% of the capital of Banco Gallego, after subscribing a €80 million capital increase. 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 acquisition in the framework of Banco Gallego's restructuring plan.	
Institutions in process of inclusion in UNICAJA BANCO											
Caja España, Caja Duero (MARCH 2010)	Banco CEISS (JULY 2013)	Preference debt instruments subscribed by the FROB	March 2010		525				604	In May 2013 the Banco de España and the European Commission approved the resolution plan for Banco CEISS which envisaged its possible future integration into the Unicaja group. At that point the FROB lost the €525 million, as the capital 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, which was approved by the European Commission also in March 2014. The €604 million in contingent convertible bonds subscribed by the FROB must be repaid by Banco CEISS, or by the combined institution if Banco CEISS is not in a position to do so, within a period of four years from their issuance (April 2013).	
		Contingent convertible bonds subscribed by the FROB	April 2013								1,129
		Preference debt instruments converted into capital	May 2013								
Institutions included in LIBERBANK											
Cajastur-Caja Castilla la Mancha (NOVEMBER 2009)	Liberbank: Cajastur, Caja Cantabria and Caja Extremadura (APRIL 2011)	Preference debt instruments subscribed and other support provided by the CIDGS to CCM	Since April 2009	1,740					1,740	CCM was placed under official administration by the Banco de España in March 2009 and was awarded to Cajastur in November 2009. The €1,740 million contributed by the CIDGS relate to amounts invested in the balance sheet clean-up. In December 2014 the €124 million in contingent convertible bonds were early redeemed by Liberbank.	
		Contingent convertible bonds subscribed by the FROB	December 2012					124	124		
Institutions included in BANCO MARE NOSTRUM											
Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada (JUNE 2010)	Preference debt instruments subscribed by the FROB	June 2010		915				1,645	The €915 million of FROB1 were converted into €552 million of capital as a result of the burden-sharing exercise, while 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 the capital of BMN.		
	Capital subscribed by the FROB	December 2012				730					
	Preference debt instruments converted into capital	February 2013		-915	915						

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	Group 2: Banks with a capital shortfall identified by the stress test (2012) that they would be unable to cover without State aid.
	Group 3: Banks with a capital shortfall identified by the stress test (2012) that they would be able to cover without State aid.

Constituent institutions that received support (DATE OF INTEGRATION AGREEMENT)		Restructuring support operations		QUANTIFICATION OF PUBLIC FINANCIAL SUPPORT (€ million)						OBSERVATIONS	
				Support provided/committed							
				Initial integration phase	Other integrations	Type of operation	Date of agreement	CIDGS capital and other contributions (2)	FROB 1		FROB 2
Preference debt instruments (participaciones preferentes)	Capital	Capital									
Institutions included in BFA											
Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Rioja, Caixa Laietana, Caja Insular de Canarias (JUNE 2010). Bankia was formed as a wholly-owned subsidiary of BFA.		Preference debt instruments subscribed by the FROB	June 2010		4,465				22,424	The FROB currently owns 100% of BFA and, indirectly through BFA, 65.02% 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 65.02% as a consequence of the enforcement of final court decisions relating to mis-selling of hybrid instruments and, to a lesser extent, owing to the recent voluntary refunds made to retail shareholders who took part in the market flotation and the claims settled, once the 40% that BANKIA undertook to assume has been exceeded, as Bankia delivers the shares to BFA when the latter meets the payment. The €17,959 million in capital from the ESM includes €4,500 million advanced by the FROB in September 2012 to restore the group's regulatory capital position.	
		Preference debt instruments converted into capital	May 2012		-4,465	4,465					
		Capital subscribed by the FROB	December 2012				17,959				
Institutions included in NCG BANCO - NOVACAIXAGALICIA											
Caixa Galicia, Caixanova (JUNE 2010)		Preference debt instruments subscribed by the FROB	June 2010		1,162				9,052	The FROB held 63% of the capital following the burden-sharing exercise, and the CIDGS 25% owing to the acquisition of shares, to provide liquidity, received by the retail hybrid instrument holders of NCG Banco. In June 2014, 88% of the bank was awarded to Banesco, €712 million corresponding to the FROB and €290 million to the DGS. Of the price of the sale, 40.2% 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.	
		Shares subscribed by the FROB	September 2011			2,465					
		Preference debt instruments converted into capital	December 2012		-1,162	1,162					
		Capital subscribed by the FROB	December 2012				5,425				
TOTAL				7,942	977	13,498	37,943	1,135	61,495		

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

(2) The Credit Institution Deposit Guarantee Scheme (CIDGS) 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, under "Institutions included in BFA")**

Institutions included in BFA											
Bankia		BFA intra-group operations in relation to Bankia: capital injection and subscription of preference debt instruments	December 2010 and December 2012					15,638			This support totalling €15,638 million breaks down as €5,017 million in founding capital (€4,465 million from the FROB1 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.