

# Fund for Orderly Bank Restructuring (FROB)

December 2014

## Overview

- **In the last few years the Spanish financial sector has gone through a substantial restructuring process.** The crisis has been linked to the international crisis and to the bursting of the Spanish construction bubble.
- **The financial crisis has been systemic, but not all the industry was equally affected.** Around 70% of the financial sector (inc. 100% of commercial banks) did not need public support. The crisis has been focused on former Savings Banks (*Cajas de ahorros*) and not on all of them. The number of banks have decreased from 50 in 2009 to 15 in 2013.
- **The FROB was created in 2009** to channel public financial support to financial entities. In 2012 its resolution powers were enhanced.
- Since 2009, **€53.5bn of public money injected** + 7.9 from DGS (w/o APS or guarantees) .
- **EU financial support was requested in 2012** (up to €100 bn; of which 41 were used). It included conditionality (horizontal and individual). It involved:
  - ✓ Comprehensive and independent stress test
  - ✓ Burden-Sharing
  - ✓ Creation of an AMC (SAREB)
  - ✓ Restructuring & Resolution plans
- **The EU program has expired successfully and will not be renewed.**

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# 1. The Fund for Orderly Bank Restructuring (FROB): objectives and functions

# 1. FROB: objectives and functions

- **FROB** is a **public entity**, originally created by Royal Decree-Law 9/2009. **Law 9/2012** of 14 November on restructuring and resolution of credit entities sets down the FROB's current legal regime.

**Ministry of Economy and Competitiveness**

**Banco de España/ ECB**  
Supervisory authority

**FROB**  
Resolution authority, sharing responsibilities with Banco de España

**Sareb**  
Asset Management Company

**Deposit Guarantee Fund**  
Guarantees deposits up to €100,000

- **FROB** is a **100% State-owned entity**. It is ruled by a **Governing Committee**:
  - ✓ Chaired by the Deputy Governor of the Banco de España, with 3 other members from the BdE
  - ✓ 4 authorities from the Ministries of Finance and Economy and Competitiveness (Treasury, Budget, Undersecretary, Economic Policy)
  - ✓ 2 members without voting rights from the State General Controller and a State Lawyer
- **FROB's goal** is to **manage the restructuring and resolution processes** of credit institutions, aimed at ensuring the stability of the financial system. Underlying principles:
  - ✓ To **minimise the cost** of the bank restructurings **for tax payers**
  - ✓ **Losses** shall be allocated **first to equity** holders and **thereafter to** holders of **hybrid capital** and subordinated debt instruments. Losses imposed shall **take into account** the different **ranking order** among such issuances
  - ✓ **No creditor worse off than in liquidation**: losses imposed on these investors will be lower than those which they would have borne in a winding-up of the entity.

# 1. FROB. Law 9/2012: Key stages in the context of bank recovery and resolution framework

- **Early Intervention:** When a credit entity fails to comply or it is reasonably expected that it will fail to comply with solvency, liquidity, organisational structure or internal control requirements, but it is capable of resuming compliance with those requirements using its own means
  - ✓ The entity shall submit an **action plan to the Banco de España** for its approval.
  - ✓ If the entity requests public financial support, the action plan will require FROB's approval
  
- **Restructuring:** Entities which require public financial support in order to ensure their viability when it is reasonably expected that the financial support shall be recovered in a certain period of time or the resolution of the entity would cause substantial negative effects on the Spanish financial system.
  - ✓ An action plan shall be submitted to the Banco de España requiring **FROB's approval**.
  - ✓ Restructuring **instruments** carried out by the FROB include financial support measures and transfer of assets to an Asset Management Company.
  
- **Resolution:** A resolution procedure is an alternative to insolvency proceedings and applies when a credit entity is no longer viable but its winding-up is not adequate for reasons of public interest. The resolution **instruments** may be: Sale of the business, transfer of assets and liabilities to a "Bridge Bank", transfer of assets to an AMC or financial support.

# 1. FROB. Powers of the FROB

The FROB is entitled to enforce the needed measures to put into practice the instruments foreseen in the Law.

- **Mercantile faculties:** The FROB may exercise the rights that the Law confers to the Management Board, the shareholders and the general shareholders meeting of the credit entities.
- **Administrative faculties:** The FROB shall have the power to:
  - ✓ Determine the economic value of the credit entity.
  - ✓ Require any relevant piece of information.
  - ✓ Require the transmission of equity instruments, hybrid capital or subordinated debt instruments and/or assets and liabilities of the credit entity.
  - ✓ Carry out capital increases/reductions (even with exclusion of preferential subscription rights) as well as the issuance or early redemption of financial instruments.
  - ✓ Implementation of Subordinated Liability Exercises (Preference shares/ Subordinated debt):
    - Adequate distribution of the costs and losses.
    - SLEs should have been completed before June 2013 (deadline extended 6 months) and then adapted to the Restructuring and Resolution European Directive final text.
- **Suspension of contracts and enforcement of security:** The FROB has the power to suspend:
  - ✓ Payment or delivery obligations under existing contracts.
  - ✓ Security over the assets.

## 2. The restructuring of the Spanish banking system. Previous stages



## 2. The restructuring of the Spanish banking system. Previous stages

### Phase one:

- **Financial support granted to merger processes.** Not all of the mergers agreed upon requested aid. The form of support was through the subscription of **convertible preference shares** to be repurchased within a period of 5 to 7 years (all of them have been converted or repaid).
- 7 integration processes received FROB support amounting to €9.7 bn (the so-called FROB 1).

### Phase two:

- On a general basis entities were required to reach a **principal capital ratio equal to or above 8%** of their risk-weighted assets (RWAs).
- For credit entities which were **highly dependent on wholesale markets** and hadn't placed at least 20% of its capital either in the stock market or among private investors, the **principal capital ratio** was increased to **10%**.
- The FROB injected capital amounting to €5.7 bn into 4 groups subscribing **common shares (the so called FROB 2). FROB's stake in these entities ranged from 90% to 100%.**

### Phase three:

- Royal Decree-Laws 2/2012 and 18/2012 **significantly increased provisioning requirements** for current exposures **to foreclosed assets and loans to developers**.

## 2. The restructuring of the Spanish banking system. Previous stages

Entities involved	FROB 1 convertible preference shares (million euros)	FROB 2 common shares (million euros)
<b>1 CatalunyaBank</b> Catalunya, Tarragona, Manresa	1,250	1,718
<b>2 Unnim<sup>1</sup></b> Manlleu, Sabadell, Terrassa	380	568
<b>3 CEISS</b> Caja España-Duero	525	
<b>4 Nova CaixaGalicia</b> Galicia, Caixanova	1,162	2,465
<b>5 BFA-Bankia</b> Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	4,465	
<b>6 Banco Mare Nostrum</b> Murcia, Penedés, Sa Nostra, Granada	915	
<b>7 Banca Cívica<sup>2</sup></b> Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	977	
<b>8 Banco de Valencia</b>		998
<b><i>FROB injection</i></b>	<b>9,674</b>	<b>5,749</b>

<sup>1</sup> Unnim was restructured and sold to BBVA.

<sup>2</sup> B. Cívica was restructured and sold to La Caixa

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain. The MoU.

- On 23<sup>rd</sup> July 2012, Spain and the European Commission **signed a Memorandum of Understanding (MoU)** laying down the terms of the **Financial Assistance for the Recapitalisation of Spanish financial institutions** with ESM's support (**up to € 100 bn**).
- Following the **MOU requirements**:
  1. A **stress test exercise** was conducted **by independent experts** with the aim of evaluating the resilience of the sector in the face of a very adverse and relatively unlikely macroeconomic scenario.
    - ✓ There was a first approach to the overall capital needs of the financial system through a **top-down process**.
    - ✓ The calculation was refined on an individual basis, through a **bottom-up exercise**.
    - ✓ The total **capital shortfall** on an adverse scenario was **initially** estimated to be **€ 53.7 bn**.
  2. The **banking sector regulatory framework** has been strengthened in order to improve the institutions' resilience:
    - ✓ The **role of savings banks** as shareholders of credit institutions has been clarified
    - ✓ **Transparency** has been enhanced by improving the quality and harmonising information provided by credit institutions
    - ✓ The **supervisory framework** has been clarified and the operational **independence of Banco de España** has been strengthened
    - ✓ **FROB's resolution powers** have been enhanced.

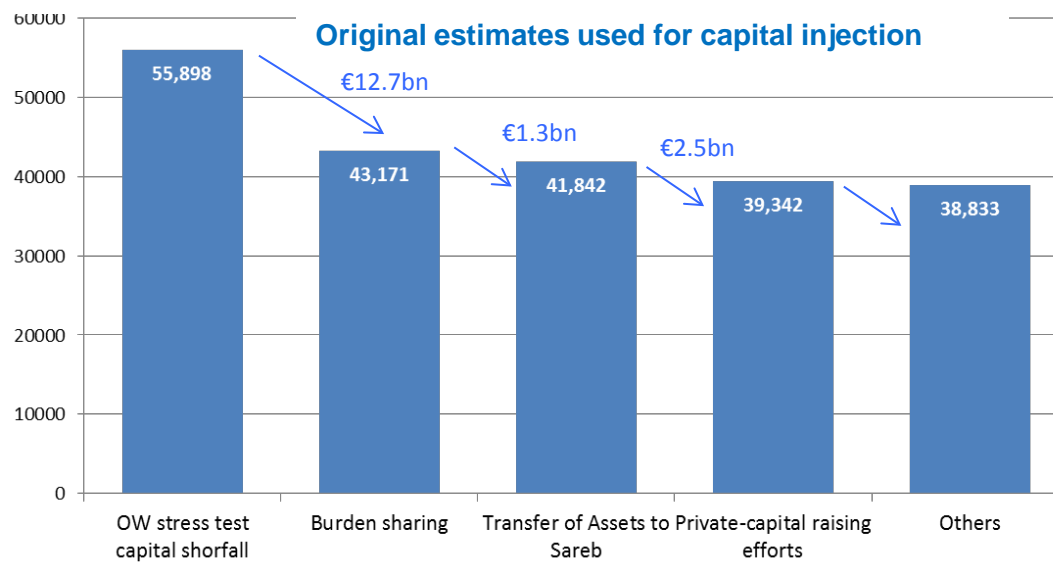
# 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: final capital needs

## Measures to Meet Spanish Banks' Capital Shortfall

(Millions of euros)

Bank name	Oliver Wyman capital shortfall	Measures Taken to Meet Capital Shortfall 1/							
		Injection of public capital 2/	Issuance of new private equity	Capital augmentation through SLEs 3/	Reduction in capital need from transfer of assets to SAREB	Reduction in capital need from sale of assets	Reduction in capital need from revaluation of assets	Other 4/	
Group 1	BFA-Bankia	24,743	17,959	0	6,669	191	0	0	0
	Catalunya Banc	10,824	9,084	0	1,676	188	0	0	0
	Nova Caixa Galicia	7,175	5,425	0	1,959	-276	0	0	0
	Banco de Valencia 5/	3,462	4,500	0	416	208	0	0	0
Group 2	Banco Mare Nostrum 6/	2,208	730	0	425	382	851	0	63
	Liberbank	1,197	124	0	850	145	215	0	0
	CEISS	2,062	604	0	1,433	263	0	0	0
	Caja3	779	407	0	44	228	0	108	0
Group 3	Banco Popular	3,223	0	2,500	0	0	328	85	332
	Ibercaja	225	0	0	0	0	150	0	93
<b>Total</b>		<b>55,898</b>	<b>38,833</b>	<b>2,500</b>	<b>13,472</b>	<b>1,329</b>	<b>1,544</b>	<b>193</b>	<b>488</b>

Sources: Bank of Spain; FROB.



### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: final capital needs



The **overall capital needs have been significantly reduced** as compared to initial estimates by OW exercise due to burden sharing measures, divestments and the transfer of legacy assets to the Asset Management Company (Sareb).

- Group 1 entities (€37 billion)**
  - BFA-Bankia
  - CatalunyaBanc
  - NCG
  - Banco de Valencia
  
- Group 2 entities (€1.86 billion)**
  - CEISS
  - Liberbank
  - BMN
  - Caja3
  
- SAREB (€2.19 billion)**

Entities involved	FROB 3 common shares/ CoCo bonds (million euros)
<b>1 CatalunyaBank</b> Catalunya, Tarragona, Manresa	9,084
<b>2 Unnim</b> Manlleu, Sabadell, Terrassa	
<b>3 CEISS</b> Caja España-Duero	604
<b>4 Nova CaixaGalicia</b> Galicia, Caixanova	5,425
<b>5 BFA-Bankia</b> Madrid, Bancaja, Laietana, Insular	17,959
<b>6 Banco Mare Nostrum</b> Murcia, Penedés, Sa Nostra, Granada	730
<b>7 Banca Cívica</b> Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	
<b>8 Banco de Valencia</b>	4,500
<b>9 Liberbank</b>	124
<b>10 Caja3</b>	407
<b>FROB injection</b>	<b>38,833</b>

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: The Asset Management Company (1)



- Sareb is an Asset Management Company designed for efficiently **segregating** and managing the orderly disposal of the **assets related to the Real Estate sector** over a period of **15 years**.
- Restructuring and/or resolution plans include the transfer of the **vast majority of these assets** to Sareb:
  - ✓ Assets classified as **Real Estate (owned and not for use)** > €100,000.
  - ✓ **Loans to real estate development firms** > €250,000.
  - ✓ Controlled Real Estate Development **equity investments**.
- Assets are acquired at a **transfer price** composed of two elements:
  - ✓ **Real Economic Value** (“REV”) based on the Oliver Wyman base case scenario.
  - ✓ An **additional haircut** to cover managing costs.
  - ✓ Average **haircut around 53%**.

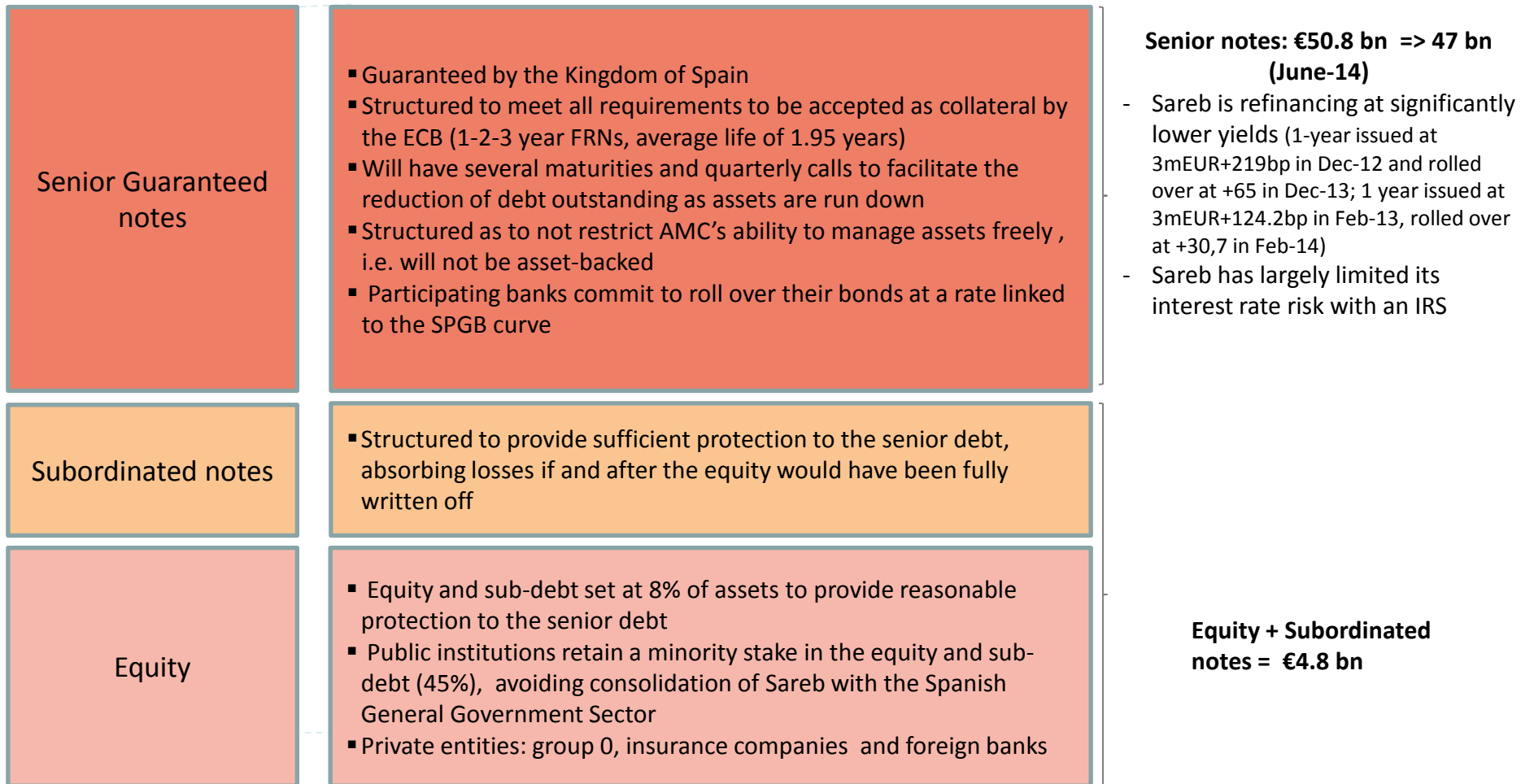
(Million EUR)		Group 1	Group 2	Total
Loans	Net	28,299	11,125	39,424
Assets	Net	8,396	2,961	11,364
Total	Gross	78,836	27,744	106,581
	Net	36,695	14,086	50,781

Total : €50.8 bn  
(transfer price)

	Asset class	Average haircut
RED foreclosed assets	New housing	54.2%
	Developments in progress	63.2%
	Land	79.5%
	<b>Foreclosed assets (average)</b>	<b>63.1%</b>
Loans to RE Developers	Finished housing	32.4%
	Unfinished projects	40.3%
	Urban land	53.6%
	Other land	56.6%
	Other with collateral	33.8%
	Other without collateral	67.6%
	<b>Loans (average)</b>	<b>45.6%</b>

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: The Asset Management Company (2)

#### Sareb's financial structure





## 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: The Asset Management Company (3)

### 2014 objectives:

- Increase debt redemption by 50% vs 2013 to reach €3 bn.
- Commercial push:
  - ✓ Become of the main 5 players in the Spanish RE market.
  - ✓ Increase sales to 10,800 units (from 25 to 30 finished houses per day).
- Works in progress: develop some 50 WIP, allowing for the sale of > 1,000 houses.
- Project Ibero: new servicing agreements.

Main figures	1H14	1H13	Δ	%
<b>P&amp;L</b>				
<i>Gross margin (net of fees)</i>	601	468	133	28%
- Margin on financial assets	524	391	133	34%
% of total	87%	84%	3%	
- Margin on RE assets	77	77	-0,1	0%
% of total	13%	16%	-3%	
<b>EBITDA</b>	429	348	81	23%
Gross cash generated	1,696	842	854	101%
<b>Balance sheet</b>				
Total assets	52,461	54,250	-1,789	-3%
Senior debt (nominal)	46,991	48,997	-2,006	-4%
<b>Others</b>				
REOs retails sales	8,100	1,517	6583	434%
Nº of portfolios sold	3	0		
Income from portfolio sales	94.8	0		
FABs created (mln €)	3	0		
Nº employees	251	141	110	78%

<b>Gross Margin on Financial Assets</b>		
Interest	255	49%
Friendly sale/ DPO	50	10%
Sales of portfolios, loans, collateral	61	12%
Redemptions	158	30%
<b>TOTAL</b>	<b>524</b>	

<b>Gross Margin on REO</b>		
Retail sales	33	43%
Singular assets	5	6%
Rents and FABs	39	51%
<b>TOTAL</b>	<b>77</b>	

<b>Debt repayments</b>	
Feb-10 group 1 redemption	164,5
Feb-28 group 2 redemption	389
Apr-10 reverse auction	1400
H1 total	2006,5
Sareb total	3790,1

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: Burden-sharing exercises



Credit entity	Initial outstanding (nominal)	Purchase price (exchange for capital)	Purchase price (exchange for debt)	Initial discount	Initial discount (% nominal)	Capital generated
BFA/Bankia	6.911	4.852	242	1.817	26%	6.669
NCG	2.047	1.355	88	604	30%	1.959
CX	1.818	1.218	142	457	25%	1.676
Liberbank	866	787	16	63	7%	850
CEISS	1.433	1.159	0	274	19%	1.433
Caja3	91	9	47	35	39%	44
BMN	449	309	24	116	26%	425
Banco Gallego*	192	132	16	44	23%	176
Banco de Valencia	416	59	0	357	86%	416
<b>Total</b>	<b>14.223</b>	<b>9.880</b>	<b>575</b>	<b>3.767</b>	<b>27%</b>	<b>13.649</b>

Data in € million.

- Arbitration processes and litigation related to hybrid products mis-selling:
  - ✓ **BFA-Bankia**: 171,432 arbitral awards favorable to clients (58%). Court claims: 35% already judged, 85% favourable to hybrid debt-holders
  - ✓ **NCG**: 58,016 arbitral awards favorable to clients (50%) . Court claims: 63% already judged, 38% favourable to hybrid debt-holders
  - ✓ **CX**: 62,887 arbitral awards favorable to clients (51%) . Court claims: 15% already judged, 80% favourable to hybrid debt-holders
- Liquidity mechanism** provided by the DGF to former hybrid debt-holders that received non listed shares.

Capital generated is the increase in own funds whether by the discount in the purchase price of the securities bought back or by the capital increase. Tax effects of the purchase under par are not considered. Definitive figure will depend on the results of arbitration and litigation processes.

In Banco Gallego holders of hybrids and sub debt receive convertible bonds issued by Banco Sabadell so that capital generated at group level is 176 million (of which 44 mln at BG level due to the discount in the buy-back price).

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: Capacity adjustments



- **Capacity adjustment** required by resolution/restructuring plans.
  - ✓ Cut number of branches by 34% (32% so far)
  - ✓ 29% reduction on staff (28% so far)
  - ✓ Shrink balance-sheet size by ~22% (18% so far)
  
- **Divestments**
  - ✓ Equity stakes
  - ✓ Subsidiaries
  - ✓ Sale of assets
  - ✓ Sale of branches
  - ✓ Disposal of non-core commercial activities

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: FROB stakes after the recapitalisation process

	GROUP 1 ENTITIES				GROUP 2 ENTITIES			
	NCG*	CX	BdV**	Bankia/BFA	CEISS	Liberbank	Caja 3	BMN
<b>Restructuring/ Resolution</b>	Resolution	Resolution	Resolution	Restructuring	Resolution	Restructuring	Restructuring	Restructuring
<b>Initial capital needs</b> (million €) (OW adverse scenario)	<b>7,176</b>	<b>10,825</b>	<b>3,462</b>	<b>24,743</b>	<b>2,062</b>	<b>1,197</b>	<b>779</b>	<b>2,208</b>
<b>Assets transferred to SAREB</b> (million €) (transfer price)	<b>5,707</b>	<b>6,708</b>	<b>1,962</b>	<b>22,318</b>	<b>3,137</b>	<b>2,917</b>	<b>2,212</b>	<b>5,819</b>
<b>FROB 3</b> (million €)	<b>5,425</b>	<b>9,084</b>	<b>4,500</b>	<b>17,959</b>	<b>604</b>	<b>124</b>	<b>407</b>	<b>730</b>
Capital injection	5,425	9,084	4,500	17,959				730
CoCo bonds					604	124	407	
<b>Economic value (pre-money)</b> (million €)	<b>-3,091</b>	<b>-6,674</b>	<b>-2,245</b>	<b>-10,444</b>	<b>-288</b>	<b>1,113</b>	<b>370</b>	<b>569</b>
<b>Total FROB support</b> (million €)	<b>8,982</b>	<b>12,052</b>	<b>5,498</b>	<b>22,424</b>	<b>1,129</b>	<b>124</b>	<b>407</b>	<b>1,645</b>
<b>Capital generated through SLE</b> (million €)	<b>1,959</b>	<b>1,676</b>	<b>416</b>	<b>6,669</b>	<b>1,433</b>	<b>850</b>	<b>44</b>	<b>425</b>
<b>FROB's equity</b>	<b>62.75%</b>	<b>66%</b>	<b>-</b>	<b>68.39%***</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65%</b>

\* Banesco won the tender for the acquisition of NCG in December. Sale formal procedures still ongoing.

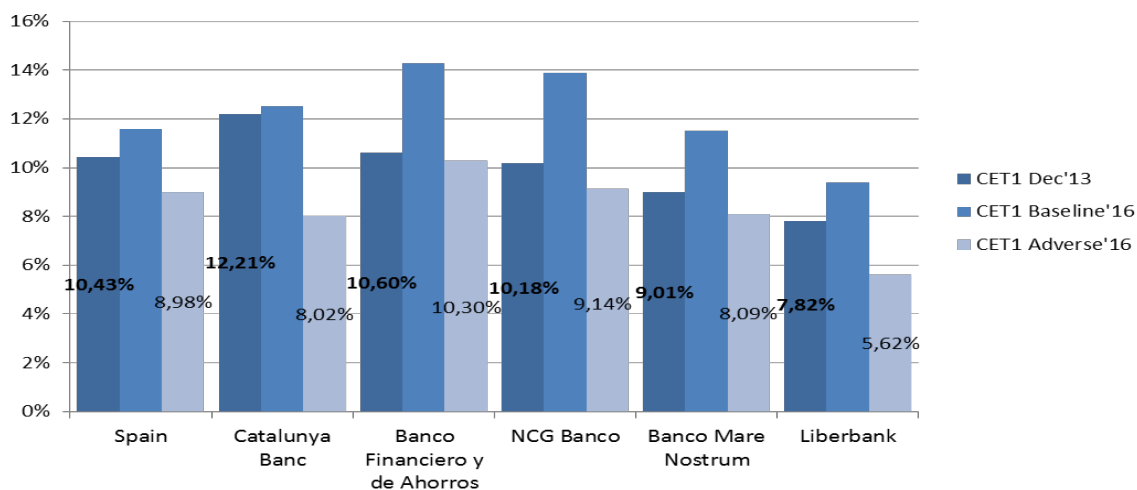
\*\*Sold to Caixabank

\*\*\* First 7,5% stake sold to market on February 2014. (Present FROB's participation = 62,01%, the increase is due to the repurchase of shares as a consequence of mis-selling sentences)

Note: Banco Gallego (a subsidiary of NCG) has carried out an SLE exercise, generating an amount of capital of 176 mln

### 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: AQR-ST overview

	CET 1 Ratio AQR 2013	CET 1 Ratio Baseline sc. 2016	CET 1 Ratio Adverse sc. 2016	Excess (min. 5.5%)
<b>Spain</b>	10,43%	11,60%	8,98%	3,48%
Kutxabank	12,14%	13,15%	11,88%	6,38%
Bankinter	11,67%	12,85%	10,99%	5,49%
<b>Banco Financiero y de Ahorros</b>	<b>10,60%</b>	<b>14,29%</b>	<b>10,30%</b>	<b>4,80%</b>
Caja de Ahorros y Pensiones de Barcelona	10,28%	11,56%	9,34%	3,84%
<b>NCG Banco</b>	<b>10,18%</b>	<b>13,89%</b>	<b>9,14%</b>	<b>3,64%</b>
Banco Bilbao Vizcaya Argentaria	10,54%	10,60%	8,97%	3,47%
Banco Santander	10,38%	11,99%	8,94%	3,44%
<b>Unicaja</b>	10,88%	11,87%	8,89%	3,39%
Banco de Sabadell	10,26%	10,21%	8,33%	2,83%
<b>Banco Mare Nostrum</b>	<b>9,01%</b>	<b>11,52%</b>	<b>8,09%</b>	<b>2,59%</b>
<b>Catalunya Banc</b>	<b>12,21%</b>	<b>12,53%</b>	<b>8,02%</b>	<b>2,52%</b>
Cajas Rurales Unidas	9,95%	10,21%	7,99%	2,49%
Ibercaja	10,03%	10,58%	7,88%	2,38%
Banco Popular Español	10,06%	10,93%	7,56%	2,06%
<b>Liberbank</b>	<b>7,82%</b>	<b>9,38%</b>	<b>5,62%</b>	<b>0,12%</b>



## 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: FROB's divestment strategies

- **General strategy:**
  - ✓ Some deadlines were imposed by resolution / State Aid deadlines (Banco de Valencia)
  - ✓ Decision to sell entities with diminishing franchise value (in resolution): NCG, CX.
  
- **Concluded processes:**
  - ✓ Direct sales:
    - Banco de Valencia to La Caixa (APS)
    - Banco Gallego (subsidiary of NCG) to Sabadell
    - Novagalicia Banco to Banesco
    - Catalunya Bank: (core bank + distressed portfolios) to BBVA + Blackstone
  - ✓ Some minor spin-offs: Evo Banco, some NCG branches
  - ✓ Quick actions: resolution and simultaneous sale of Mota del Cuervo (credit cooperative)
  
- **Merged/acquired entities**
  - ✓ Unicaja + CEISS
  - ✓ Ibercaja + Caja3
  
- **Remaining stakes**
  - ✓ BFA-Bankia: After the sale of 7.5% of Bankia by BFA, rest to be sold before end-2017.
  - ✓ BMN: to be sold by Feb-2018.

## 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain. Sold entities: NCG and Catalunya Banc

### NCG Banco

- **Sale of:**
  - ✓ Evo Banco to Apollo (100% owned by NCG)
  - ✓ Banco Gallego to Sabadell (49.84% owned by NCG). Recapitalised by FROB (national resources)
- **NCG sold to Banesco-Etcheverría in Dec-13:**
  - ✓ Competitive process carried out for the sale of the **88.33% stake** in hands of FROB and the DGF
  - ✓ Banesco group offered €1,003M (deferred payments)
  - ✓ No APS was granted, but there are some guarantees in the contract

### Catalunya Banc

- **Sale process:**
  - ✓ Considerably slimmed down entity: CXI servicing platform, branches, loan portfolios...
  - ✓ Separate sale of a €6.5bn mortgage-loan portfolio:
    - Performing (restructured-refinanced) + substandard + NPL
    - Sold to Blackstone (€3.6bn) through securitisation structure
    - €572M of State aid involved (upside shared by FROB from a certain hurdle)
- **Remaining entity sale:**
  - ✓ “Clean” entity (reduced NPL ratio, improved LTD and coverage ratios...)
  - ✓ Sold to BBVA at a positive price (€1.2bn)
  - ✓ No APS was granted, but there are some guarantees in the contract

## 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain. Remaining stakes: BFA-Bankia and BMN

### BFA-Bankia

- **BFA has given up its banking license (oct 2014):**
  - ✓ Assets at BFA level: Bankia's stake, fixed income portfolio. Other equity stakes (listed & non-listed) and credit/deposits are negligible.
  - ✓ Funding: Repo through Bankia, GGBs, Outstanding debt issues.
- **BFA's 1<sup>st</sup> divestment in Bankia:**
  - ✓ 7.5% stake sold to market on February 2014 (ABB directed to institutional investors)
  - ✓ Sale price: €1.51 per share
  - ✓ Next divestment alternatives: ABB, FMO, exchangeable bond, share repurchase.
- **Bankia's recent developments:**
  - ✓ On January 9th Bankia issued €1bn 3.5% Senior unsecured notes (due Jan-2019).
  - ✓ On May 5<sup>th</sup> Bankia issued €1bn 4% Tier 2 securities (due May-2024).

### BMN

- Divestment strategy: sale through market
- Not listed entity: IPO
- Great interest from investors: first step, covered bond issue in Jan-2013 (€500Mn, 3.125%, 5 years)



## 3. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: CoCo Bonds

### Liberbank

- FROB has no shares (recap through CoCos)
- Liberbank shares have already been listed and on May 21<sup>st</sup>, Liberbank carried out a combined offering of €790M
  - ✓ An ABB for 7.76% of the capital, launched on May 21<sup>st</sup> (€0.85 per share, €100M new issue + €216,7M secondary sell-down)
  - ✓ A rights issue (€400-475M), comprising 979 mill. new shares (subscription price= €0.485 per share)
  - ✓ Use of proceeds: amortise FROB CoCos (Dec 2014) & recapitalise the entity

### CEISS

- Taken over by Unicaja
- Compensation mechanism for mis-selling of hybrid debt to retail investors is under way
- Unicaja shares are not listed. Commitment to list Unicaja before Dec-2016
- CoCos redemption date for CoCos: 2018 (grandfathered as CET 1 by CRR only to Dec-2017.)

### Caja 3

- Merged with Ibercaja
- Ibercaja shares are not listed

## 4. Financial structure of the FROB

## 4. FROB balance sheet (December 2013, EUR bn)

### ASSETS

<b>13.987</b>	<b>Shares</b>
	9.492 BFA
	683 NCG
	1.858 CX
	1.414 BMN
	540 Sareb
<b>2.787</b>	<b>CoCo s&amp; Sub. debt</b>
	124 Liberbank
	407 Caja3
	604 CEISS
	1.652 Sareb sub. debt
<b>10.104</b>	<b>Net cash and treasury holdings</b>
<b>703</b>	<b>Others (loan to DGF etc)</b>
<b>27.581</b>	<b>TOTAL ASSETS</b>

### LIABILITIES

	<b>Equity</b>	<b>2.461</b>
	<b>Treasury Loan (ESM)</b>	<b>14.175</b>
	<b>FROB bonds</b>	<b>9.175</b>
	<b>Repo</b>	<b>559</b>
	<b>BdV APS</b>	<b>1.074</b>
	<b>BdV Sareb guarantee</b>	<b>90</b>
	<b>Others</b>	<b>47</b>
	<b>TOTAL LIABILITIES</b>	<b>27.581</b>

## 4. Financial structure of the FROB: Securities issued by FROB

- **Plain vanilla bonds** (1 outstanding reference, EUR 2.5bn, 5.5% due Jul-2016)
- **Explicit, unconditional and irrevocable guarantee of the Kingdom of Spain:**  
(Current rating: Baa2 positive (Moody's); BBB stable (S&P); BBB+ (Fitch) stable)
  - ✓ **Guarantee available up to €13bn.**
  - ✓ **Equity Requirements for credit risk: 0% RWA** (confirmed by the Banco de España)
  - ✓ **Eligible as guarantee assets in ECB monetary policy operations**
- Listed on the **Public Debt Entry Book Market**
- **Banco de España** acts as **payment agent**
- Equivalent **treatment for tax purposes** to that of **Government bonds**