FROB Fondo de Reestructuración Ordenada Bancaria

Spanish Financial Sector Restructuring

January 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 burst 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 it was enhanced as resolution authority.**

- Since 2009, **€53.5b of public money injected** + 7.9 from DGS (w/o APS or guarantees) .

- **EU financial support was requested in 2012** (up to €100 b; 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.**

Table of Contents

1. The pre-crisis Spanish Banking sector.

1. The pre-crisis Spanish Banking sector

- **Spanish banking sector ≈ 320 % GDP.**
- **3 types of major agents :**
  - **Traditional commercial banks.** 2 big multinational banks (BSantander + BBVA) and some medium banks.
  - **Savings banks** (*Cajas de ahorros*). Special ownership structure; with no share capital → thus reliant on retained earnings to meet capital needs. 2 big *Cajas* (La Caixa + Cajamadrid) plus several medium and smaller size Cajas.
  - **Cooperatives** (Cooperativas de crédito): small number and market share.
  - Pre-crisis, banks and *Cajas* had fairly similar market shares

Source: INE

1. The pre-crisis Spanish Banking sector

- **5 main problems** -focused on Savings Banks- **when the crisis hit**.

  - ✓ Over-expansion: in assets, branches and employees.

    - 18 % Credit growth between 2002 and 2008.
    - Number of employees: 243.743 (2000) → 278.301 (2008)
    - Number of branches: 39.391 (2000) → 46.167 (2008)

  - ✓ Exposition to real estate assets which became impaired when the construction bubble burst (real estate related assets at end 2011 were around €320b).

  - ✓ Problems of transparency and corporate governance problems.

  - ✓ Institutional problems to raise capital (in Saving Banks): no shares-capital + legal difficulties to facilitate efficient mergers.

  - ✓ Gaps in financial regulatory framework: lack of a well developed banking resolution regime (including a resolution authority with adequate powers).

1. The pre-crisis Spanish Banking sector

- **Milestones of the crisis management**

  - ✓ End 2008. Liquidity support.
  - ✓ March 2009. First public intervention.
  - ✓ June 2009. Creation of the FROB.
  - ✓ 2010. Consolidation of the Saving Banks sector
  - ✓ 2011. Improving solvency and transformation of Saving Banks into commercial banks
  - ✓ February and May 2012. Cleaning up of balance sheets
  - ✓ July 2012. EU financial assistance
  - ✓ 2012 + 2013. Execution of MoU:
    - Stress tests
    - Recapitalisation
    - Burden sharing
    - AMC (SAREB)

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

2. FROB. Objectives and Functions.

- **FROB** is a **public entity**, originally created by Royal Decree-Law 9/2009 on bank restructuring and reinforcement of credit entities' equity .

- **Law 9/2012** of 14 November on restructuring and resolution of credit entities sets down the FROB's current legal regime. This law introduces reforms on the Spanish banking sector legal framework, clarifying the different involved authorities roles, **in line with the MOU** signed by Spain and the European Commission on July 2012:

  - ✓ The **Ministry of Economy and Competitiveness** has ceded supervisory powers to the Bank of Spain to increase its independence (e.g. bank licensing).
  - ✓ The **Bank of Spain** remains as the supervisory authority, with sanctioning and licensing powers.
  - ✓ **FROB's** goal is to **manage the restructuring and resolution processes of credit institutions,** aimed at ensuring the stability of the financial system, depositor protection, and an efficient use of public resources.
  - ✓ The law creates defines the role of the **Asset Management Company** that allows the removal from the balance sheet of State aided banks of certain problematic assets.

- The **Deposit Guarantee Fund** of Credit institutions completes the picture. Its objective is to guarantee deposits up to the limit of €100,000.

2. FROB. Objectives and Functions. Governance.

- **FROB** is a **100% State-owned entity**.
- **Public control**: report submitted quarterly to the Ministry of Economy; quarterly parliamentary control; accounts audited by the National Court of Auditors.
- **Governing Committee**:
  - ✓ Chaired by the Deputy Governor of the Bank of Spain, and 3 other members from the BoS
  - ✓ The General Secretary of the Treasury and Financial Policy
  - ✓ Undersecretary of Economy and Competitiveness
  - ✓ The Chairman of the Institute of Accounting and Accounts Auditing (ICAC)
  - ✓ Director General of Economic Policy
  - ✓ Director General of Budgetary Policy
  - ✓ 2 members without voting rights: a representative of the General Controller Department of the State Administration (IGAE) and a State Lawyer Department

2. FROB. International Guidelines for Resolution Frameworks.

The main references for Spain are:

- **FSB Key Attributes of Effective Resolution Regimes for Financial Institutions.**
  Adopted by the FSB in October 2011; endorsed by the G-20 in November 2011. All FSB members commit to its implementation.

- **Memorandum of Understanding for EU financial assistance to Spanish financial sector (July 2012).**
  Measure 6: "Upgrade of the bank resolution framework, i.e. strengthen the resolution powers of the FROB and DGF."

- **EU Directive on a framework for the recovery and resolution of credit institutions and investment firms (draft).**
  This draft Harmonisation Directive incorporates the FSB Key Attributes. In the current proposal, national legislation adopting the Directive should be operational by January 1st 2015 (bail-in as from 2018).

- **Banking Union.** A proposal on a Single Resolution Mechanism should be put forward by the EU Commission in June-2013.

2. FROB. Law 9/2012: Objectives and principles. Key stages

- The law aims at protecting the stability of the financial system, minimising the use of public resources.
- Underlying principles:
  - ✓ To minimise the cost of the bank restructurings to tax payers
  - ✓ Losses shall be allocated first to equity holders and thereafter to holders of hybrid capital and subordinated debt instruments
  - ✓ Losses imposed on the holders of hybrid capital and subordinated debt instruments 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 what they would have borne in a winding-up of the entity.

- Key stages in the context of the bank recovery and resolution framework.
  - ✓ Early Intervention
  - ✓ Restructuring
  - ✓ Resolution

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2. FROB. Key stages in the context of the bank recovery and resolution framework. Early intervention

- A Credit Entity fails to comply or there are objective elements pursuant to which it is reasonably expected that the relevant entity will fail to comply, with solvency, liquidity, organisational structure or internal control requirements, but is in a situation where it is capable of resuming compliance with those requirements using its own means.

- The credit entity under an early intervention process shall submit an **action plan** to the Bank of Spain for its approval.

- If the credit entity request public financial support, the action plan will require FROB's approval.

- The Bank of Spain may require any of the following **actions**:
  - ✓ The dismissal, replacement or temporary substitution of directors of the entity
  - ✓ The preparation of a debt restructuring plan
  - ✓ The adoption of recapitalization measures
  - ✓ The call of a general shareholders meeting, proposing solutions.

2. FROB. Key stages in the context of the bank recovery and resolution framework. Restructuring

- **Entities under restructuring**: Entities which require public financial support in order to ensure their viability
  a) When it is reasonably expected that the financial support shall be recovered in a certain period of time
  b) Or, there is not such expectation but the resolution of the entity would cause substantial negative effects on the Spanish financial system

- An action plan shall be submitted to the Bank of Spain and will require the favourable report of the FROB

- Restructuring **instruments** to be carried out by the FROB:
  - ✓ Financial support measures
  - ✓ The transfer of assets to an Asset Management Company

2. FROB. Key stages in the context of the bank recovery and resolution framework. Resolution

- A resolution procedure is an alternative to insolvency proceedings.

- Resolution procedures **apply when**:

  a) A credit entity is no longer viable or it will not be viable in the near future
  b) and it is necessary or convenient for reasons of public interest that cannot be achieved by the winding –up of the credit entity
  c) Or within a restructuring process, the entity has failed to submit a restructuring plan in time, the plan submitted was not appropriate, it does not included the amendments requires by the BoS or the entity fails to comply with the measures included in the plan.

- **Resolution instruments**:
  - ✓ Sale of the credit entity business
  - ✓ Transfer of its assets and liabilities to a “Bridge Bank”
  - ✓ Transfer of assets to an Asset Management Company
  - ✓ Financial support measures.

2. FROB. Management of Hybrid Capital and Subordinated Debt Instruments

- **Underlying principles**:
  - ✓ To minimise the cost of the bank restructurings to tax payers
  - ✓ Losses shall be allocated first to equity holders and thereafter to holders of Hybrid Capital and Subordinated Debt Instruments by the implementation of Subordinated Liability Exercises.
- **Types**:
  - ✓ Voluntary or mandatory
  - ✓ SLEs shall be of mandatory application when the exercise is needed to ensure an adequate distribution of the restructuring or resolution costs and losses or to preserve or reinstate the financial position of credit entities supported by FROB.
- Implementation of a **Subordinated Liability Exercise**.
  - ✓ Offers for the exchange of Hybrid Capital and Subordinated Debt Instruments for shares or other capital instruments
  - ✓ Offers for the repurchase of the relevant Hybrid Capital and Subordinated Debt Instruments in consideration in cash or for other financial assets
  - ✓ Reduction of outstanding principal
  - ✓ Early redemption with discount and other amendments of the terms and conditions of the relevant Hybrid Capital and Subordinated Debt Instruments.

2. 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 Spanish Law confers to the Management board, the shareholders and the general shareholders meeting of the credit entities under restructuring/ resolution processes.

- **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.
  - ✓ Implement Subordinated Liabilities Exercises.

- **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.

3. The restructuring of the Spanish banking system

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3. Consolidation in the savings bank sector.

- The **FROB granted financial support to merger processes** when requested to do so by the entities concerned. Not all of the mergers agreed requested aid. This process was particularly intense among savings banks.
- Saving banks (formerly 45) now operate through 10 banks and only 2 *cajas* with financial activity remain.
- 7 integration processes received FROB support amounting to €9.7 bn (the so-called FROB 1). 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).
- Other entities that were considered non-viable have been resolved (CCM, CajaSur, CAM and, later, Unnim and Banco de Valencia).

Entities involved	FROB aid (million euros)
Approved by Bank of Spain, with FROB aid	
1 CatalunyaCaixa Catalunya, Tarragona, Manresa	1,250
2 Unnim Manlleu, Sabadell, Terrassa	380
3 CEISS Caja España-Duero	525
4 Nova CaixaGalicia Galicia, Caixanova	1,162
5 BFA-Bankia Madrid, Bancaja, Laietana, Insular	4,465
6 Banco Mare Nostrum Murcia, Penedés, Sa Nostra, Granada	915
7 Banca Cívica Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	977
Total commited	**9,674**

3. Improving solvency.

In 2011 the Spanish Government adopted new measures to foster the restructuring of the sector and to regain market confidence.

- 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 a 20% of its capital either in the stock market or among private investors, the *principal capital* ratio was increased to 10%[1].**
- 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 ranges from 90% to 100%.

<table>
<tr><th>Entities involved</th><th>FROB 2 common shares (million euros)</th></tr>
<tr><td>1 CatalunyaBank
Catalunya, Tarragona, Manresa</td><td>1,718</td></tr>
<tr><td>2 Unnim [2]
Manlleu, Sabadell, Terrassa</td><td>568</td></tr>
<tr><td>3 CEISS
Caja España-Duero</td><td rowspan="5">2,465</td></tr>
<tr><td>4 Nova CaixaGalicia
Galicia, Caixanova</td></tr>
<tr><td>5 BFA-Bankia
Madrid, Bancaja, Laietana, Insular</td></tr>
<tr><td>6 Banco Mare Nostrum
Murcia, Penedés, Sa Nostra, Granada</td></tr>
<tr><td>7 Banca Cívica [3]
Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos</td></tr>
<tr><td>8 Banco de Valencia [3]</td><td>998</td></tr>
<tr><td>FROB injection</td><td>5,749</td></tr>
</table>

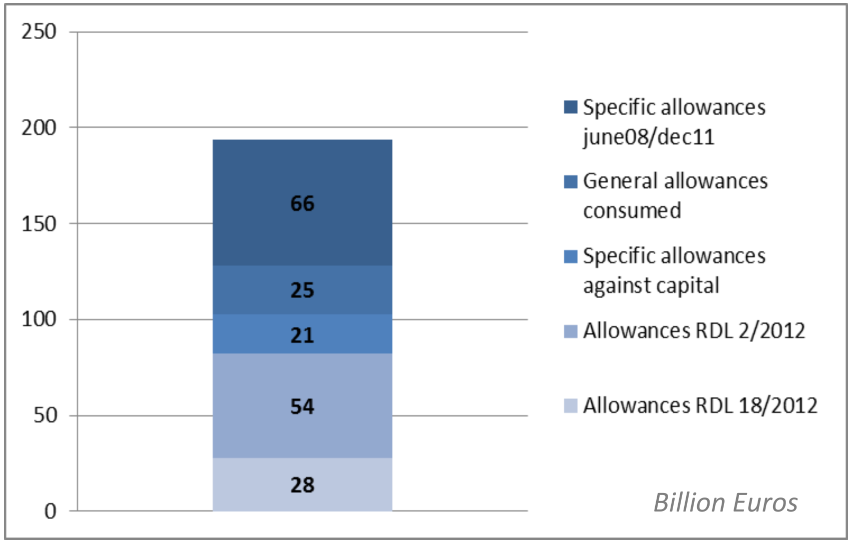
[1] In the last reform, the ratio has been adapted to common practice and set at 9%
[2] Unnim has been restructured and sold to BBVA.
[2] B. Cívica and B. de Valencia have been restructured and sold to La Caixa

3. Cleaning up balance sheets.

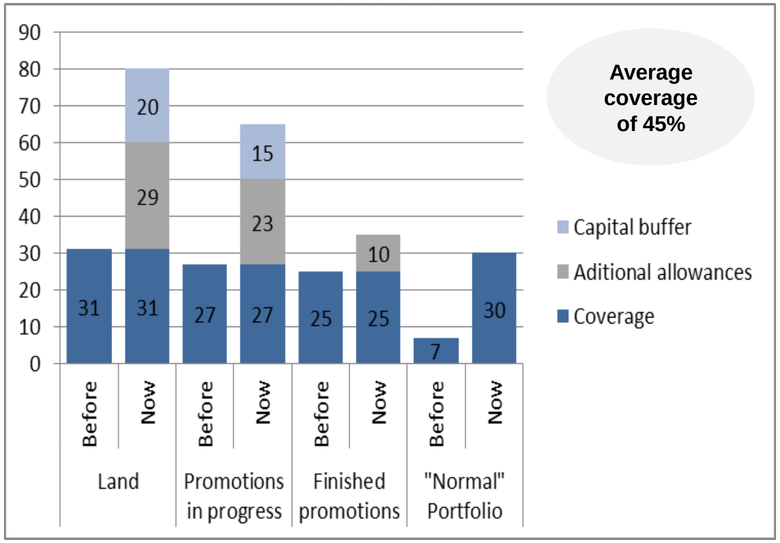
In 2012 additional measures have been adopted to accelerate the clean-up of banks' balance sheets. **These new measures will prompt the entities to focus on their business, removing their non-core assets and improving market confidence:**

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

Restructuring effort made by the financial system up to the application of the two Royal-Decrees



Coverage of real estate exposures by the two Royal-Decrees



Source: Ministry of Economy and Competitiveness

[1] EBA recapitalisation exercise definition

4. Present stage: Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain.

4. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain.

- On 23rd July 2012, Spain and the European Commission **signed a Memorandum of Understanding (MoU)** laying down the terms of the **Financial Assistance for the Recapitalization of Spanish financial institutions** with ESM's support **(up to € 100 bn).**

- Following the **MOU requirements**:

  1. A **stress test exercise** has been 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 Bank of Spain** has been strengthened.
     - ✓ **FROB's objectives** have been amended turning it into the Spanish **<u>resolution authority</u>**.

4. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: Restructuring plans.

- **Banks requiring recapitalisation had to submit a comprehensive plan to Bank of Spain** detailing the measures they intend to implement to address the capital shortfall.

- Considering both the stress test results and the feasibility of the recap plans, **banks have been classified** into: Group 0 (banks with no capital shortfall), Group 1 (banks already controlled by FROB); Group 2 (banks requiring public support) and Group 3 (banks to implement private measures).

- **Restructuring plans** of the banks requiring new FROB capital injections **include:**

    1. **The transfer** of the majority **of the assets related to the real estate sector to an Asset Management Company - Sareb**.
    2. **Subordinated Liabilities Exercises** (SLEs) to be conducted by the entities requiring further public support to ensure burden-sharing by the holders of hybrid instruments
    3. **Other measures to be implemented in the short/medium term**: disposal of assets, reduction of capacity, capital increases, etc.

- **Group 1** restructuring plans were approved by the European Commission on 28th November 2012.

- **Group 2** restructuring plans were approved by the European Commission on 20th December 2012.

- **Group 3** entities have complied with the recapitalisation requirements by raising capital, sale of assets and other measures.

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

The estimated capital needs in the report by Oliver Wyman do not coincide with the amount of State aid required for their recapitalisation. 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
- CatalunyaBank
- 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)
1 CatalunyaBank Catalunya, Tarragona, Manresa	9,084
2 Unnim Manlleu, Sabadell, Terrassa	
3 CEISS Caja España-Duero	604
4 Nova CaixaGalicia Galicia, Caixanova	5,425
5 BFA-Bankia Madrid, Bancaja, Laietana, Insular	17,959
6 Banco Mare Nostrum Murcia, Penedés, Sa Nostra, Granada	730
7 Banca Cívica Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	
8 Banco de Valencia	4,500
9 Liberbank	124
10 Caja3	407
FROB injection	**38,833**

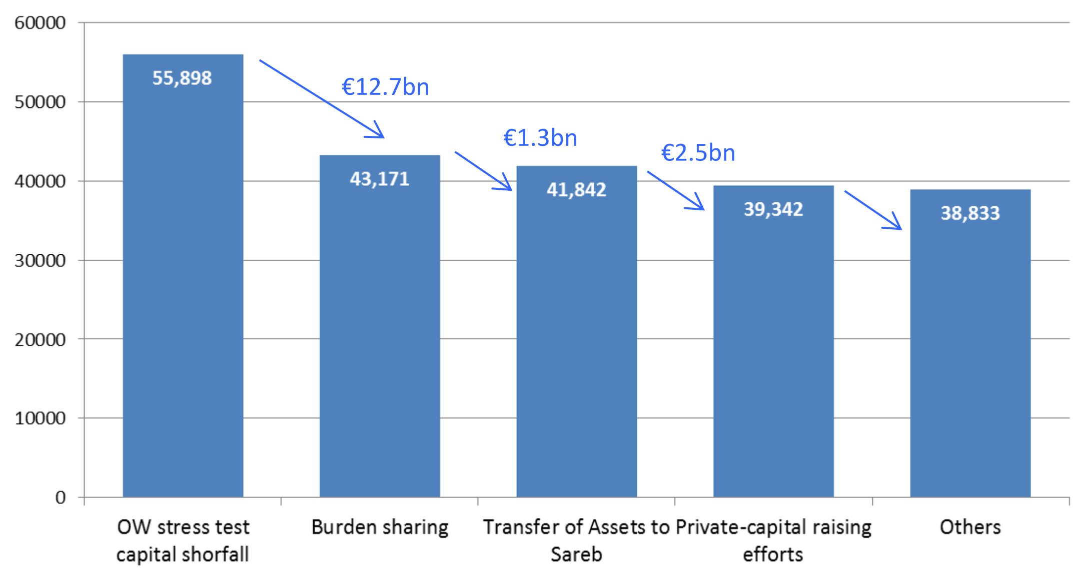
4. Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain: final capital needs.

Expected Measures to Meet Spanish Banks' Capital Shortfall

(Millions of euros)

	Bank name	Oliver Wyman capital shortfall	Measures Expected to Be Taken to Meet Capital Shortfall						
			Injection of public capital	Issuance of new private equity	Capital augmentation through SLEs	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
Group 1	BFA-Bankia	24,743	17,959	0	6,593	191	0	0	0
	Catalunya Banc	10,824	9,084	0	1,553	188	0	0	0
	Nova Caixa Galicia	7,175	5,425	0	2,027	-276	0	0	0
	Banco de Valencia	3,462	4,500	0	426	208	0	0	0
Group 2	Banco Mare Nostrum	2,208	730	0	182	382	851	0	63
	Liberbank	1,197	124	0	714	145	215	0	0
	CEISS	2,062	604	0	1,196	263	0	0	0
	Caja3	779	407	0	36	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
	Total	55,898	38,833	2,500	12,727	1,329	1,544	193	488

Sources: Bank of Spain; FROB.



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** during 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%**.

	Asset class	Average haircut
RED foreclosed assets	New housing	54.2%
	Developments in progress	63.2%
	Land	79.5%
	Foreclosed assets (average)	***63.1%***
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%
	Loans (average)	***45.6%***

Total : €50.8 bn
(transfer price)

	(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**

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

Sareb's financial structure

Senior Guaranteed notes	▪ Guaranteed by the Kingdom of Spain ▪ Structured to meet all requirements to be accepted as collateral by the ECB (1-2-3 year FRNs, average life of 1.95 years) ▪ Will have several maturities and quarterly calls to facilitate the reduction of debt outstanding as assets are run down ▪ Structured as to not restrict AMC's ability to manage assets freely , i.e. will not be asset-backed ▪ Participating banks commit to roll over their bonds at a rate linked to the SPGB curve	**Senior notes: €50.8 bn**
Subordinated notes	▪ Structured to provide sufficient protection to the senior debt, absorbing losses if and after the equity would have been fully written off	**Equity + Subordinated notes = €4.8 bn**
Equity	▪ Equity and sub-debt set at 8% of assets to provide reasonable protection to the senior debt ▪ Public institutions retain a minority stake in the equity and sub-debt (45%), avoiding consolidation of Sareb with the Spanish General Government Sector ▪ Private entities: group 0, insurance companies, foreign banks and insurance companies	

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

Credit entitiy	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
Total	***14.223***	***9.880***	***575***	***3.767***	27%	***13.649***

Data in € million.

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.

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: FROB stakes after the recapitalisation process.

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

** Sold in Dec. 2013 to Banco Etcheverría / Banesco*
*** Sold to Caixabank*
Note: Banco Gallego (a subsidiary of NCG) has carried out an SLE exercise, generating 176 mln of capital

5. Financial structure of the FROB.

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

Pre-closure pro-forma tentative figures

ASSETS

15.471		**Shares**
	8.783	BFA
	2.334	NCG
	2.410	CX
	1.404	BMN
	540	Sareb
2.787		**CoCo s& Sub. debt**
	124	Liberbank
	407	Caja3
	604	CEISS
	1.652	Sareb sub. debt
9.557		**Net cash and treasury holdings**
700		**Others (loan to DGF etc)**
28.515		***TOTAL ASSETS***

LIABILITIES

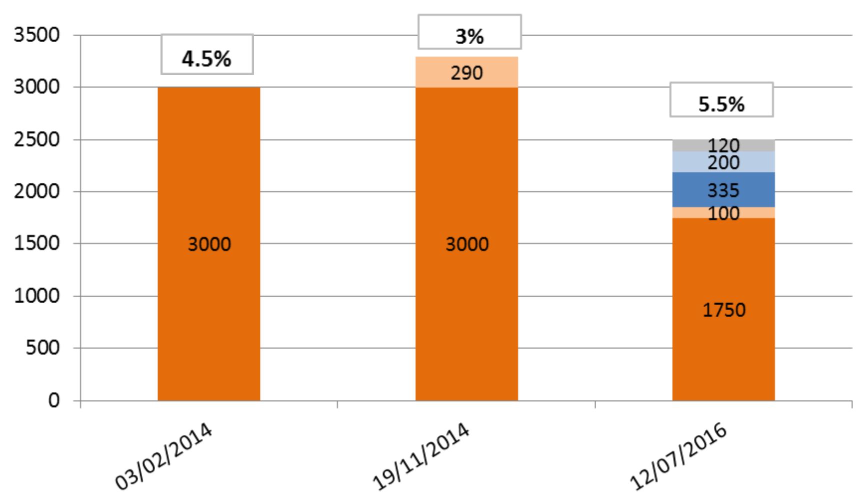
Equity	**4.747**
Treasury Loan (ESM)	**14.093**
FROB bonds	**8.784**
BdV APS	**598**
BdV Sareb guarantee	**90**
Others	**203**
TOTAL LIABILITIES	***28.515***

Impairments in FROB investments due to NCG sale still not registered.

Fondo de Reestructuración Ordenada Bancaria

5. Financial structure of the FROB: Securities issued by FROB.

- **Plain vanilla bonds**
- **Explicit, unconditional and irrevocable guarantee of the Kingdom of Spain:** (Current rating: Baa3 (Moody's); BBB- (S&P); BBB (Fitch))
  - ✓ **Guarantee available up to €13bn**.
  - ✓ **Equity Requirements for credit risk: 0% RWA** (confirmed by the Bank of Spain)
  - ✓ **Eligible as guarantee assets in ECB monetary policy operations**
- Listed on the **Public Debt Entry Book Market**
- **Bank of Spain** acts as **payment agent**
- Equivalent **treatment for tax purposes** to that of **Government bonds**



CONCLUSION (1/2)

- **Major restructuring** (number of entities from 50 to 15 + number of branches & employees already below 2002 levels).
- **Challenges:**
  - ✓ Need to ensure quantity and quality of capital.
  - ✓ Ensuring the cleaning up of balance sheets.
  - ✓ Credit recovery
- **EC, ECB, IMF: Spanish financial sector is much sounder now.** No need to renew the EU program.

CONCLUSION (2/2)

SOME LESSONS FOR CRISIS MANAGEMENT

1. Need of a pre-existing crisis management framework
2. Need of a quick and candid diagnosis
3. Need to clean-up balance sheets
4. Burden sharing
5. Technical execution

SOME LESSONS FOR CRISIS PREVENTION

1. Importance of macro-prudential supervision
2. Corporate Governance
3. Financial products commercialisation
4. Prevention is more efficient than resolution

Further and detailed information can be consulted on the website of the Fund for Orderly Bank Restructuring (FROB):

www.frob.es

Annex: Macroeconomic scenarios used in OW's stress test.

		Base case				Adverse case		
		2011	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
GDP	Real GDP	0.7%	-1.7%	-0.3%	0.3%	-4.1%	-2.1%	-0.3%
	Nominal GDP	2.1%	-0.7%	0.7%	1.2%	-4.1%	-2.8%	-0.2%
Unemployment	Unemployment Rate	21.6%	23.8%	23.5%	23.4%	25.0%	26.8%	27.2%
Price evolution	Harmonised CPI	3.1%	1.8%	1.6%	1.4%	1.1%	0.0%	0.3%
	GDP deflator	1.4%	1.0%	1.0%	0.9%	0.0%	-0.7%	0.1%
Real estate prices	Housing Prices	-5.6%	-5.6%	-2.8%	-1.5%	-19.9%	-4.5%	-2.0%
	Land prices	-6.7%	-25.0%	-12.5%	5.0%	-50.0%	-16.0%	-6.0%
Interest rates	Euribor, 3 months	1.5%	0.9%	0.8%	0.8%	1.9%	1.8%	1.8%
	Euribor, 12 months	2.1%	1.6%	1.5%	1.5%	2.6%	2.5%	2.5%
	Spanish debt, 10 years	5.6%	6.4%	6.7%	6.7%	7.4%	7.7%	7.7%
FX rates	Ex. rate/ USD	1.35	1.34	1.33	1.30	1.34	1.33	1.30
Credit to other resident sectors	Households	-1.7%	-3.8%	-3.1%	-2.7%	-6.8%	-6.8%	-4.0%
	Non-Financial Firms	-4.1%	-5.3%	-4.3%	-2.7%	-6.4%	-5.3%	-4.0%
Stocks	Madrid Stock Exchange Index	-9.7%	-1.3%	-0.4%	0.0%	-51.3%	-5.0%	0.0%

Source: Oliver Wyman's report