10 YEARS OF FROB

2009 - 2019

A DECADE FOR FINANCIAL STABILITY

Spanish Executive Resolution Authority

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FROB, Madrid, 2019.

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ABBREVIATIONS AND ACRONYMS

ASF Asset Securitisation Fund

APS Asset Protection Scheme

BRRD Bank Recovery and Resolution Directive

CNMV Spanish Securities Market Regulator

CoCos Contingent Convertible Instruments

CRR Capital Requirements Regulation

DGF Deposit Guarantee Fund

EBA European Banking Authority

ECB European Central Bank

ECOFIN Economic and Financial Affairs Council

EFSF European Financial Stability Fund

ELA Emergency Liquidity Assistance

EMU Economic and Monetary Union

ESM European Stability Mechanism

€m Million euros

FAAF Financial Asset Acquisition Fund

FSAP Financial Sector Assessment Program

FSB Financial Stability Board

G-20 Group of Twenty

GDP Gross Domestic Product

GSB General State Budgets

G-SIB Global Systemically Important Bank

ICAC Spanish Institute of Accountants and Auditors

IMF International Monetary Fund

IPS Institutional Protection Scheme

IRT Internal Resolution Team

LTD Loan to Deposit ratio

LTRO Longer-Term Refinancing Operations

MoU Memorandum of Understanding

MREL Minimum Requirement Eligible Liabilities

NAMA National Asset Management Agency (Ireland)

NRA National Resolution Authorities

OPS Primary Offering in Spain

RD Royal Decree

ReSG Resolution Steering Group

RWA Risk-Weighted Assets

SAREB Asset Management Company for Assets Arising from the Banking Sector Reorganisation

SIB Systemically Important Bank

SIFI Systemically Important Financial Institutions

SIV Special Investment Vehicles

SLE Subordinated Liability Exercise

SRB Single Resolution Board

SRF Single Resolution Fund

SRM Single Resolution Mechanism

SSM Single Supervisory Mechanism

TLAC Total Loss Absorbing Capacity

CREDIT INSTITUTIONS

Name used	Abbreviation	Corporate name
BFA	**BFA**	**Banco Financiero y de Ahorros, S.A.**
Bankia	**Bankia**	**Bankia, S.A.**
Caja Madrid		*Caja de Ahorros y Monte de Piedad de Madrid*
Bancaja		*Caja de Ahorros de Valencia, Castellón y Alicante*
Caja Insular		*Caja Insular de Ahorros de Canarias*
Caja de Ávila		*Caja de Ahorros y Monte de Piedad de Ávila*
Caixa Laietana		*Caixa d`Estalvis Laietana*
Caja Segovia		*Caja de Ahorros y Monte de Piedad de Segovia*
Caja Rioja		*Caja de Ahorros de La Rioja*
CatalunyaCaixa	**CX**	**Caixa d´Estalvis de Catalunya Tarragona i Manresa**
Caixa Catalunya		*Caixa d'Estalvis de Catalunya*
Caixa Tarragona		*Caixa d'Estalvis de Tarragona*
Caixa Manresa		*Caixa d'Estalvis de Manresa*
Banco Base		**Banco Base, S.A.**
CAM	*CAM*	*Caja de Ahorros del Mediterráneo*
Liberbank	**Liberbank**	**Liberbank, S.A.**
CajAstur		*Caja de Ahorros de Asturias*
CCM		*Caja de Ahorros de Castilla-La Mancha*
Caja Extremadura		*Caja de Ahorros y Monte de Piedad de Extremadura*
Caja Cantabria		*Caja de Ahorros de Santander y Cantabria*
Novacaixagalicia	**NCG**	**Caixa de Aforros de Galicia, Vigo, Ourense e Pontevedra**
Caixanova		*Caixa de Aforros de Vigo, Ourense e Pontevedra*
Caixa Galicia		*Caja de Ahorros de Galicia*
Banco de Valencia	**B. Valencia**	**Banco de Valencia, S.A.**
Unnim	**Unnim**	**Caixa d´Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa**
Caixa Manlleu		*Caixa d'Estalvis Comarcal de Manlleu*
Caixa Sabadell		*Caixa d'Estalvis de Sabadell*
Caixa Terrassa		*Caixa d'Estalvis Terrassa*
BMN	**BMN**	**Banco Mare Nostrum, S.A.**
Cajamurcia		*Caja de Ahorros de Murcia*
Caixa Penedés		*Caixa d'Estalvis del Penedès*
La General		*Caja General de Ahorros de Granada*
Sa Nostra		*Caja de Ahorros y Monte de Piedad de las Baleares*

Name used	Abbreviation	Corporate name
Caja España-Duero	**Ceiss**	**Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad**
Caja Duero		*Caja de Ahorros de Salamanca y Soria*
Caja España		*Caja España de Inversiones, Caja de Ahorros y Monte de Piedad*
CajaSur	**CajaSur**	**Caja de Ahorros y Monte de Piedad de Córdoba**
Banca Cívica	**B. Cívica**	**Banca Cívica, S.A.**
Caja Navarra		*Caja de Ahorros y Monte de Piedad de Navarra*
CajaSol		*Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla*
Caja Canarias		*Caja General de Ahorros de Canarias*
Caja de Burgos		*Caja de Ahorros Municipal de Burgos*
Caja3	**Caja3**	**Banco Grupo Cajatres, S.A.**
Caja Inmaculada		*Caja de Ahorros de la Inmaculada de Aragón*
Caja Círculo		*Caja de Ahorros y Monte de Piedad del Círculo Católico de Obreros de Burgos*
Caja de Badajoz		*Caja General de Ahorros de Badajoz*
Banco Gallego	**B. Gallego**	**Banco Gallego, S.A.**
Banco Popular	**Banco Popular**	**Banco Popular Español, S.A.**
Caja Rural de Mota del Cuervo	**CR Mota del Cuervo**	**Caja Rural de Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla La Mancha**
Banco Madrid	**Banco Madrid**	**Banco de Madrid, S.A.**
Sareb	**Sareb**	**Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.**
BBK		Bilbao Bizkaia Kutxa
BBVA		Banco Bilbao Vizcaya Argentaria, S.A.
Caixabank		Caixabank, S.A.
Globalcaja		Caja Rural de Albacete, Ciudad Real y Cuenca SCC
Grupo Banesco		
Ibercaja		Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja
Kutxa		Caja de Ahorros y Monte de Piedad de Gipuzcoa y San Sebastián
Banco Sabadell		Banco de Sabadell, S.A.
Banco Santander		Banco Santander, S.A.
Unicaja		Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén

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MESSAGE FROM THE CHAIR

On 27 June 2009, one decade ago, FROB was legally established. Although 10 years is usually not enough time to draw any long-lasting conclusions, there are periods during which events of such magnitude are concentrated that the impact reverberates over time.

The last financial crisis is undoubtedly one of those exceptional times. It will be remembered for an economic depression and financial instability unprecedented since the civil war. Our institution was created just at that time in order to lead a significant part of the public response to that challenge through the State's intervention in the banking sector.

There are two main reasons why FROB has decided to publish this report. First of all, there is a reason of public value. "10 years of FROB 2009-2019" aims, firstly, to bring together into one single document, in an orderly and systematic manner, the succession of measures, rules and actions that have defined our institution's role. Much of the information had already been published over the years, but this report aims to facilitate quick, instructive, and therefore more transparent, access to the events, data and figures that explain FROB's role and, by extension, which reflect a crucial part of the Spanish reaction to the crisis in its banking sector.

Secondly, the text aims to commemorate our tenth anniversary and does so with the conviction that this inventory of FROB's actions will operate in the future as a good record of everything that happened. It should favour both collective memory of the events, before time starts to blur them, and a critical examination of those events. The report therefore aims to be a portrait of what happened. It does not aspire to analyse the virtues, defects or lessons, which can all be found, in this period in our history. In a less ambitious, but more realistic and practical, manner, it aims to offer the raw material, the starting point, for the learning process and ongoing improvement, which, like all authorities, we have been immersed in since the start of the crisis.

The report is structured into three main sections that cover the different analyses performed. The first section, "Development of the role of FROB in the banking crisis", is the story that contextualises all of FROB's activity. It presents the sequence of economic and financial circumstances and legal and institutional reforms that shaped our intervention in the banking sector over the different periods. The second section, "FROB actions bank by bank", sets out in detail the actions performed by FROB in each of the credit institutions in which it has intervened. It will be very useful as a reference code due to its completeness and the ease with which it can be consulted. And, finally, the third section, "10 years of FROB in figures" summarises the economic impact quantitatively. It is a compendium both of the State aid used and the source and application of FROB's resources over these years.

A lot of work has been put into the drafting of this report in an effort to make it as technically thorough and useful as possible. I would therefore like to highlight the institution's gratitude to FROB staff members who most decisively worked on drawing up this report. Without their professional expertise and generous effort, this text would never have seen the light of day.

Over its ten years of life, FROB has never stopped acting, learning and growing as a public institution responsible for intervening in situations of risk to protect financial stability and, therefore, the well-being of every citizen. Despite the difficulties, I believe that, overall, a good service has been provided to the general interest. The dedicated work of the members of our Governing Committee, employees and other partners throughout these years therefore deserves sincere recognition.

Finally, I would like to highlight the fact that, although we have experienced and learnt so much over this time, our duty is to continue working to build a better future. With that vocation, this report aims to be a source to be consulted over time to illustrate two simple ideas: the gravity of the effects of banking crises on society as a whole and how essential it will always be to have the best public institutions to deal with them.

Jaime Ponce Huerta
Chair

SECTION

I

Development of the role of FROB in the banking crisis

CHAPTER I (2009-2011)

THE ORIGINS OF THE CRISIS, FROB AND THE NEW BANK RESOLUTION REGIME

In parallel to the international financial crisis, but with unique characteristics, at the end of the first decade of the 21st Century, began a crisis in the Spanish banking sector with an intensity and effects unknown in recent history. The tightening of access to funding and the fall in the value of assets, particularly real estate assets, were some of the most visible effects on the Spanish financial system. As was the case during other stages in the history of financial markets, this situation required strong public intervention in order to repair the loss in confidence in the banking system.

With this aim, the Fund for Orderly Bank Structuring (FROB[1]) was created in Spain in 2009. It was initially provided with both public funds and resources from the Deposit Guarantee Fund (DGF) and assigned two sole functions: supporting certain integration processes and, in exceptional circumstances, restructuring failing institutions.

PERIOD 2009-2010. FROB I.

Supporting the integration of savings banks

National and international context

The first signs of the financial crisis were seen in the United States. The Federal Reserve's interest rate policy led to a long cycle of growth in credit volumes between 2000 and 2007, far exceeding the real growth of the economy. In a climate of very high liquidity and competition, some financial institutions significantly relaxed their criteria for assessing credit risk and provided financing for real estate transactions of questionable quality. The problem worsened and spread quickly through the wholesale funding market, which had expanded significantly through debt instruments linked to mortgages with insufficiently justified rating, complexity and price levels, based on questionable assessment criteria. The sudden loss in confidence resulting from the presence of these types of assets on banks' balance sheets triggered historic falls in capital markets and had a serious impact on the country's leading financial institutions.

[1] The legal name of FROB has been changed. If until entry into force of Law 11/2015, "FROB" was the acronym of *Fondo de Reestructuración Ordenada Bancaria* [Fund for Orderly Bank Restructuring], since then "FROB" has become the name given to the current Spanish Executive Resolution Authority, but now without any reference to the previous concept.

The reaction of the US authorities consisted of an ambitious stabilisation programme that used all possible lines of action (massive liquidity from the Federal Reserve, public guarantees for all types of financial institutions, increase in coverage for depositors, expansive fiscal and monetary policies and aggressive public recapitalisation of institutions). With regard to the recapitalisation of institutions, the acquisition of troubled assets was implemented through the Troubled Asset Relief Program (TARP[2]). This State aid scheme involved mass purchases of institutions' financial assets and shares.

Although expenditure of up to $700 billion was authorised by the U.S. Congress, in the end around $245 billion were used. Despite its enormous scope, the subsequent bankruptcy of the US investment bank Lehman Brothers[3] in September 2008 had a decisive impact on a global scale, particularly in inter-bank markets.

Given the exceptional systemic nature of the financial crisis with regard to the global economy, in 2009 began an extremely intense debate on the mechanisms for resolving bank crises. During the 2009 Pittsburgh Summit, the G-20 instructed the Financial Stability Board (FSB) to develop a programme of measures to address the problems of "moral hazard" associated with the existence of "too-big-to-fail" institutions. The aim was to develop a coordinated mechanism at an international level to manage the crises of systemically important financial institutions (SIFIs) whose difficulties or disorderly failure, given their size, complexity and level of inter-connectedness with other institutions, might cause serious disruption to the financial sector as a whole and to global economic activity. These measures were set out in a framework that was endorsed by the G-20 at the 2010 Seoul summit and became the origin for the modern resolution paradigm[4].

In Europe, the first recognition of the effects of the crisis led to the European Union (EU) approving a common framework for action in 2008. The meeting of the Economic and Financial Affairs Council (ECOFIN[5]) of 2 December 2008 analysed various measures for responding to the financial crisis through coordinated action by the Member States. Its ultimate aim was to guarantee the provision of lending to the real economy. National schemes to support the banking sector were promoted, substantial public guarantees were granted in liquidity programmes and recapitalisation plans were implemented in order to strengthen the solvency of the weakest banks. In order to facilitate this intervention process, the European Commission adopted the State aid scheme applicable to banks.

[2] A related analysis is available at: https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/bank-investment-programs/Pages/default.aspx.

[3] Lehman Brothers Holdings Inc. was the fourth largest American investment bank. As such a financial institution, it was not included in the system for insured depository institutions under the resolution framework of the Federal Deposit Insurance Act. On 15 September 2008, it applied for the opening of the bankruptcy proceedings (Chapter 11 filing). With the subsequent passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, powers were granted to the Federal Deposit Insurance Corporation (Title II) to manage the orderly resolution of systemically important institutions such as this one. An analysis of the differences between the bankruptcy and what its orderly resolution would have involved may be consulted at: https://www.fdic.gov/bank/analytical/quarterly/2011-vol5-2/lehman.pdf

[4] Reducing the moral hazard posed by systemically important financial institutions. Available at: https://www.fsb.org/wp-content/uploads/r_101111a.pdf?page_moved=1.

[5] Available at: https://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/104530.pdf.

BOX 1. First European measures to protect depositors

- One of the first initiatives adopted by the EU to strengthen depositors' confidence and ensure the stability of the financial system was agreed by the Ecofin Council meeting of 7 October 2008. Member States would raise the minimum basic deposit coverage from 20,000 to 50,000 euros.
- Its aim was to address possible distortions in competition given that some Member States, such as Ireland and the Netherlands, had raised the minimum deposit coverage to 100,000 euros per depositor.
- Ecofin welcomed the Commission's intention to urgently bring forward an appropriate proposal to promote the convergence of deposit guarantee schemes.
- With regard to the aforementioned agreement, the Spanish government, through Royal Decree 1642/2008 of 10 October, raised the amount guaranteed by the Deposit Guarantee Fund of Credit Institutions from 20,000 to 100,000 euros per account holder and institution.
- Subsequently, Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 harmonised the level of coverage of deposit guarantee schemes in the European Union and the pay-out delay. It established that Member States must ensure that the coverage for the aggregate deposits of each depositor should be at least 50,000 euros before 30 June 2009, setting the threshold of 100,000 euros no later than 31 December 2010.

Under this framework, the main EU Member States implemented programmes to support their financial systems. The instruments used by each country differed according to the specific circumstances of the institutions (guarantees, capital subscription, subordinated financing, etc.), but almost every country mobilised a high volume of public resources (Table 1).

Table 1. Public expenditure resulting from aid to the financial sector in the EU (2007-2018)

Country	Interest paid	Capital injections treated as deficit (capital transfer)	Other capital transfers (e.g. asset purchases)	Guarantees paid or with payment already recognised	Other	Total	(% GDP) (1)
Germany	39,986	6,827	36,280	11,164	13,084	107,340	3.21%
Austria	4,725	14,483	0	0	951	20,159	5.22%
Belgium	6,520	4,233	0	450	231	11,434	2.54%
Cyprus	564	2,717	669	0	41	3,990	19.25%
Slovenia	1,333	4,289	0	0	711	6,333	13.84%
Spain	4,469	48,744	3,688	1,119	665	58,685	4.86%
France	523	2,585	0	0	0	3,108	0.13%
Greece	2,090	19,002	0	0	17,435	38,527	20.86%
Ireland	14,170	48,898	0	0	4,588	67,657	20.88%
Italy	879	10,851	0	0	176	11,907	0.68%
Latvia	465	547	0	0	298	1,310	4.44%
Lithuania	119	41	1,131	0	0	1,291	2.86%
Luxembourg	854	0	0	0	29	883	1.50%
Netherlands	10,705	4,304	0	0	429	15,438	1.99%
Portugal	4,315	14,594	2,017	450	318	21,693	10.76%
Total Euro Area						**369,755**	**3.19%**

Data in million euros

Country	Interest paid	Capital injections treated as deficit (capital transfer)	Other capital transfers (e.g. asset purchases)	Guarantees paid or with payment already recognised	Other	Local currency (millions)	(% GDP)
Bulgaria	65	980	0	0	0	1,045 BGN	0.97%
Croatia	236	1,146	0	0	0	1,382 HRK	0.36%
Denmark	9,260	3,206	589	8,123	660	21,838 DKK	0.98%
Hungary	32,164	32,000	0	0	0	64,164 HUF	0.15%
United Kingdom	27,281	0	13,807	0	33,118	74,206 GBP	3.50%
Sweden	684	0	0	0	0	684 SEK	0.01%
Total EU						(2)	**2.89%**

Source: Eurostat.

The information drawn up by Eurostat only refers to the impact on public expenditure, in terms of national accounting, of direct interventions supporting financial institutions. It does not therefore match the total figures for aid, which include items that are not treated as public expenditure.

(1) Cost of interventions measured as cumulative public expenditure incurred by the State between 2007 and 2018, in absolute terms and as a proportion of 2018 GDP. The EU and euro area average has been calculated as the sum of the total expenditure incurred in the 19 or 28 Member States divided by the GDP of the corresponding area.

(2) The figures are not aggregated as they are calculated in local currency.

Aid data available at: https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit/supplemtary-tables- financial-crisis

GDP data available at: https://ec.europa.eu/eurostat/data/database

In Spain, although the early signals suggested a gradual slowdown in the economy, a very intense recession began in 2008. Real GDP contracted by 4.6% between the middle of 2008 and the end of 2009, a little less than the figure recorded in other euro area countries (the GDP of the Economic and Monetary Union – EMU – contracted by 5.8%), but this was accompanied by a sharp fall in employment (the unemployment rate rose by eight points between 2008 and 2009 to stand at 18.7%). Following a slight improvement in the data in 2010, the imbalances accumulated by the Spanish economy ended up having a severe impact on economic growth in 2011. In the financial sector, the retail focus of the business model seemed, at first, to set it apart from the impact resulting from the marketing of so-called "toxic assets" from the structuring and sale of complex products. However, problems of confidence in global interbank markets soon affected the system's lending capacity. Spanish institutions suffered a sharp reduction in their access to wholesale funding and capital markets, on which they had become highly dependent in the growth years of lending for real estate development. This led to a restriction in the volume and conditions of credit offered to families and companies, which held very high levels of debt.

The measures in Spain initially focused on addressing the aforementioned liquidity problems and were similar to those adopted in other EU countries. In October 2008, two decree laws were approved with measures aimed at: (i) public acquisition of bank assets through the creation of the Financial Asset Acquisition Fund (Royal Decree Law 6/2008 of 10 October), and (ii) the granting of State guarantees to encourage lending by credit institutions (Royal Decree Law 7/2008 of 13 October).

As the crisis continued and intensified, the level of troubled assets grew significantly. And particularly those related to the real estate sector, which were significantly affected by the negative performance of the country's economy (and house prices). In these circumstances, attention gradually shifted towards the solvency of some institutions whose short-term or medium-term viability seem to be compromised and which, if not managed in an orderly manner, might compromise the sector and the Spanish economy as a whole.

In March 2009, the Bank of Spain ordered the first intervention of a credit institution. This was in Caja Castilla-La Mancha after it failed to comply with the minimum regulatory capital requirement required by the supervisor[6]. Its balance sheet of 26 billion euros accounted for less than 1% of the system. The intervention was performed through instruments that might be considered as strictly prior to the creation of FROB.

[6] Available at: https://www.bde.es/f/webbde/GAP/SalaPrensa/NotasInformativas/09/Arc/Fic/presbe102e.pdf

BOX 2. First intervention: Caja Castilla-La Mancha

- The inspections conducted by the Bank of Spain in 2008 and 2009 detected high shortfalls in the lending coverage. The bank had an unstable funding structure, with ongoing falls in deposits against growth in lending despite the economic environment.
- It suffered a very serious deterioration in liquidity, with a reduction in its credit rating and the consequent closure of interbank funding and, finally, the inability to discount assets with the European System of Central Banks.
- The need to clean up the balance sheet led to a failure to comply with the required capital levels so that, in view of the bank's financial prospects and considering that its governance had proved to be deficient in adopting the measures necessary to mitigate its situation, the Executive Commission of the Bank of Spain decided to replace CCM's directors.
- The main aim of the new directors was to stabilise the bank and seek out a solution to restore its viability.
- In November 2009, the Executive Commission of the Bank of Spain approved the project proposed by CCM for its integration into Caja de Ahorros de Asturias, which was approved by the CCM assembly in June 2010.
- The Deposit Guarantee Fund (DGF) supported this project with a capital injection of 1.74 billion euros and activated an asset protection scheme (APS) whose effective final cost was 2.48 billion euros.

Legal and institutional framework

Spain already had a legal framework for managing bank crises prior to the creation of FROB. This framework was based, firstly, on intervention measures and the replacement of directors if decided by the Bank of Spain and, secondly, the actions of the sectoral deposit guarantee funds[7], which could use financial support instruments to strengthen the solvency of the corresponding institutions in the event that they suffered financial difficulties[8].

However, this legal framework for crisis management had already proved to be insufficient in 2009. The specific case of Caja Castilla-La Mancha and the particular features of the financial crisis in Spain revealed the limitations of the previous legislative framework. There were two main reasons for this. Firstly, the deposit guarantee funds were insufficient to address what would be a systemic crisis and, secondly, the absence of sufficiently strong and flexible public powers to impose the crisis management instruments that were most favourable to the public interest, even without the cooperation of the institutions.

The model for orderly bank restructuring and the creation of FROB

Royal Decree Law 9/2009, of 26 June, on bank restructuring and the strengthening of own funds of credit institutions was the first step in setting up a new model for the public management of banking crises. This was implemented following two lines of action. Institutionally, by creating the Fund for Orderly Bank Restructuring (FROB) for managing the processes of restructuring banks and strengthening their own funds when undertaking integration processes (including institutional protection schemes - IPS). Procedurally, through differentiation between "restructuring processes" for those banks that showed weaknesses in their economic and financial position which, depending on the evolution of the markets, might endanger their viability; and "integration processes" for those banks which, without being subject to the above circumstances, needed to strengthen their own funds in order to carry out integration processes.

FROB was initially allocated 9 billion euros. Of this sum, 2.25 billion euros were provided by the deposit guarantee funds and 6.75 billion euros were charged to the General State Budget[9]. It was also allowed to borrow on the markets with a State guarantee for an amount of up to 18 billion euros. Similarly, following authorisation from the Ministry of Economic Affairs and Finance, said limit could be exceeded after 1 January 2010, providing FROB's borrowing did not exceed ten times its allocation.

Restructuring processes

The first condition for initiating a restructuring process was the existence of weaknesses in a bank's economic and financial situation that might endanger its viability. In these cases, provided there was no private solution that on its own would strengthen its solvency, the institution, either on its own initiative or as required by the supervisor, would submit an action plan, to be approved by the Bank of Spain, specifying the actions foreseen to tackle the situation. These actions might consist of strengthening its assets and solvency, its merger or takeover or full or partial transfer of the business. The corresponding sectoral deposit guarantee fund needed to support the plan.

[7] The three deposit guarantee funds of the financial system were the bank fund, the savings bank fund and the credit cooperative fund. The Bank Deposit Guarantee Fund was created through Royal Decree 3048/1977, of 11 November, with the primary aim of protecting depositors in the event of a suspension of payments or bankruptcy of a bank. The experience of how it operated revealed that its scope of action should be extended so that it might contribute towards strengthening bank solvency and operations. For this purpose, Royal Decree 4/1980, of 28 March, granted it legal personality and full capacity.

[8] Outside specifically the perimeter of bank crisis management, the General Investment Guarantee Fund in Spain offers the coverage of compensation in the event of a declaration of bankruptcy or insolvency of an investment firm or the management companies of Collective Investment Schemes or Closed-Ended Investment Undertakings.

[9] In order to minimise FROB's impact on the General State Budget, Royal Decree Law 9/2009 established in it should be allocated the credit that would the allocated to the Financial Asset Acquisition Fund.

Should the weakness persist, restructuring would be carried out with the intervention of FROB. In these cases, the managers of the affected bank would be replaced and FROB designated as provisional administrator. In a period of one month, extendable to six months, FROB would draw up a report on the bank's equity position and viability and submit a restructuring plan for approval by the Bank of Spain. The aim of the plan had to be either the bank's merger or full or partial transfer of its business. Most importantly, the plan could provide for financial support measures by FROB, such as the granting of guarantees or loans or the subscription or acquisition of equity securities.

FROB had sufficient powers to implement the restructuring plans. The legislation empowered it to transfer the deposits made or the securities deposited to other institutions or even to decide to issue equity units. It also established that the company transactions resulting from execution of a restructuring plan did not require the usual administrative authorisations (significant holdings, etc.), with the exception of requirements relating to competition law.

Integration processes

Similarly, banks which, without being in a situation of weakness that justified their restructuring, had planned to undertake integration processes could use financial support from FROB. This was granted on the understanding that there was an insurmountable difficulty in obtaining funds from the markets. In addition to traditional mergers, the integrations included institutional protection schemes, which had effects similar to those generated by a merger, on requiring mutualisation of results, solvency and liquidity, and their configuration around a central credit institution. This was the mechanism used by FROB to support the integration of savings banks in Spain and their subsequent consolidation into commercial banks. The sector went from a total of 46 banking groups at the end of 2007 to a total of 15 at the end of 2011.

Figure 1. What are Institutional Protection Schemes (IPS)?

Integration formula equivalent to mergers, promoted by savings banks for their restructuring

Requirements

- Their central institution must be set up as a bank.
- Agreements for mutual support of liquidity and solvency and systems for mutualisation of profit/loss.
- Commitment to maintain the agreements for a minimum of ten years.

Characteristics

- On an organisational level, they have similar characteristics and advantages to mergers: financial and risk control integration, cost synergies, single point of contact with capital markets, rating agencies and supervisory authorities, etc.
- Legally, they preserved the personality of the savings banks and allowed for the foundation business to be separated from the banking business.

FROB's financial support for institutional protection schemes or mergers of institutions was implemented through the purchase of convertible preferred shares. These instruments had the advantage of being eligible as own funds for capital requirements but, logically, they did not generate voting rights and their financial cost affected the profitability of the institutions.

Figure 2. What are the key features of convertible preferred shares? (1)

Perpetual instruments with fixed remuneration but dependent on the institution's results and solvency, without voting rights

Maturity term

Issued in perpetuity, with a commitment to repurchase by the institutions resulting from the integration processes in a maximum time period of five years (which may be extended for two further years).

Remuneration

Right to receive non-cumulative predetermined remuneration whose accrual depends on the existence of distributable profits. In line with the principles established by the European Commission (market conditions).

Seniority of claim

The right to redeem their nominal value and their unpaid accrued remuneration stands immediately behind all creditors, only in front of holders of equity units.

(1) These commitments were described in Rule 9 of FROB Governing Committee resolution of 29 January 2010, and were expressly set out in each integration plan.

A prerequisite for the subscription of convertible preferred shares was the drafting of an integration plan. This plan needed to detail the specific measures and commitments for achieving the objectives supporting the integration and ensure the most efficient use of public funds. The main commitments included agreements on the governance and management model; integration and streamlining of the central services and commercial network; resizing of the staff or restructuring of holdings. A series of additional commitments were also included with the aim of preventing any distortion of competition, such as avoiding plans for expansion through the purchase of other institutions; not using the support obtained from FROB for commercial or advertising purposes and not carrying out aggressive commercial policies; adjusting their remuneration policies for senior managers to the criteria indicated by applicable EU legislation[10], and not agreeing additional allocations to the welfare work that exceeded 30% of the profits generated in the year (except when necessary to comply with acquired commitments or assumed obligations).

An important aspect of this model of financial support was that it was necessarily temporary. The institutions that received support undertook to repurchase the convertible preferred shares as soon as possible, with FROB able to convert the securities into share capital if the institution did not repurchase them within five years following disbursement, or if the integration plan could not be fulfilled as a consequence of changes in the economic and financial position of the institution or of the markets.

The law included mechanisms for monitoring and controlling execution of the integration plans. On a quarterly basis, the integrated institution had to send a report to the Bank of Spain on the level of compliance with the measures set out in the approved integration plan.

[10] In Europe, the Capital Requirements Directive (CRD III) set out standards for monitoring remuneration in the banking sector and the Committee of European Banking Supervisors (the predecessor of the European Banking Authority) issued guidelines (Guidelines on Remuneration Policies and Practices and Guidelines on Internal Governance).

Interventions under FROB I

FROB began the process of providing financial support in March 2010. In that year, it intervened in seven integration processes and in one restructuring process. This set of actions in 2010 is known as FROB I (Table 2).

Table 2. Interventions under FROB I

Institutions	Structure	FROB approval date	Type of support	Status	Support amount	Disbursement date
INTEGRATION PROCESSES						
Unnim Caixa Manlleu, Caixa Sabadell and Caixa Terrassa	Merger	25/03/2010	Convertible preferred shares	Subscribed and paid in	380	28/07/2010
CatalunyaCaixa Caixa Catalunya, Caixa Tarragona and Caixa Manresa	Merger	25/03/2010	Convertible preferred shares	Subscribed and paid in	1,250	28/07/2010
Caja España-Duero Caja Duero and Caja España	Merger	25/03/2010	Convertible preferred shares	Subscribed and paid in	525	29/10/2010
Novacaixagalicia Caixanova y Caixa Galicia	Merger	29/06/2010	Convertible preferred shares	Subscribed and paid in	1,162	30/12/2010
Banco Financiero y de Ahorros (BFA) Caja Madrid, Bancaja, Caja Insular, Caja de Ávila, Caixa Laietana, Caja Segovia and Caja Roja	IPS	29/06/2010	Convertible preferred shares	Subscribed and paid in	4,465	28/12/2010
Banco Mare Nostrum (BMN) Cajamurcia, Caixa Penedés, La General and Sa Nostra	IPS	29/06/2010	Convertible preferred shares	Subscribed and paid in	915	31/12/2010
Banco Base[12] CAM, CajAstur, Caja Extremadura and Caja Cantabria	IPS	29/06/2010	Convertible preferred shares	Subscribed but NOT paid in	-	Suspended
Banca Cívica Caja Navarra, CajaSol (including Caja de Guadalajara), Caja Canarias and Caja de Burgos	IPS	22/12/2010	Convertible preferred shares	Subscribed and paid in	977	11/02/2011
Total aid for integration processes					**9,674**	
RESTRUCTURING PROCESSES						
CajaSur	Assignment of business	22/05/2010	Equity units	Subscribed and paid in	800	17/06/2010
Total aid for restructuring processes					**800**	

Data in million euros.

[12] Although on 29 June 2010 it was agreed to support the integration process of Banco Base, this merger did not go ahead as it was rejected by the Assemblies of CajAstur, Caja Extremadura and Caja Cantabria. The support was therefore not paid in the end.

Public financial support for the integration processes was requested by the institutions and included in the corresponding integration plans approved by the Bank of Spain. It was implemented by means of the subscription of convertible preferred shares, for a total amount of 9.67 billion euros, with the aim of strengthening the own funds of the groups resulting from the integration processes.

The European Commission approved the Spanish recapitalisation regime which aimed to enhance the strength and solvency of credit institutions so that they might provide credit to the real economy normally and to maintain confidence in the national financial system. The Commission also found the scheme to be in line with its Guidance Communication on State aid for overcoming the financial crisis.

Evolution of the aid granted in the different integration processes (Table 3).

The only restructuring process undertaken in this period was that of CajaSur. After its Board of Directors rejected the draft terms of merger with Unicaja, the Bank of Spain decided to restructure it and provisionally replaced its management body, designating FROB as its provisional administrator. FROB's temporary financial support consisted of the acquisition of equity units for 800 million euros and a line of credit for 1.5 billion euros. The restructuring plan for CajaSur eventually consisted of the assignment of its business to Kutxabank, together with the granting of an APS with a maximum cost of 392 million euros and the write-down of the equity units subscribed by FROB for 800 million euros.

Table 3. Evolution of aid under FROB I

Process	Recovery of aid	Interest paid to FROB	Comment
Unnim (1)	-	34	Converted into shares in 2011 and subsequently sold to BBVA for 1 euro.
CatalunyaCaixa	-	97	Converted into shares and subsequently written down to absorb losses in 2012.
Caja España-Duero	-	82	Converted into shares and subsequently written down to absorb losses in 2013.
Novacaixagalicia	-	90	Converted into shares and subsequently written down to absorb losses in 2012.
BFA	-	346	Converted into shares and subsequently written down to absorb losses in 2012.
BMN	-	143	In 2013, they were converted into BMN shares, giving them an economic value of €433m.
Banca Cívica	977	165	Paid to FROB after the institution's merger with Caixabank on 8 April 2013.

(1) The cost of this support was eventually assumed by the DGF.
Data in million euros.

[13] Decision available at http://ec.europa.eu/competition/state_aid/cases/234813/234813_1154020_76_2.pdf

PERIOD 2011. FROB II.

First round of recapitalisations and support in restructuring of savings banks into commercial banks

National and international context

In 2011, the worsening economic situation was further compounded by the instability in European governments´ bond markets. The Governments of Greece (May 2010), Ireland (November 2010) and, later, Portugal (April 2011) requested financial assistance from other EMU member countries. To implement this aid, the European Financial Stability Fund (EFSF) was created on a temporary basis to be replaced as from October 2012 by the European Stability Mechanism (ESM). As a result of increasing cost of government borrowing and the climate of uncertainty about the most vulnerable countries in the EMU, banks suffered increasing difficulties in accessing wholesale funding. The European Central Bank (ECB) shifted to an expansive policy by reducing interest rates (to 1%), expanding the assets eligible for monetary policy operations and, particularly, with the start of its liquidity programmes, enabling long-term refinancing operations (LTRO) in December 2011 and February 2012[14].

The impairment in the quality of banks' assets with the consequent growth in NPL ratios had started to reveal solvency problems in a good number of European banks. The newly created European Banking Authority (EBA) performed an exercise to identify banks' capital needs in December 2011, following the stress tests[15]. Five Spanish banks participated in the exercise. Its aim was to detect possible solvency shortfalls in order to immediately take the appropriate measures. As a consequence of its results, the EBA issued a recommendation to raise banks' Core Tier 1 capital ratio to 9%.

In November 2011, the FSB published its document on "Key Attributes of Effective Resolution Regimes for Financial Institutions" in the framework of the G20[16] (hereinafter, "FSB key attributes"). This work was essential and highly influential for developing all the subsequent resolution regimes. In view of the global effects of the collapse of financial institutions, its aim was to set a standard for improving these resolution frameworks so that any financial institution, irrespective of its size and complexity, might be resolved without harmful effects for the financial system and without public financial support. It emphasised not only cross-border cooperation for the crises of global systemically important institutions, but also other key elements such as the priority for private creditors to absorb losses, the use of bail-ins and the importance of having adequate resolution planning.

Spain once again fell into recession in 2011 with GDP falling by 1% and the other macroeconomic parameters accentuated this fall. The unemployment rate reached 23% at the end of 2011, real estate prices fell by 11% and the government deficit closed the year at 9.6%.

[14] Available at: https://www.ecb.europa.eu/press/pr/date/2011/html/pr111208_1.en.html.

[15] Available at: https://eba.europa.eu/the-eba-publishes-recommendation-and-final-results-of-bank-recapitalisation-plan-as-part-of-co-ordinated-measures-to-restore-confidence-in-the-banking

[16] Key Attributes of Effective Resolution Regimes for Financial Institutions. Available at: http://www.fsb.org/work-of-the-fsb/policy-development/effective-resolution-regimes-and-policies/key-attributes-of-effective-resolution-regimes-for-financial-institutions/.

The transfer of this situation to the financial sector, particularly its weakest part - the subsector of savings banks - quickly placed it in a particularly vulnerable position. In addition to the worsening quality of their balance sheets (NPL ratio of 8% in 2011 compared with 0.7% in 2007), they suffered from difficulties in accessing wholesale funding and from the slowdown in lending.

The recession in 2011 only worsened further during 2012. The climate became extremely adverse both in terms of economic activity and in confidence as a result of the high level of government debt and the position of the financial system. While in the rest of the world, the expansive monetary policies had already managed to achieve GDP growth (and gradual steps were being made towards fiscal consolidation), in the euro area the shift back to falling economic activity was particularly intense for the countries with the largest budget risks (Spain, Italy and Portugal and, to a particularly large extent, Greece).

BOX 3. FSB's Key Attributes of Effective Resolution Regimes

- **Scope:** existence of a resolution regime at least for systemically important financial institutions.
- **Authority:** existence of a resolution authority that is independent from the supervisor with the necessary powers to resolve an entity in a normal manner without affecting the financial stability of the taxpayer and maintaining its critical functions.
- **Extraordinary powers:** removal and appointment of administrators, implementation of bail-ins to absorb losses and recapitalise the entity, amend contracts, impose moratoriums, etc.
- **Safeguards:** shareholders should be the first to absorb losses, the "no creditor worse off than in liquidation" principle should be respected, etc.
- **Funding:** creation of a resolution fund financed by the industry and existence of a public funding mechanism as a last resort if the former is insufficient.
- **Planning:** obligation for firms to prepare the recovery and resolution plans during times of economic prosperity.
- **Cooperation:** development of a legal framework to facilitate cross-border co-operation and the creation of Crisis Management Groups for the G-SIBs to be coordinated by home and host authorities, etc.

Legal and institutional framework

During this period, Royal Decree Law 9/2009, which created FROB, was amended three times in order to adjust its legal regime to the restructuring process of the Spanish financial sector that was being undertaken.

Royal Decree Law 11/2010. Restructuring of savings banks into commercial banks

Royal Decree Law 11/2010 extended the possibilities for bank recapitalisation. This legislation provided the legal boost for the restructuring of the activity of the savings bank sector, both from an operational and a commercial perspective. It enabled FROB to purchase securities issued by individual institutions, not only in the circumstances already provided for previously (restructuring processes of failing institutions), but also for those institutions which, although solvent and viable, in the Bank of Spain's opinion required urgent strengthening of their own funds even though they were not undergoing an integration process.

BOX 4. Key measures of Royal Decree Law 11/2010

- Reform of the governing bodies of savings banks, driving forward their professionalisation.
- Greater legal certainty for institutional protection schemes (IPSs).
- New organisational model for savings banks in order to perform their financial activity as banks. Double alternative:
  - Indirect exercise of the savings bank's financial activity through a bank that it controls.
  - Transformation of the savings bank into a special foundation that would retain its charitable/social activity and transfer its financial business to a bank.
- Specific tax measures to guarantee the tax neutrality of the different models (also applicable to transactions performed in restructuring processes with the participation of FROB).

Royal Decree Law 2/2011. The first public recapitalisations

The legal regime of FROB underwent an extensive reform with Royal Decree Law 2/2011, of 18 February, for the strengthening of the financial system. FROB was allowed to acquire shares for the first time. This made it possible to exceed the limits implicit to recapitalisation through hybrid instruments, which until that time were the only way to mobilise the public resources controlled by FROB. This new possibility was linked to other legal reforms that facilitated the transfer of all of the financial activity of savings banks that requested help to banks set up in corporate form.

Subscription of the securities required the requesting institution to draw up a recapitalisation plan to be approved by the Bank of Spain. This plan had to include a business plan with targets relating to efficiency, profitability and leverage and liquidity levels. It also had to include certain commitments relating to reducing structural costs, improving corporate governance or reducing their lending activity. Following a request from FROB and by mutual agreement, the requesting institution could convert any convertible preferred shares that FROB had previously subscribed. With the subscription of the shares, FROB would join the management body in a proportion in line with its stake.

The maximum period during which FROB was permitted to hold the share in the entity's capital was set at five years, with the possibility of reselling the subscribed shares to the entity as from the first year.

This new entity recapitalisation programme was closely linked to savings banks' restructuring into commercial banks. Implementation of financial support through the acquisition of ordinary shares provided the definitive push for savings banks to put into effect the transfer of all of their financial activity to a bank, moving to the structure of indirectly exercising the financial activity or their transformation into a foundation[17]. The same requirement applied to savings banks integrated into an IPS which were required to transfer said financial activity to the bank that acted as the central institution in said scheme.

The governance of FROB was also reformed. In anticipation of the fact that the recapitalisation of credit institutions was to be financed through public resources, the new legislation amended the composition of its Governing Committee to be then made up of nine members appointed by the Minister of Economic Affairs and Finance, of which two would represent that Ministry, four would be proposed by the Bank of Spain and three would represent the deposit guarantee funds (Table 4).

BOX 5. Main aspects of Royal Decree Law 2/2011

- It raised minimum capital requirements in terms of quantity and quality.
- It introduced the immediate and early establishment of minimum core capital in relation to risk-weighted assets (RWA).
- The minimum level of the core capital ratio was set at 8%. However, it reached 10% for entities with over 20% wholesale funding which had not placed securities representing 20% or more of their share capital or voting rights with third parties.

[17] The Royal Decree Law provided, however, that if the entity interested in receiving support was a credit cooperative, FROB could acquire its convertible preferred shares from the cooperative.

Table 4. Evolution of FROB's Governing Committee

<table>
<tr><th colspan="2">Period</th><th>2009-2011</th><th>2011-2012</th><th>2012-2015</th><th>2015-Present</th></tr>
<tr><td colspan="2">Legislation</td><td>Royal Decree Law 9/2009, of 26 June, on bank restructuring and the strengthening of credit institutions' own funds.</td><td>Royal Decree Law 9/2009, of 26 June, on bank restructuring and the strengthening of credit institutions' own funds.</td><td>Royal Decree Law 24/2012, of 31 August, on credit institution restructuring and resolution and, subsequently, Law 9/2012, of 14 November, on credit institution restructuring and resolution.</td><td>Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms.</td></tr>
<tr><td colspan="6">Comisión Rectora</td></tr>
<tr><td rowspan="2">Composition</td><td>No. of members</td><td>8</td><td>9</td><td>9</td><td>11</td></tr>
<tr><td></td><td>Five at the proposal of the Bank of Spain
Three representing the Deposit Guarantee Funds</td><td>Four at the proposal of the Bank of Spain
Three representing the Deposit Guarantee Funds
Two representing the Ministry of Economic Affairs and Finance</td><td>Four appointed by the Bank of Spain
Secretary-General of the Treasury and Financial Policy
Under-Secretary of Economic Affairs and Competitiveness
Chair of the Spanish Accounting and Audit Institute
Director-General for Economic Policy
Director-General for Budget</td><td>Chair of FROB
Four appointed by the Bank of Spain
Three representatives of the Ministry of Economic Affairs and Competitiveness
Deputy Chair of the Spanish National Securities Market Commission
Two representatives of the Ministry of Finance and Public Administration</td></tr>
<tr><td colspan="2">Chair</td><td>Deputy Governor of the Bank of Spain</td><td>Deputy Governor of the Bank of Spain</td><td>Deputy Governor of the Bank of Spain</td><td>Executive chair</td></tr>
<tr><td colspan="2">Vice-Chair</td><td colspan="2">No express rule. The Governing Committee appointed one of the members proposed by the Bank of Spain as vice-chair</td><td>Secretary-General of the Treasury and Financial Policy</td><td>Deputy Governor of the Bank of Spain</td></tr>
<tr><td colspan="2">Attendees (with the right to speak but not vote)</td><td colspan="2">A representative of the National Audit Office designated by the Ministry of Economic Affairs and Finance at the proposal of the Auditor General.</td><td colspan="2">A representative designated by the Auditor General.
A representative designated by the Attorney General-Director of the Spanish State Legal Service.</td></tr>
<tr><td colspan="6">Ordinary management</td></tr>
<tr><td colspan="2">Executive management body</td><td colspan="2">No express rule. The Governing Committee agreed the appointment of a Director-General</td><td>Director-General, appointed by Royal Decree of the Council of Ministers, at the proposal of the Minister for Economic Affairs and Competitiveness.</td><td>Chair of FROB, appointed by Royal Decree of the Council of Ministers, at the proposal of the Minister for Economic Affairs and Competitiveness, upon consultation with the supervisory authorities, and after appearing before Parliament. Non-extendable mandate of five years. Specified reasons for termination.</td></tr>
</table>

Interventions under FROB II

On 10 March 2011, the Bank of Spain published the capital shortfalls of the institutions which, with data to 31 December of the previous year, did not meet the minimum capital required by the new legislation. There was a total of 12 such entities, which accumulated a total shortfall estimated at 15.15 billion euros[18].

The strategy of some of these institutions for meeting the new minimum requirement included requesting financial support from FROB, either as first choice or as an alternative. In April, FROB agreed to provide the necessary resources (Table 5).

Table 5. Financial support initially committed under FROB II

Institutions	Maximum amount of support	Type of request to FROB (2)
Unnim Caixa Manlleu, Caixa Sabadell and Caixa Terrassa	568	Immediate
CatalunyaCaixa Caixa Catalunya, Caixa Tarragona and Caixa Manresa	1,718	Immediate
Caja España-Duero Caja Duero and Caja España	463	Conditional
Novacaixagalicia Caixanova and Caixa Galicia	2,622	Immediate
Banco Financiero y de Ahorros (BFA) Caja Madrid, Bancaja, Caja Insular, Caja de Ávila, Caixa Laietana, Caja Segovia and Caja Rioja	5,775	Conditional
Banco Mare Nostrum (BMN) Cajamurcia, Caixa Penedés, La General and Sa Nostra	637	Conditional
CAM	2,800	Immediate
Liberbank (1) CajAstur, Caja Extremadura and Caja Cantabria	519	Conditional
Banca Cívica Caja Navarra, CajaSol (incluye Caja de Guadalajara), Caja Canarias and Caja de Burgos	847	Conditional
Maximum recapitalisation commitments	**15,949**	

(1) The IPS that these institutions submitted together with CAM to form Banco Base was Sectioned, thus putting an end to the integration process proposed and replaced by another based around a newly created institution (Liberbank).

(2) The institutions submitted different alternatives for meeting the capital requirements, proposing a request for support from FROB either on an immediate or an unconditional basis. The recapitalisation would therefore be achieved: (i) directly and immediately by FROB; (ii) through integration in another more capitalised institution or in a subsidiary manner as a result of FROB backing and (iii) by obtaining capital from the stock market or from private investors or, failing that, through backing from FROB.

Data in million euros.

[18] The difference between the shortfall estimated by the Bank of Spain and the support commitments assumed by FROB corresponds, firstly, to estimated shortfalls basically of subsidiaries of foreign banks as parent companies assumed recapitalisation commitments and, secondly, to the breakup of the Banco Base IPS, thus increasing the amounts committed by the institutions separately compared with that initially calculated for the IPS.

The financial support of FROB II eventually amounted to 5.18 billion euros, substantially lower than the committed amount. FROB's action was finally limited to the recapitalisation of those institutions whose strategy for meeting the new capital requirements included a request for financial support from FROB as first alternative. BFA and Banca Cívica covered their needs by raising private capital in IPO processes. BMN issued convertible instruments subscribed in the market. Caja España-Duero had planned an integration process with Unicaja and Liberbank managed to reduce its needs through internal actions. In addition, it was decided to intervene in Banco de Valencia[19] through the subscription of ordinary shares.

For the execution of this support through the subscription of shares, the purchase or subscription price had to be set in accordance with the institution's economic value, which was to be determined by one or several independent experts (Table 6).

In the second round of State aid, the European Commission issued decisions on the recapitalisation plans of each one of the institutions receiving such aid, ruling that the support granted was temporarily compatible with the internal market for reasons of financial stability.

Table 6. Final support under FROB II

Institutions	Effective amount of aid	Date of agreement	Type of action
CatalunyaCaixa	1,718	29/09/2011	Recapitalisation plan
Novacaixagalicia	2,465	29/09/2011	Recapitalisation plan
Unnim (1)	-	29/09/2011	Recapitalisation plan
CAM	-	07/12/2011	Intervention/ Restructuring plan
Banco de Valencia	998	21/06/2012	Intervention
Total aid for recapitalisation processes	**5,181**		

(1) Although FROB subscribed 568 million euros in September 2011, the final cost of this aid was borne by the DGF. Data in million euros.

[19] Pursuant to the provisions of Article 7(2) of Royal Decree Law 9/2009, and Title III of Law 26/1988, of 29 July, on discipline and intervention of credit institutions, the Executive Committee of the Bank of Spain decided on the intervention of Banco de Valencia.

BOX 6. Methodology for determining institutions' economic value

- In 2011, FROB developed a methodology for valuing institutions as a reference for the independent experts to perform their valuation exercises. It was approved on 15 April 2011 under the title "Guidance on methodology procedure for determining the economic value of a credit institution under the provisions of Article 9 of Royal Decree Law 9/2009" (1).
- It set out the methodological issues for determining the economic value of institutions whose shares or contributions to share capital were to be subscribed or purchased by FROB.
- It was in line with EU legislation on competition and State aid.

This general methodology consisted of two components on the basis of a business plan that had to be included in the "recapitalisation plan" of each recapitalisation process:

- Due diligence performed by an audit firm. Stages:
  - Financial due diligence: analysis of the financial and business information.
  - Due diligence of the business plan: based on a review of the financial due diligence, a review of the reasonableness of the fundamental assumptions contained in the business plan (macroeconomic, growth, revenue, development of NPLs and their coverage, costs, synergies and restructuring plan, divestments, etc.), validating the forecast figures.
- Valuation of the institution by three independent experts with the aim of issuing an opinion on the market value and on the capital percentage represented by the injection of public funds to be made by FROB.

(1) Available at: https://www.frob.es/en/Lists/Contenidos/Attachments/321/Metodologia_DD_y_valoracion_ENG._prot.pdf

CAM

On 22 July 2011, the Bank of Spain agreed the restructuring of the CAM Group and appointed FROB as the provisional administrator. FROB appointed three natural persons as representatives and drew up an initial restructuring plan that included the sale of the institution to a more solvent institution. In December of that year, FROB drew up a restructuring plan with the sale of the institution to Banco Sabadell. This plan would be approved both by the Bank of Spain and by the European Commission's Directorate-General for Competition (applying the State aid regime).

The Deposit Guarantee Fund (DGF) assumed the financial aid of the sale transaction. It covered the cost of the purchase of 100% of the capital of Banco CAM (the successor to Banco Base from which CAM had transferred the financial business on 30 March 2011) for 5.25 billion euros, to be subsequently transferred to Banco Sabadell, in the framework of a competitive process, for the price of one euro and the granting of an APS that covered, for a period of 10 years, 80% of the losses of an asset portfolio of 24.64 billion after absorption of the provisions recorded for 3.88 billion euros.

CatalunyaCaixa

In October 2011, FROB subscribed a capital increase for 1.72 billion euros issued by Catalunya Banc (the bank to which CatalunyaCaixa had transferred its financial business on 7 June 2011). It thus acquired an 89.74% holding in the share capital on the basis of the bank's economic value (196.5 million euros).

Novacaixagalicia

In October 2011, FROB subscribed a capital increase for 2.47 billion euros issued by NCG Banco (the bank to which Novacaixagalicia had transferred its financial business on 14 September 2011). This granted it a holding of 93.16% according to the bank's valuation (181 million euros). In addition, a purchase option was established whereby FROB undertook to re-sell the shares at the same price at which it had subscribed them to NCG Banco, Novacaixagalicia or to investors proposed by them. The option was partially executed in 2012 with the sale by FROB of 2.59% of the capital to a group of investors for 71 million euros, leaving the shareholder composition as follows: FROB, 90.57%; Novacaixagalicia, 6.84% and minority investors, 2.59%.

Unnim

In September 2011, FROB called for the conversion of its convertible preferred shares (FROB I) into capital. This involved 380 million euros in instruments that Unnim Banc (the bank to which Unnim had transferred its financial business on 26 September 2011) was unable to repurchase. In addition, following the opening of the orderly restructuring process by the Bank of Spain, FROB subscribed to a capital increase for 568 million euros. Following those interventions, FROB became the administrator and sole shareholder of Unnim Banc.

Subsequently, after the corresponding competitive process, the restructuring plan involved awarding Unnim Banc to BBVA. The DGF agreed to provide financial support for the sale process by assuming and compensating FROB for the loss resulting from the sale of 100% of the holding (948 million euros) and granting an APS that covered, for 10 years, 80% of the losses of an asset portfolio of 7.36 billion euros, after absorbing provisions recorded for 1.33 billion euros.

Banco de Valencia

On 21 November 2011, the Bank of Spain agreed the replacement of the Board of Directors of Banco de Valencia and appointed FROB as provisional administrator. FROB approved the temporary financial support necessary to stabilise the bank until implementation of its restructuring plan, which consisted of (i) a credit line of up to 2 billion euros for immediate liquidity needs, and (ii) subscription for a maximum amount of 1 billion euros of a capital increase to be carried out by Banco de Valencia. On 26 June 2012, the bank agreed the capital increase for an amount of 1 billion euros (which was almost entirely subscribed (998 million euros) by FROB, which became the holder of 90.89% of the bank.

The evolution of the aid granted by FROB in the previous processes differed depending on each process (Table 7).

Table 7. Evolution of aid under FROB II

Process	Recovery of aid	Comment
CatalunyaCaixa	-	Written down to absorb losses in 2012
Novacaixagalicia	71	Recovery from the sale of 2.59% of the capital to private investors. The rest of the shares were written down to absorb losses in 2012
Banco de Valencia	-	Written down to absorb losses in 2012

Data in million euros.

CHAPTER II (2012-2015)

SYSTEMIC BANKING CRISIS, STABILISATION AND ORIGINS OF THE BANKING UNION

National and international context

The highest levels of instability in the euro area, in particular in Spain, were recorded in 2012. The uncertainties resulting from the new economic recession, the sustainability of government debt and the real situation of the financial sector revealed the fragmentation and weakness of the EMU itself. Risk premiums reached historic highs, exceeding 700 basis points in Spain and 500 Italy (spread on the return of the Spanish 10-year bond compared with the German 10-year bond).

Against this serious backdrop, the Heads of State and Government of the Member States of the EMU launched a battery of reforms. Aware of the situation the euro area was going through, in their meeting of 28 and 29 June 2012, they established the foundations of the Banking Union, expressly agreeing the immediate creation of a Single Supervisory Mechanism (SSM)[20] and, when this was operational, the possibility that the EFSF might carry out direct recapitalisations of credit institutions. For its part, one month later, the ECB, through its President, clearly indicated its willingness to do whatever was necessary to defend the euro and announced an important defence of the euro and a significant government bond purchase programme.

With regard specifically to the area of resolution, the European Commission began to discuss the first drafts of a proposal for a resolution directive that would set out the main recommendations of the "FSB key Attributes"[21].

In Spain, the situation of credit institutions, the economic recession and the deterioration in public finances worsened over the first half of the year. Spanish institutions' use of liquidity from the Eurosystem amounted to 13% of their total assets in August 2012 and doubts about the solvency of part of the Spanish banking sector spread until it also had an effect on issues of government bonds.

Between February and April 2012, the International Monetary Fund (IMF) completed the evaluation of the stability of the Spanish financial system (FSAP[22]). As of 2009, this type of assessment had been adapted[23] in order to incorporate the lessons of the financial crisis. Consequently, the vulnerabilities and resilience of the financial system, the regulatory and supervisory framework, and financial safety nets were assessed separately.

[20] The first step of the Banking Union was the Single Supervisory Mechanism (SSM), created by Regulation (EU) No. 1024/2013, which started to operate in November 2014. It consists of an integrated system of prudential supervision that covers all banks in the euro area. The responsibility for supervision within the SSM is exercised by the ECB in close cooperation with the national supervisory authorities of the participating EU Member States according to a single set of high-level standards and requirements. The Bank of Spain is integrated into the SSM.

[21] See Box 3.

[22] Periodic assessment performed by the IMF every five years, since 1999, on the member countries of the Fund. In developed economies, this analysis aims to assess the strength and stability of the financial system.

[23] Available at: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/14/Financial-Sector-Assessment-Program.

BOX 7. Main conclusions of the FSAP update for Spain published in May 2012

- It acknowledged the restructuring effort carried out in previous years and the positive contribution to be made by the recently approved Royal Decree Law 18/2012, of 11 May, on the reorganisation and sale of real estate assets in the financial sector.
- It considered that an additional restructuring effort was necessary. The worsening macroeconomic situation might generate added losses given that Spain was immersed in a third stage of the global crisis, defined by strong interconnectedness between the banking sector and the position of sovereign debt in capital markets, with the former affecting the financial health of the latter, and vice versa.
- Based on a top-down stress test conducted together with the Bank of Spain, the IMF determined that, in order to comply with the new Royal Decrees 2/2012 and 18/2012, in an adverse scenario, Spanish banks might have additional capital needs of up to 37.1 billion euros.
- It concluded that the authorities' resolution powers needed to be strengthened in order for them to have a set of tools and powers enabling them to effectively address banking crises.

With the aim of accelerating the restructuring of the banking sector, two Royal Decree Laws were approved in the first half of the year (in February RDL 2/2012 and in May, RDL 18/2012) which modified the rules on valuing assets linked to the real estate sector. The significance of the accounting requirements and criteria had an enormous impact and accelerated the coverage of non-performing loans and the strengthening of banks' solvency. Together, these two Royal Decree Laws resulted in allowances of over 62 billion euros and capital needs of over 15.5 billion euros.

An evaluation of the quality of credit institutions' assets was also launched, with the involvement of an independent expert. The Ministry of Economic Affairs and Competitiveness engaged two independent consultants (Oliver Wyman and Roland Berger) to assess the resilience of the Spanish banking sector in the event of a deterioration in the national economy. The first aggregate results of the top-down stress test for the Spanish banking sector were published on 21 June 2012. This was an initial top-down stress test for the sector based on the data provided by the credit institutions themselves to the Bank of Spain, which estimated recapitalisation needs of between 16 billion euros and 26 billion euros under a baseline scenario and of between 51 billion euros and 62 billion euros in an adverse scenario.

In order to address the emerging recapitalisation needs, on 25 June 2012, Spain formally requested financial assistance from the Eurogroup, which the latter had already approved on 9 June. Given the amount of credit institutions' capital needs and the fact that it was impossible for them to access markets under the prevailing conditions at that time, it was essential for the State to provide the necessary resources to recapitalise the sector and therefore maintain financial stability and protect depositors. In turn, the specific situation of the Spanish government bond market made it practically impossible to undertake an intervention of this size without using European funds.

The Government of Spain formalised its request for assistance from the Eurogroup and in June 2012 the Financial Assistance Agreement was approved. This covered a set of documents that set out the specific terms and conditions of the loan to Spain, which included the Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU).

BOX 8. Key attributes of the financial assistance programme for Spain

- The funds for financial assistance for the Spanish financial sector were initially granted by the European Financial Stability Fund (EFSF) until the European Stability Mechanism (ESM) became available. Eventually, the funds were disbursed in the form of ESM notes and bills which FROB received to be injected into the banks.

- The available amount granted to Spain totalled 100 billion euros, of which 41.03 billion euros were used.

- The MoU was signed on 25 July 2012 and noted that "Given the nature of the financial support provided to Spain, conditionality will be financial-sector specific and will include both bank specific conditionality in line with State aid rules and horizontal conditionality."

    - Horizontal conditionality: with the aim of "increasing the long-term resilience of the banking sector as a whole, thus restoring its market access", it set out the need to undertake reforms to (i) effectively deal with the impaired assets of the system; (ii) restructure bank balance sheets, downsizing bank exposures to the real estate sector and reliance on Eurosystem funding, and (iii) enhance crisis prevention mechanisms.

    - Individual conditionality: with the aim of re-establishing and enhancing the strength of Spanish banks, the MoU established the need to identify "weak segments of the Spanish financial sector". The first step therefore needed to be a review of the individual capital needs of each bank (bottom-up stress test). Following this decision, and based on the restructuring and/or resolution plans, those banks in which capital shortfalls were detected would be recapitalised and impaired assets segregated and transferred to an external asset management company.

- The results of the analysis of the individual capital needs were published on 28 September 2012, setting aggregate capital needs in an adverse scenario that amounted to 55.9 billion euros. In addition, on the basis of the results obtained, credit institutions were classified into four groups:

    - Those that have recapitalisation needs and were already mostly owned by FROB (Group 1).

    - Those which, without being mostly owned by FROB, needed an injection of public funds to maintain their viability (Group 2).

    - Those which, while needing funds to ensure their viability, were able to deal with the situation through private solutions (Group 3).

    - Those which had sufficient solvency to deal with the adverse scenario of the exercise without additional capital needs (Group 4).

- The banks which were shown by the stress testing analysis to have a capital shortfall were requested to submit their recapitalisation plan over the month of October. The plans were evaluated by FROB, the Bank of Spain and by the European Commission, with the cooperation of the ECB, and for those in which an injection of public funds was planned; approval was also required by the Directorate-General for Competition of the European Commission on matters of State aid.

Despite the recapitalisation of the banking sector, the ambitious programme for its legal reform and other important fiscal and employment measures, the conditions of the Spanish economy did not improve until well into 2013. The succession of two consecutive periods of recession led to a 10% cumulative fall in the level of activity, with the unemployment rate reaching a high of 27% in the first quarter of 2013. It was only as from the middle of that year that improvements were seen in the funding conditions of the economy, the confidence of market agents and, progressively, the main macroeconomic variables, including job creation.

As from 2014, the EMU as a whole began a stage of stabilisation. The new cycle was propped up by a very expansive programme by the ECB, which extended its policy of very low interest rates and began to purchase assets. For its part, the institutional framework of the Banking Union started along its path with the implementation of the SSM and the final design of the Single Resolution Mechanism (SRM).

In Spain, 2014 marked the recovery of positive GDP growth rates (1.4%) and falls in the unemployment rate, which fell by 2%. Buoyant domestic demand, the improvement in funding conditions and the correction of a large part of the accumulated imbalances set the foundations for a recovery that has proved to be solid since that year.

The financial assistance programme in Spain ended in 2013. Spain has been making early payments of the ESM loans since July 2014 so the current outstanding balance amounts to 23.72 billion euros, 57% of the total used (Table 8).

Table 8. ESM loan repayments

	Balance	Date
Initial loan	**41.333**	
Early repayment (voluntary)	- 1,304	08/07/2014
Scheduled repayment of unused funds	- 308	23/07/2014
Early repayment (voluntary)	- 1,500	17/03/2015
Early repayment (voluntary)	- 2,500	14/07/2015
Early repayment (voluntary)	- 1,000	11/11/2016
Early repayment (voluntary)	- 1,000	14/06/2017
Early repayment (voluntary)	- 2,000	16/11/2017
Early repayment (voluntary)	- 2,000	23/02/2018
Early repayment (voluntary)	- 3,000	23/05/2018
Early repayment (voluntary)	- 3,000	16/10/2018
Outstanding balance	**23,721**	

Data in million euros.

Legal and institutional framework

From the MOU to the new bank resolution regime: Law 9/2012

On 31 August 2012, Royal Decree Law 24/2012, on credit institution restructuring and resolution, was approved and entered into force. It would later be transformed by Parliament into Law 9/2012, of 14 November, on credit institution restructuring and resolution. These laws took into account the EU's legislative proposal[24] on crisis management and bank resolution, international initiatives ("FSB key attributes") and the recommendations included in the Spanish FSAP of 2012[25].

The new legislation entailed a substantial reform of the Spanish bank crisis management framework. The law introduced a standardised regulatory system that strengthened the extraordinary intervention powers allocated to FROB, which became a genuine resolution authority independent from the bank supervisor.

The law established a series of objectives to be followed in the orderly restructuring and resolution processes of credit institutions. These include: i) ensuring the continuity of the institutions' critical functions; ii) preventing harmful effects on the stability of the financial system, and, iii) ensuring the most efficient use of public resources, minimising the financial support which, on an extraordinary basis, it may be necessary to grant.

The new resolution regime involved the existence of three levels of management. These were associated with measures of varying levels of intensity that the public authorities might apply according to the gravity of the difficulties faced by the credit institutions. These are analysed below.

Early intervention

The aim in this stage was to tackle the situation of those institutions in temporary difficulties, but with the capacity to return by their own means to compliance with the basic regulatory requirements. This would be applied to institutions that failed, or were likely to fail, to comply with the basic regulatory requirements (solvency, liquidity, organisational structure or internal control), but which were in a position to return to compliance without the need for an injection of public money[26].

Institutions in any of these circumstances would immediately inform the Bank of Spain, the authority responsible for this intervention stage. Institutions would present action plans for ensuring their long-term viability in a period for action that could not exceed three months. These plans had to be approved by the Bank of Spain. The Bank of Spain itself could act on its own initiative and require an institution to present an action plan of this type.

The measures that the Bank of Spain could take during this stage were as follows:

a) Requiring the institution's management body to call a general meeting or assembly (or call it directly if said body did not call it by the established deadline), proposing the agenda and adoption of certain resolutions.

b) Requiring the removal and replacement of the members of the management body or managing directors or similar figures.

c) Requiring the preparation of a programme for renegotiating or restructuring its debt with all or part of its creditors.

[24] Published by the European Commission on 6 June 2012.

[25] See Box 7.

[26] Without prejudice to the exceptional and temporary public financial support used for its recapitalisation, which we will refer to later.

d) Without prejudice to the following point, adopting any of the measures provided for in the legislation in force on regulation and discipline.

e) In the event that the above measures were not sufficient, ordering the provisional replacement of the institution's management body in accordance with the provisions of the following article.

Exceptional and temporary public support was possible in this stage. The institution could be required to issue convertible capital instruments to be subscribed by FROB, provided there were objective reasons for it to be considered reasonably likely that the institution would be able to reimburse these instruments within two years.

Restructuring

This restructuring stage was a particular feature of Spanish legislation. It was not provided for either in international resolution standards (specifically, the "FSB key attributes") or in the European Commission's proposed directive (which included the early intervention stage and a resolution stage, but did not regulate a restructuring procedure).

Restructuring was established for institutions that required public financial support to guarantee their viability. For this purpose, it was essential for there to be objective elements that made it reasonably likely that said support would be repaid or recovered within five years, with a possible extension of a further two years. As an exception, cases were provided for in which, in the opinion of the Bank of Spain, the institution's resolution might result in socially harmful effects for the stability of the financial system as a whole, with it therefore being preferable to restructure the institution in order to minimise the use of public resources.

The procedure required a stage of comments from FROB during the preparation of the plan and subsequent approval by the Bank of Spain. Institutions would submit a restructuring plan, specifying the planned actions to ensure the institution's long-term viability. These plans had to be approved by the Bank of Spain, although FROB could demand modifications or additional measures.

The measures to be adopted in this stage were those mentioned for early intervention, together with financial support from FROB. This support from FROB could be implemented directly or through the transfer of assets or liabilities to an asset management company[27].

Compliance with the restructuring plan was monitored on a quarterly basis. To this end, the institution would send the Bank of Spain and FROB a report on the level of compliance with the measures set out therein and its liquidity position. However, throughout the restructuring process, FROB could request the information necessary to prepare a possible resolution.

Resolution

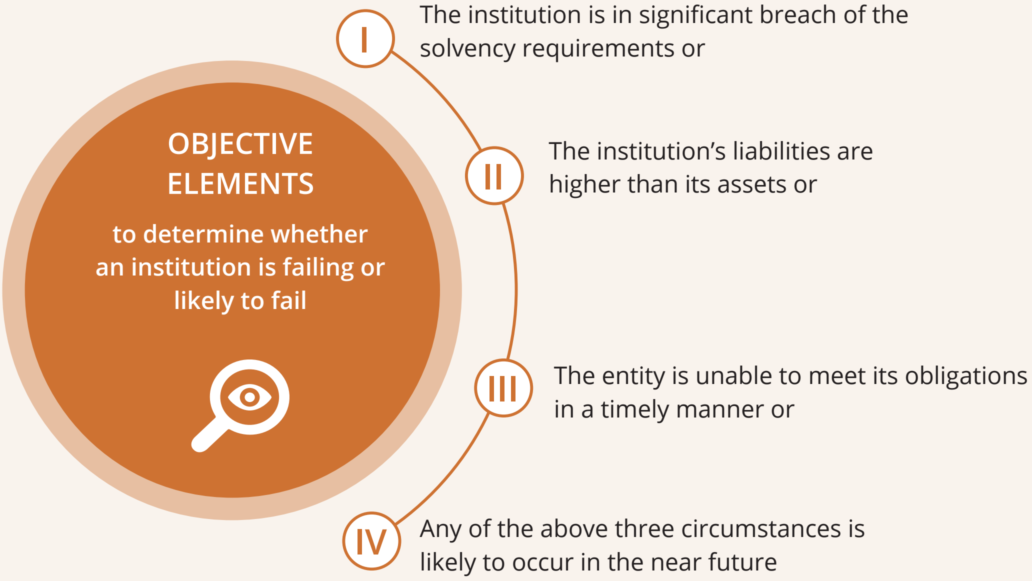
This process was applicable to credit institutions subject to both of the following two circumstances:

1) The institution was failing or likely to fail in the near future.

2) For reasons of public interest, it was necessary or desirable to undertake the institution's resolution in order to achieve any of the resolution objectives. In other words, if the dissolution and winding up of an institution in the framework of insolvency proceedings did not reasonably achieve these objectives to the same extent.

[27] In both cases, in the terms that will be set out in detail when analysing the resolution procedure.

Figure 3. What are the conditions for failure?



Furthermore, it is not reasonably likely that the institution will be able to remedy the situation in a reasonable period of time by its own means.

The Bank of Spain was responsible for opening the resolution process. The supervisor would do so ex officio or at the proposal of FROB and reporting to the Ministry of Economic Affairs and Competitiveness. The Bank of Spain would then immediately replace the institution's management and appoint FROB as administrator. Subsequently, within two months, FROB would draw up a resolution plan to be approved by the Bank of Spain or would agree to the opening of insolvency proceedings.

Law 9/2012 included three aspects that were common to the restructuring and resolution processes undertaken within the framework of the MoU that deserve a separate mention due to their particular importance. These common aspects are the financial instruments for injection of public funds, the asset management company and the liability management exercises. These are analysed below.

Financial support instrument

The legislation allowed FROB to inject public funds into the institutions through different tools: granting guarantees, granting loans, acquiring assets or liabilities or acquiring equity or instruments convertible into equity. Prior to this, FROB had to submit to the Ministry of Finance and Public Administration and the Ministry of Economic Affairs and Competitiveness an economic report detailing the financial impact of the support on the General State Budget.

Figure 4. What are the characteristics of the recapitalisation instruments in Law 9/2012?

Ordinary shares	Instruments convertible into ordinary shares
▸ Subscription or purchase price: this would correspond to the institution's economic value on the basis of the valuation reports commissioned from independent experts. ▸ This subscription or purchase would provide FROB with the corresponding voting rights and its membership of the institution's management body in proportion to its percentage shareholding. ▸ Divestment by FROB of the ordinary shares acquired had to be performed using procedures to ensure competition within a period no greater than five years.	▸ When issuing the instruments, the institution should undertake to repurchase or redeem the instruments subscribed or purchased by FROB as soon as it is in a position to do so, following authorisation by the supervisor. ▸ In any event, this should be done within five years. ▸ The issuance agreement should provide for the convertibility of the securities upon a unilateral decision by FROB if, before the five-year period has elapsed following a report from the Bank of Spain, the latter deems it unlikely that such instruments will be repurchased or redeemed within said period.

Asset management company

One of the most noteworthy restructuring and resolution instruments provided for in the law relates to the use of asset management companies. This was an important new development in Spanish law and the aim was to concentrate into one single company assets that may be considered problematic or which might damage institutions' balance sheet, thus facilitating their management and achieving that the risks associated with such assets are effectively transferred.

Application of this instrument and creation of an asset management company was a commitment provided for in the MoU. It was regulated[28] from two perspectives. Firstly, a general legal framework was established, which was hypothetically applicable in situations in which it was necessary to use this type of resolution instrument. Secondly, a specific legal regime was established for the Asset Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb), the company intended to acquire the assets of institutions subject to the restructuring processes being carried out at that time. The law established which institutions would be required to transfer their assets to Sareb, the procedure for setting the transfer prices, the basic corporate governance scheme, according to which the public shareholding may not be greater than 50%, and signed its supervision over to the Bank of Spain.

Subordinated Liabilities Exercises for hybrid instruments and subordinated debt

Subordinated Liabilities Exercises (SLEs) for hybrid capital instruments and subordinated debt were also a commitment made in the MoU. Their aim was to reduce the burden of restructuring and resolution processes on public resources, ensuring appropriate sharing of the costs in accordance with EU legislation on State aid (see Table 9). This is consistent with the principle of ensuring that the losses were borne, firstly, by institutions' shareholders and subordinated creditors. This included convertible preferred shares or bonds, subordinated debt or any other subordinated financing, with or without maturity, issued by the credit institution undergoing restructuring or resolution.

[28] Set out in Law 9/2012, and subsequently implemented by means of Royal Decree 1559/2012, of 15 November, laying down the legal regime for asset management companies.

BOX 9. State aid framework

- The Treaty on the Functioning of the European Union generally prohibits State aid except in exceptional circumstances to be authorised by the European Commission (Articles 107 and 108).
- The seriousness of the financial crisis in Europe and its impact on the real economy, as well as the scale of the measures to be adopted, led the Commission to adopt a general framework for action through approval of a series of "Crisis communications"(1) that authorised, on an exceptional basis, the granting of aid aimed at remedying a serious disruption to the economy of a Member State.
- These communications set out the criteria that the Commission would follow when assessing the compatibility with the internal market of State aid granted to the financial sector and aimed at protecting financial stability and ensuring lending to the real economy, while at the same time reducing to the minimum the State aid, moral hazard and distortions in competition between banks and Member States.
- The European Commission took into account all the "crisis communications" and, in particular, the "restructuring communication"(2) when assessing the State aid granted during the restructuring process of the Spanish banking sector, including that granted under the MoU of July 2012.
- The key elements of the "Restructuring communication" were as follows:
    1. **Restoring long-term viability.** The restructuring plan had to demonstrate how the bank would restore long-term viability (when the bank was able to cover all its costs and provide an appropriate return on equity, taking into account its risk profile).
    2. **Own contribution by the beneficiary (burden sharing).** The aid had to be limited to the minimum necessary and therefore the bank and its capital holders needed to contribute to the restructuring firstly with their own resources and as much as possible. This contribution included the possible sale of the beneficiary bank's assets or for the bank to pay an adequate remuneration for the aid received(3) and that the costs associated with the restructuring be also borne by those who invested in the bank, by absorbing losses.
    3. **Measures to cater for distortions in competition resulting from State aid.** Depending on the size, scale and characteristics of the market in which the bank that is the beneficiary of the aid operates, the Commission may require structural measures that increase competition and contribute towards the internal market (divesting subsidiaries or branches, portfolios of customers or business units, limits on the bank's expansion in certain business or geographical areas, etc.).
- In July 2013, the Commission approved a final banking communication (applicable as from 1 August 2013 and currently in force) with the aim of modernising the legal framework for State aid control for the financial sector, by adapting it to the future regime set out in the proposal for a directive on the resolution of credit institutions and investment firms, and to strengthen the burden sharing for all banks that receive State aid in the single market, consolidating the imposition of a minimum level of losses for the bank's shareholders and subordinated creditors, irrespective of whether they are retail or professional investors.

(1) Communication from the Commission on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (2008 banking communication") (DO C 270 de 25/10/2008, p. 8); Communication from the Commission on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ("Recapitalisation communication) (DO C 10 de 15/1/2009, p. 2); Communication from the Commission on the treatment of impaired assets in the EU banking sector ("Communication on impaired assets") (DO C 72 de 26/3/2009, p. 1); Commission communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under State aid rules ("Restructuring communication") (DO C 195 de 19/8/2009, p. 9); Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of banks in the context of the financial crisis ("The 2010 Prolongation Communication") (DO C 329 de 7/12/2010, p. 7), and, Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis ("The 2011 Prolongation Communication») (DO C 356 de 6/12/2011, p. 7).

(2) Published in the Official Journal of the European Union on 19 August 2009 and which was in force until the end of 2012.

(3) The first crisis communications included instructions as to what this remuneration should be depending on the aid instruments available (guarantees, asset protection schemes, convertible bonds, etc.).

These exercises were carried out in two stages. Firstly, the application of a haircut to the nominal value of the instruments, leading to a loss for the holder of said instrument and a gain for the institution that receives the support. And, subsequently, conversion of the remaining percentage of the instrument, in accordance with the economic value determined, basically into equity of the bank itself. The haircuts applied to the nominal value of hybrid instruments varied in each case depending on the original instrument, the interest rate and the maturity date (bearing in mind, inter alia, whether this was perpetual). At any event, the market value needed to be demonstrated by means of a report issued by an independent expert.

This burden sharing was proposed as an exercise that might be mandatory or voluntary. Institutions could decide on subordinated liabilities exercises to be accepted voluntarily by investors. When designing the specific action, the entity had to take into account the seniority of the claims, in line with the restructuring and resolution principles. In addition, FROB was given the power to decide on subordinated liabilities exercises as an administrative act and, therefore, binding on the entities and creditors concerned. These would take place in the event that the voluntary actions had not been proposed or the minimum level of acceptance had not been reached to ensure adequate cost sharing or if FROB deemed it necessary to ensure said sharing and minimise the use of public funds or to preserve or restore the financial position of the institutions that received its financial support.

It was up to FROB to determine the issues to which the subordinated liabilities exercise would apply. When making this decision, the different seniority of the issues had to be respected (irrespective of when they were issued), so that the claims absorbed losses in proportion to their level of subordination and with the need for shareholders to have previously incurred losses as far as possible.

In order to assess the suitability and content of the subordinated liabilities exercises, FROB had to take into consideration a number of criteria. These included the proportion of the institution's hybrid capital instruments and subordinated debt with regard to its total assets; the amount of the public aid received by the institution and, in particular, whether or not the institution would receive financial support in the form of capital; or the market value of the instruments[29]. At any event, the content of the subordinated liabilities exercises would take into account the institution's economic value determined by FROB in order to specify the corresponding capital percentage in the exchange.

In order to ensure the enforceability of these exercises, investors were not able to initiate any other claim or financial compensation procedures. Similarly, the subordinated liabilities exercises agreed by FROB could not be considered as grounds for non-compliance or early maturity of the credit institution's obligations with third parties nor be claimed as a change in the ranking of claims in insolvency proceedings.

Each agreed action was published in the BOE (Official State Gazette) and on FROB´s website. The affected institutions published them as a significant event on the website of the CNMV (Spanish Securities Market Regulator) and on their own website as well as, where appropriate, in the daily bulletin of the markets on which the affected securities were listed.

[29] In this regard, the holders of dated subordinated debt (which enjoyed a higher market value than hybrid instruments and perpetual subordinated debt) were granted a special scheme so they were generally allowed to choose reinvestment as an alternative to shares, following the appropriate haircut, in a senior debt product (debt or deposit), with identical maturity to the affected subordinated debt, and with an annual 2% coupon payable upon maturity.

BOX 10. Measures to compensate retail investors

A very significant volume of the hybrid instruments affected by the subordinated liabilities exercises had been marketed to retail investors (around 70%). In order to address the growing number of claims from these customers, Royal Decree Law 6/2013, of 22 March, on the protection of certain savings and investment products and other financial measures was approved with a twofold objective:

- To monitor any claims that customers made against financial institutions as a result of the marketing of complex products, providing in certain cases quick mechanisms for resolving disputes, mainly through arbitration.
- The need to mitigate the situation of the affected investors who received in exchange for their instruments unlisted shares and who did not have any alternative for providing them with liquidity in the short or medium term.

Consequently, two types of measures were adopted:

Arbitration proceedings:

- The Hybrid Capital Instruments and Subordinated Debt Monitoring Committee was set up. Its functions included determining the basic criteria that would need to be used by investees of FROB in order to offer their customers the opportunity to submit any disputes that arise to arbitration, so that such customers would be appropriately compensated for the economic harm suffered in the event of a favourable ruling [(1)].
- The ruling would be issued by an arbitrator on the basis of a report drawn up by independent experts that would assess whether there had been mis-selling according to predefined criteria.
- With the implementation of these arbitrations, which were voluntary, free of charge and with the guarantees of a judicial process, retail customers were provided with an alternative and quick route for a review of the marketing process that would allow speedy compensation of those cases in which there was evidence or indications of wrong-doing or defective understanding of the product at the time of purchase.

DGF liquidity mechanism:

- The DGF was granted the legal capacity to create market mechanisms that would allow alternative liquidity for ordinary shares not admitted to trading on a regulated market issued by the institutions required to transfer assets to Sareb in the framework of the subordinated liabilities exercises [(2)].
- The instruments were purchased at a market value that included adjustments (set by the DGF on the basis of an independent expert) and in accordance with European Union legislation on State aid. In order for the DGF to perform these purchases, it was provided with sufficient resources by means of an extraordinary payment from the member credit institutions.

(1) The Monitoring Committee set the aforementioned basic criteria on 17 April 2013 and passed them on to FROB on the same date, which in turn sent them to the chairpersons of the institutions concerned for them to be adopted (NCG Bank, Catalunya Banc and BFA-Bankia).

(2) In compliance with this provision, the DGF, by resolution of its Management Committee on 4 and 7 June 2013, made a voluntary offer to purchase the shares of NCG Banco and Catalunya Banc not admitted to trading on a regulated market, subscribed to in the framework of the subordinated liabilities exercises.

Legal status of FROB

One of the most significant aspects introduced by Law 9/2012 was the strengthening of FROB's intervention powers and clarification of its responsibilities for managing the restructuring and resolution processes of credit institutions. This fulfilled a condition in the MoU[30], which was consistent with international initiatives in this matter. FROB was configured as a full resolution authority, a new player in the institutional framework with its own specific mandate and full capacity to discharge its duties. The composition of its Governing Committee was modified once again[31]. The participation of credit institutions through the DGF up to that time was completely eliminated and its activity was subject to quarterly parliamentary control.

In order to perform its functions, FROB was granted a broad catalogue of powers, differentiating between "commercial" and "general administrative" powers. On the one hand, FROB could exercise the powers that commercial legislation generally conferred on the management body and the general meeting or assembly of a commercial company[32]. On the other hand, it also had the necessary administrative powers to implement the restructuring and resolution instruments. FROB would therefore be empowered to: (i) determine the economic value of the institution or its assets and liabilities; (ii) require from any person the necessary information for preparation or adoption of any measure or restructuring or resolution instrument; (iii) order the transfer of capital instruments; (iv) increase or decrease capital; (v) perform subordinated liabilities exercises; (vi) determine the instruments used to implement the measures, and (vii) order the transfer of securities deposited with an entity.

The measures adopted by FROB were immediately enforceable. The need for the administrative acts issued by FROB to produce immediate legal effects as from their adoption, without the need for any additional procedures or to meet requirements established by law or contract, was based on the public interest inherent to resolution processes, which seek to safeguard the stability of the financial system and require maximum urgency in their processing. The exceptional framework contained in Law 9/2012 was imposed not only on the commercial, corporate and administrative provisions regulating the activity of credit institutions, but also on the general regime for obligations and contracts, for example, in the case of the application of the instrument of sale, in which the consent of the shareholders or of third parties other than the buyer is not required.

[30] In particular, Section 20 of the MoU included a commitment to improve the institutional framework for crisis resolution.

[31] See Table 4.

[32] The exercise of these powers only made sense in the event that FROB did not have control over an institution as a result of acquiring a majority shareholding therein (for example, following the conversion of its preference shares), since, in such cases, commercial law itself would already entitle it to exercise those powers within its corresponding corporate bodies.

Interventions under FROB III

The situation of the banking sector in 2012 and, consequently, the actions undertaken by FROB as from going forward that time were conditioned by the aforementioned context and the legislative framework detailed above.

Conversion of convertible preferred shares and advance of FROB III for the BFA-Bankia Group[33]

On 9 May 2012, the BFA-Bankia Group requested from FROB the conversion into shares of the convertible preferred shares granted under FROB I (4.47 billion euros). On 14 May, FROB approved the aforementioned conversion which implied, on the basis of the negative assessment of the bank by three independent experts, that FROB would take possession of 100% of the share capital of BFA.

At the end of the first half of 2012, the BFA-Bankia Group recorded a significant capital shortfall, with the need to receive urgent financial support. Consequently, on 3 September 2012, FROB approved the subscription of a capital increase in ordinary shares of BFA of up to 4.5 billion euros, as an advance until the group completed its restructuring plan. For its part, BFA granted Bankia a subordinated loan of the same amount to strengthen its solvency.

General aspects of FROB III

FROB's actions in the period from the middle of 2012 to 2015 were the most ambitious both in terms of mobilising public resources and in the number and the complexity of the interventions undertaken. The restructuring and resolution processes implemented under the new legal framework and the Eurogroup assistance programme were focused on restoring confidence in the stability of the financial system at times of maximum tension and uncertainty.

During this period, two stages can be distinguished depending on the evolution of FROB's priorities. In the first stage, all the actions focused on implementing the aid, carrying out the subordinated liabilities exercises and transferring assets to Sareb as quickly and efficiently as possible. In the second stage, FROB's action shifted to managing its holdings with a twofold purpose. Firstly, to maximise the recovery of the support provided through processes of divestments of the shareholdings and redemption of the subscribed CoCos. Secondly, to oversee compliance with the commitments set out in the plan relating to the resizing and deleveraging of the institutions.

[33] The other convertible preferred shares subscribed under FROB I and converted into shares were executed in parallel with the aid under FROB III and are therefore analysed below.

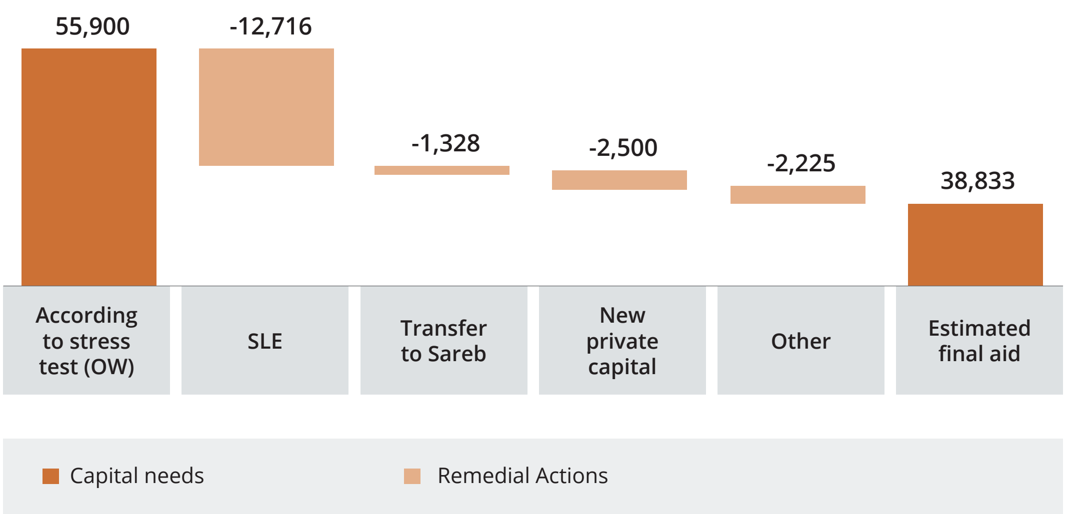
Restructuring / resolution plans

On 27 November 2012, FROB and the Bank of Spain approved the plans of Group 1 entities (BFA-Bankia, NCG Bank[34], Catalunya Banc and Banco de Valencia) and on 19 December the plans of Group 2 entities were approved (Caja3, BMN, España-Duero and Liberbank)[35]. The approved plans set out the obligation to undertake the measures necessary to achieve the restructuring and resolution objectives and principles[36]. These were as follows:

i. Financial support from FROB through the subscription of shares or contingent convertible instruments (CoCos).

On 28 September 2012, the analysis performed by Oliver Wyman had been published which diagnosed the capital needs for each one of the credit institutions (bottom-up analysis). The total amounted to 27.36 billion euros in a base scenario and 55.9 billion euros in an adverse scenario. When calculating the amount of the public aid required, the needs of the adverse scenario were reduced by 38.83 billion euros as a result of the estimated impact of the exchange of hybrid instruments, the planned transfer of assets to Sareb, the private capital increases in progress and other items, as broken down below.

Figure 5. Capital needs and remedial actions



The estimated final aid does not exactly match the difference between the shortfall detected by OW and the remedial actions due to the fact that the final aid in Banco de Valencia was determined by the results of the sale of the institution.

SLE: includes the initial estimate, included in the restructuring or resolution plans of each one of the institutions, of the capital that will be generated by performing the subordinated liabilities exercises. For definitive data, see Table 11.

Transfer to Sareb: this includes the estimated reduction or increase in capital needs as a result of the transfer of assets to Sareb. Others: estimated reduction in capital needs as a result of the sale of assets and other measures.

Data in million euros

[34] Banco Gallego was initially included in the resolution plan of NCG Banco. A specific plan was subsequently approved for this institution.

[35] The European Commission would approve the plans of each one of the institutions on 28 November 2012 (Group 1) and 20 December 2012 (Group 2).

[36] In accordance with the provisions of Articles 3 and 4 of Law 9/2012.

Breakdown by institution of the capital needs and remedial actions (Table 9).

Table 9. Capital needs. Breakdown by institution

			Measures taken to cover the capital shortfall				
	Institutions	Capital shortfall OW	Capital increase by SLE	Transfers to Sareb	Issuance of new private capital	Other	Financial support
GROUP 1	BFA-Bankia	24,743	6,592	191	-	-	17,959
	Catalunya Banc	10,824	1,553	187	-	-	9,084
	NCG Banco	7,176	2,027	- 276	-	-	5,425
	Banco de Valencia	3,462	416	208	-	-	4,500
GROUP 2	BMN	2,208	182	382	-	914	730
	Liberbank	1,198	714	145	-	215	124
	España-Duero	2,063	1,196	263	-	-	604
	Caja3	779	36	228	-	108	407
GROUP 3	Banco Popular	3,223	-	-	2,500	745	-
	Ibercaja	225	-	-		243	-
Total		**55,900**	**12,716**	**1,328**	**2,500**	**2,225**	**38,833**

The data included in this table reflect the best possible estimate that was made on the preparation date of the plans and therefore some do not match the final figures resulting from each measure.
Data in million euros

Finally, the financial support provided under FROB III amounted to 39.08 billion euros. FROB acted through directly enforceable administrative acts. The previous support, from FROB I and FROB II, received the same treatment as other shareholders and investors, which required execution of successive capital reduction-increase-reduction operations, in which FROB, in some cases, lost all or part of its prior investments (both of shares and of convertible preferred shares).

The aid was initially provided in the form of short and medium-term fixed income securities issued by the European Stability Mechanism (ESM bonds), which converted into cash on maturity[37] (Table 10).

Table 10. Institutions receiving support under FROB III

	Institutions	Plan	Type of support	Importe del apoyo	Fecha de acuerdo
GROUP 1	BFA-Bankia [(1)]	Restructuring	Capital	17,959	26/12/2012
	Catalunya Banc	Resolution	Capital	9,084	26/12/2012
	NCG Banco	Resolution	Capital	5,425	26/12/2012
	Banco de Valencia	Resolution	Capital	4,500	26/12/2012
GROUP 2	BMN	Restructuring	Capital	730	08/03/2013
	Liberbank	Restructuring	CoCos	124	08/03/2013
	España-Duero	Restructuring	CoCos	604	24/04/2013
	Caja3	Resolution	CoCos	407	08/03/2013
Total support provided with ESM funds				**38,833**	
Banco Gallego [(2)]		Resolution	Capital	245	30/09/2013
Total Support				**39,078**	

(1) The 4.5-billion-euro advance payment from FROB in order to restore the institution's regulatory capital position is included.
(2) The contribution to Banco Gallego's capital did not come from ESM funds.
Data in million euros

[37] The maturities of the securities issued by the ESM were as follows: 22% of the amount issued matured in 2013, 45% in 2014 and 34% in 2015.

BOX 11. Determining the economic values

- Prior to the adoption of any restructuring resolution measure, FROB had to determine the economic value of each institution in order to recognise the losses that might result from application of the instruments to be used.
- On 10 October 2012, FROB updated its methodology for making valuations (see Box 6) in accordance with the provisions of Royal Decree Law 24/2012. The value would be determined on the basis of the valuation reports commissioned from three independent experts.
- Between December 2012 and February 2013, FROB's Governing Committee determined the economic value of the institutions that required financial support, which were as follows:

Institution	Valuation (1)	Determination date
Catalunya Banc	-6,674	14/12/2012
NCG Banco	-3,091	14/12/2012
Banco de Valencia	-6,341	14/12/2012
BFA-Bankia (2)	-10,444	19/12/2012
España-Duero	-288	07/02/2013
Liberbank	1,113	07/02/2013
Caja3	370	07/02/2013
BMN	569	07/02/2013
Banco Gallego	-150	07/02/2013

(1) The economic value is presented except in the case of Banco de Valencia, for which the net asset value is presented.

(2) In addition to the valuation of the BFA Group, a valuation was made of the listed institution Bankia, which had a negative economic value of 4.42 billion euros.

Data in million euros

- These values were used as the basis for implementing the public financial support included in the restructuring/resolution plans approved for each institution.
- The shareholding percentages obtained by FROB in the investees following the subordinated liabilities exercise were as follows:

Institution	FROB % after SLE
Catalunya Banc	66.01%
NCG Banco	62.75%
Banco de Valencia	98.89%
BFA-Bankia (1)	68.39%
España-Duero	n/a
Liberbank	n/a
Caja3	n/a
BMN	65.03%
Banco Gallego (2)	100%

(1) The percentage indicated refers to that held in Bankia through BFA, in which FROB held a 100% interest.

(2) The percentage indicated refers to that held by NCG Banco in Banco Gallego.

ii. Transfer of assets to Sareb[38], the asset management company incorporated on 28 November 2012.

- The scope of the assets to be transferred, as agreed by FROB, covered assets linked to the real estate sector, essentially loans to real estate developers of over 250,000 euros and real estate assets foreclosed in payment of debts with a value greater than 100,000 euros.
- Group 1 institutions made the transfer with effect on 31 December 2012, while the transfer by Group 2 institutions was made on 28 February 2013.
- The assets were transferred to Sareb following application of a discount set by means of a Bank of Spain resolution and implemented as an average haircut on the gross value of the transferred assets which varied according to the type of asset.
- The gross value of the transferred assets was approximately 107 billion euros, with an aggregate transfer price of 50.78 billion euros (Table 11).
- The transfer price was implemented by the institutions being given senior debt issued by Sareb with the irrevocable guarantee of the State.

iii. Burden sharing through subordinated liabilities exercises.

Their practical implementation consisted of applying a haircut to the nominal amount of the preference shares and subordinated debt issued by institutions receiving public aid and the conversion of the remaining amount, mainly into shares of the institutions in accordance with their economic value. The outstanding nominal value totalled over 14 billion euros. The hybrid securities, following a haircut made to their nominal value, which were exchanged for capital issued by the institutions and, to a lesser extent, for debt. The average haircut of the original investment was 26%. As a result, the capital generated stood at over 13.5 billion euros (part as a result of conversion into capital and part as a result of the gain generated in institutions as a result of the haircut) (Table 12).

Table 11. Transfer prices to Sareb

Institution	Transfer date	Gross book value	Transfer price
BFA-Bankia	31/12/2012	46,392	22,318
Catalunya Banc	31/12/2012	16,496	6,708
NCG Banco	31/12/2012	10,408	5,097
Banco Gallego	31/12/2012	1,044	610
Banco de Valencia	31/12/2012	5,019	1,962
BMN	28/02/2013	10,953	5,819
Liberbank	28/02/2013	5,980	2,917
España-Duero	28/02/2013	6,512	3,137
Caja3	28/02/2013	4,318	2,212
TOTAL		**107,122**	**50,780**

Datos en millones de euros

[38] For further information, see Section II, subsection on Sareb.

Table 12. Subordinated liabilities exercises

Institutions	Outstanding nominal value	*of which retailer*	Repurchase price exchange for capital	Repurchase price exchange for debt	Initial haircut	Initial haircut (% of nominal value)	Capital generated (1)	Type
BFA-Bankia	6,911	*5,062*	4,852	242	1,817	26%	**6,669**	Mandatory
NCG Banco	2,047	*1,501*	1,355	88	604	30%	**1,959**	Mandatory
Catalunya Banc	1,818	*1,724*	1,218	143	457	25%	**1,675**	Mandatory
España-Duero	1,433	*1,011*	1,159	0	274	19%	**1,433**	Mandatory
Liberbank	866	*548*	787	16	63	7%	**850**	Mandatory Mandatory
BMN	449	*13*	309	24	116	26%	**425**	Mandatory
Banco de Valencia	416	*100*	59		357	86%	**416**	Mandatory
Banco Gallego (2)	192	*86*	122	25	45	23%	**167**	Mandatory
Caja3	91	*1*	9	47	35	38%	**44**	Mandatory Mandatory
Total	**14,223**	***10,046***	**9,870**	**585**	**3,768**	**26%**	**13,638**	

(1) Capital generated is deemed to be the increase in own resources resulting from the subordinated liability exercises as a result of the increase in capital and capital equivalents and as a result of the haircut (without considering the tax impact of the haircut).

(2) In Banco Gallego, the hybrid instruments were exchanged for bonds monetarily convertible into shares of Banco Sabadell, resulting in capital generated at a group level of €167m.

Data in million euros

Of the outstanding nominal value of instruments subject to subordinated liabilities exercises, a little over 10 billion euros corresponded to retail holders, most of which ultimately did not absorb the losses as a result of:

1. DGF liquidity facility

- In July 2013, the DGF acquired shares from the subordinated liabilities exercises from retail customers of Catalunya Banc and of NCG Banco for 1 billion euros and 802 million euros respectively, representing 32.4% and 25.6% of the capital of each one of the institutions.
- The purchase price of the shares was the value assigned to shares delivered to holders of hybrid instruments in the subordinated liabilities exercise, and additionally applying a haircut of 13.8%, calculated as an adjustment for the lack of liquidity of the shares included in the offer that were not admitted to trading on any secondary market.

2. Arbitration procedures

- Over 55% of the retail holders of hybrid instruments of NCG Banco, Catalunya Banc and BFA-Bankia (the institutions in which FROB held an interest) obtained positive rulings, accounting for a refunded nominal amount of over 3.1 billion euros (to which the corresponding adjustments were applied in order to account for the coupons received, the statutory interest accrued and the value of the returned shares).
- Almost 80% of the total number of retail holders of hybrid instruments requested arbitration. Of these, approximately 70% obtained a favourable ruling.

3. Court judgements relating to mis-selling of hybrid instruments.

- Subsequently, numerous court judgements have been issued ordering institutions to return the retail investments subject to the SLEs in the circumstances in which mis-selling was identified.
- According to the data available, for the institutions in which FROB had an interest, judgments in favour of customers were issued with the corresponding refund of their contributions for around 3.8 billion euros in terms of nominal value (to which the corresponding adjustments were applied in order to account for the coupons received, the value of the returned shares and, where appropriate, the amount received from the DGF).

iv. Other measures.

In parallel, the plan set out measures to resize and deleverage the institutions, which were also aimed at avoiding competitive distortions in the markets in accordance with European legislation on State aid. These were commitments relating, for example, to reducing the size of lending volumes, branches, employees or divestments of holdings not focused on their core business, and restrictions on performing certain activities (development loans or loans outside their natural area of business). In addition, the institutions had some limitations and restrictions relating to acquisitions, disclosure of the aid, remuneration, distribution of results and coupon payments and aggressive commercial practices. Finally, some plans included commitments for the divestment of FROB's holding in the capital by a specific deadline.

Conclusion of the assistance programme and surveillance missions

The MoU provided for the assistance programme to last a maximum of 18 months. During this period, Spain could request the disbursement of aid against the maximum available amount (100 billion euros). The MoU established that during the term of the programme, there would be regular reporting by the Spanish authorities in order to verify the progress of the measures undertaken to comply with the agreed conditions. The joint conclusions of the European Commission, the ECB, the EFSF (later, the ESM) and the IMF were set out in a document published by the European Commission following the missions[39]. This document set out the progress achieved as well as the outstanding challenges relating to the stability of the financial sector and the planned adjustments in the programme.

In November 2013, the Spanish authorities communicated their decision not to request any further disbursement under the assistance programme, deeming it to be concluded at the end of the year[40]. The Eurogroup[41] and the Commission[42] each issued communications formally concluding the programme and stating that the objectives had been met and the commitments made by Spain had been fulfilled Two years later, the Commission conducted an assessment of the usefulness of the programme and the lessons learned from the Spanish experience, which was set out in the "Evaluation of the Financial Sector Assistance Programme. Spain, 2012-2014"[43].

Monitoring and completion of the plans

All the commitments included in the plans of the institutions receiving public aid under the MoU were satisfactorily achieved as of their completion date. In order to monitor the different measures and commitments undertaken in each one of the plans, monitoring trustees were appointed to prepare half-yearly reports relating to the level of achievement of the different commitments. In certain cases, this task was taken on directly by FROB (for example, in the Banco de Valencia and Banco Gallego processes). Banco Gallego and Banco de Valencia completed their restructuring periods in 2015 and NCG Banco in 2016. For their part, BFA-Bankia, BMN, Liberbank and Caja3 concluded them in November of 2017. Finally, the Catalunya Banc and España-Duero periods were concluded at the start of 2018. The Bank of Spain declared the restructuring processes concluded on 16 July 2018.

[39] Information on the reviews of the programme, IMF reports and post-programme missions available at: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-spain_en.

[40] Following closure of the programme, however, the monitoring work of the European authorities has not concluded. Article 14 of Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, establishes that subsequent to conclusion of the corresponding programme, the Member States receiving financial aid will be subject to post-programme surveillance as long as a minimum 75% of the financial assistance received has not been repaid. Now without the participation of the IMF, Spain receives half-yearly visits from the post-programme surveillance missions, with regard to which the Commission, the ECB and the ESM subsequently communicate their evaluation to the competent committee of the European Parliament, to the EFC and to the Member State.

[41] Available at: https://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/139580.pdf.

[42] Available at: http://europa.eu/rapid/press-release_MEMO-14-51_en.htm.

[43] Available at: https://ec.europa.eu/info/sites/info/files/file_import/ip019_en_2.pdf.

Other actions prior to the new European resolution framework

Following the set of interventions undertaken under the financial assistance programme and the legal framework approved in 2012, but before the new European framework of the Banking Union was fully implemented, FROB had to implement some of its powers.

i. Resolution process of Mota del Cuervo[44].

In January 2014, FROB carried out the resolution of Caja Rural Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla-La Mancha. The institution accounted for less than 0.01% of the assets of the Spanish banking system. As it was likely to be unable to meet its obligations in the near future and unlikely that the institution would be able to redress the situation by its own means (as its General Assembly had rejected a plan for integration into another institution), the Bank of Spain decided to open its resolution process. After FROB was appointed as its provisional administrator, the institution was sold to another cooperative (Globalcaja), by means of an emergency procedure for a sales price of 1,275,800 euros without any financial support from FROB.

ii. Insolvency proceedings of Banco Madrid[45].

In March 2015, FROB rejected the opening of a resolution process of an institution which the Bank of Spain had intervened, Banco Madrid. On 10 March 2015, the United States authorities announced their decision to consider the Andorran parent company of Banco Madrid (Banca Privada d´Andorra -BPA-), with a balance sheet of 1.3 billion euros, as a foreign financial institution of primary money laundering concern. This decision resulted in the business of all the group's entities, including Banco Madrid, being severely harmed and their operations in wholesale markets significantly affected. This led the supervisory authority of Andorra (INAF - Andorran National Institute of Finance) and the Bank of Spain to intervene and, subsequently, to provisionally replace the Board of Directors of BPA and Banco Madrid, respectively.

In view of the significant destabilisation of the institution and the quick breakdown of its liquidity position, Banco Madrid filed for voluntary insolvency proceedings. In accordance with the established procedure, both the Bank of Spain and FROB concluded that the orderly resolution process could not be opened due to the inexistence of reasons of public interest required by law. Consequently, on 25 March 2015, the Judge of the Commercial Court ordered the initiation of voluntary insolvency proceedings, agreeing the opening of proceedings to wind up and dissolve Banco Madrid. Faced with the impossibility of restoring the deposits and with no prospect of being able to do so in the immediate future, the DGF, for the first and only time during the crisis, paid the covered deposits in Banco Madrid. Most of the payments of the covered amount were made without incident and within the maximum legal period of 20 business days following the declaration of insolvency.

The situation of Banco Madrid, which performed a large part of its activity in the stock market, led the CNMV to adopt the corresponding measures to protect the bank's customers and its supervised subsidiaries. On 16 March 2015, it decided to intervene in Banco de Madrid Gestión de Activos SGIIC and temporarily suspend the redemptions of the investment funds managed by this company. Subsequently, it would award the depository and management of said funds to other companies, thus restoring their ordinary operation. It also decided to intervene in the group's broker-dealer, Interdin Bolsa, SV, SA, in order to subsequently, on 11 May 2015, declare its insolvency and facilitate redemption of the outstanding balances with investors through the investment guarantee fund, up to a maximum of one hundred thousand euros in accordance with the regulations in force.

[44] For further information, see Section II, subsection on Mota del Cuervo.
[45] For further information, see Section II, subsection on Banco Madrid.

Return of aid granted through CoCos

The plans of Liberbank, Caja3 and España-Duero established that these institutions, or institutions that would take them over, would pay back the amount subscribed by FROB within certain deadlines.

In the three processes, the full amounts were paid to FROB by the deadlines set, together with all the accrued interest (Table 13).

Table 13. Plans of Liberbank, Caja 3 and España-Duero

Process	Amount	Date of payment to FROB	Interest paid
Liberbank	124	22/12/2014	19
Caja3	407		143
First payment	20.4	31/03/2016	
Second payment	163	29/12/2016	
Third payment	223.6	24/03/2017	
España-Duero	604	31/08/2017	240

Data in million euros

Recovery of aid granted through shares

In addition to the deadlines established in domestic legislation for divestments by FROB, the plans of some institutions (Banco de Valencia, Banco Gallego, NCG and CX) also included requirements relating to their sale before a specific date. In compliance with these commitments, FROB carried out competitive procedures for the divestment of its holding in said institutions (Table 14).

In the framework of the processes of selling the institutions, FROB provided guarantees with the aim of maximizing the sale price and minimising the use of public resources. The guarantees granted covered very different contingencies. Some were aimed at limiting the volume of losses to be assumed by the buyer with regard to certain loan portfolios; others had the aim either of preventing certain risks for the buyer or sharing the cost of certain disputes or contingencies with the buyer. At 31 December 2018, the estimated cost of the set of guarantees and asset protection schemes granted by FROB in the processes of sale or integration of institutions amounted to 2.33 billion euros, of which 1.74 billion euros has already been paid out.

Table 14. FROB III Divestments

Process	Sale price	Successful bidder	Award date
Banco de Valencia	€1	Caixabank	27/11/2012
Banco Gallego	€1	Banco Sabadell	19/04/2013
NCG Banco	€712m	Banco Etcheverría (Banesco Group)	18/12/2013
Catalunya Banc	€782m	BBVA	21/07/2014

Data in million euros

BOX 12. What type of guarantees did FROB grant in the sale processes?

The main types of guarantees granted in the divestment processes were:

- Asset Protection Schemes (APS): to cover the losses on a specific asset portfolio.
- Guarantees related to transfers to Sareb: to cover various contingencies arising from the transfer of institutions' assets to Sareb..
- Tax credits: FROB ensured future use of tax credits for the buyers.
- Mis-selling: covering of possible liabilities that might arise from lawsuits for mis-selling of hybrid instruments, floor clauses or interest-rate hedge agreements.
- Legal/damages: granting buyers immunity from any potential damages resulting from final court decisions on certain issues.
- Equity stakes: compensation for amounts to be paid in the price of equity stakes or in potential claims concerning the early cancellation of significant contracts, as a result of the change in control of the acquired institution as a consequence of the purchase/sale.
- Liquidity: finance certain payment commitments existing in the institutions.

FROB monitors the progress of these guarantees, verifying that the amounts claimed are appropriate and within the parameters agreed in the contract with each buyer.

Divestment of FROB´s share in Bankia

To date, FROB has performed two divestment transactions of the stake it holds in Bankia through BFA. In the first, on 27 February 2014, it sold shares equivalent to 7.5% of the institution's capital at a price of 1.51 euros per share. On 11 December 2017, FROB executed a second divestment transaction consisting of the sale of shares equivalent to 7% of the bank's capital at a price of 4.06 euros per share[46].

[46] The sale was undertaken after a capital reduction by reducing the nominal value and subsequent grouping of outstanding shares (reverse share split), which meant a fourfold increase in the price per share. Therefore, the equivalent price to that of the first divestment is 1.02 euros per share.

Figure 6. Evolution of Bankia´s share price and divestment transactions

Date **27/02/2014**	Date **11/12/2017**
Price **1.51 (equiv. €6.04)**	Price **4.06 (equiv. €1.02)**
Discount vs. closing **-4.40 %**	Discount vs. closing **-2.71%**
Size (€m) **1,304**	Size (€m) **818**
Size (% capital) **7.50%**	Size (% capital) **7.00%**

At 30 June 2019, FROB's stake stood at 61.77%. This percentage is the result of changes in the stake as a result of the divestment transactions, the merger with BMN and enforcement of the court judgments that involved repurchasing shares from investors.

BOX 13. Bankia - BMN Merger

- On 14 March 2017, FROB decided that the merger of the credit institutions in which it held a stake (Bankia, through BFA and BMN) was the best strategy for complying with the mandate to optimise the ability to recover public aid in the event of a future divestment process.
- Consequently, on 26 June 2017, the boards of directors of BMN and Bankia agreed the draft terms of merger for both institutions, which was approved by the respective shareholders' meetings on 14 September 2017, taking full effect in January 2018.
- Following the merger, FROB, as the sole shareholder of BFA, contributed to the latter the shares received as a result of the exchange of BMN shares, by means of a capital increase performed by BFA through non-cash contributions, thus unifying all its stake in Bankia through BFA.

Legal proceedings

Criminal jurisdiction

FROB has been actively involved in detecting and reporting irregular conduct and ensuring accountability. Detecting irregular conduct that might have caused financial loss to the institutions that received public aid and ensuring accountability of the previous managers of these institutions have been two areas on which FROB has focused during the bank restructuring process.

In 2013, the former managers of Banco de Valencia were held accountable. In compliance with its responsibilities as provisional administrator of Banco de Valencia, FROB commissioned independent experts to draw up forensic reports relating to certain suspicious transactions that had been detected (either because they were clearly irregular or because they did not have a logical economic purpose), carried out by the bank's previous administrators. After determining the possible criminal law significance of the transactions analysed, on 21 February 2013, FROB brought the appropriate legal actions. As a result, FROB is the aggrieved party in 11 legal proceedings in progress at the Central Investigative Courts assigned to the National High Court with the aim of recovering amounts used in the resolution process of said bank.

On 9 May 2013, FROB's Governing Committee approved a protocol for action prior to taking legal action. Through this protocol, the remaining institutions that had received aid and were investees of FROB (NCG Banco, BMN, Catalunya Banc and Bankia) were requested to perform an extensive and thorough investigation to prepare a report setting out the transactions relating both to the real estate sector and to the internal remuneration practices of the banks themselves performed over the last five years that might have had a material financial impact (bearing in mind concepts such as the bank's results, own funds or turnover) and which showed signs of irregularity or not having a logical economic purpose.

The second stage of the actions under the aforementioned protocol consisted of banks' hiring independent experts. In this stage, which was approved on 14 February 2014, the experts hired investigated those transactions in which signs of irregularities had been detected with the aim of: (i) undertaking a more detailed analysis of the transactions detected and documenting the existence of any irregularities that may have been committed, and (ii) determining the economic impact and financial loss caused to each bank as a result of said transactions. The work of the independent experts resulted in the drafting of a forensic report for each one of the irregular transactions identified.

In the context of the aforementioned protocol, 90 transactions relating to the real estate sector and internal remuneration practices were reviewed and subject to a forensic report. After receiving the corresponding reports, and following their internal analysis, FROB decided to pass on to the Office of the Special Prosecutor against Corruption and Organised Crime 57 cases, together with all the information obtained and related documentation, so that said Office might investigate the transactions reported and determine whether they had exceeded mere irregularities and acquired legal and criminal significance as criminal offences.

Table 15. Forensic reports sent to the Prosecutor's Office under the protocol

Process	Forensic reports sent to the Prosecutor's Office	Estimated financial Impact
NCG Banco	12	980
Bankia	12	1,529.8
Catalunya Banc	18	900
BMN	6	175
España-Duero	9	120
Total	**57**	**3,704.8**

Data in million euros

This work of investigating and detecting potentially irregular conduct and reporting such conduct to the Public Prosecutor's Office has led to intense jurisdictional activity with regard to the responsibilities of the administrators of the institutions that received public aid. As of June 2019, FROB was a party to a total of 24 criminal proceedings in progress against numerous former executives of different banks, having already obtained judicial recognition for collection of 20.1 million euros plus statutory interest and costs. In these cases, FROB maintains its position as the aggrieved party, in an attempt to defend the public interest and to promote recovery of the aid provided. In this regard, the defence of the status of aggrieved party by FROB has focused a large part of the procedural efforts in the jurisdictional stage, achieving pronouncements that acknowledge that status. With the same aim, FROB imposed on all the buyers of institutions with public aid not only the obligation to maintain the procedural action or assign the civil liability actions initiated or which may be initiated, but also the obligation to hand over to FROB any sums that may have been returned.

Appeals against the measures taken by FROB

The administrative activity performed by FROB in discharging its functions has been repeatedly challenged. A total of 28 appeals for judicial review have been lodged to contest FROB's administrative actions, mainly in the restructuring and resolution processes under the framework and powers of Law 9/2012 (on the execution of subordinated liabilities exercises, capital increases and reductions with the exclusion of pre-emptive subscription rights or the transfer of assets to Sareb) All the legal decisions to date have confirmed that the administrative actions performed were legal and in line with the law.

CHAPTER III (2015-2019)

THE ESTABLISHMENT OF THE BANKING UNION

National and international context

Starting in 2015, the positive rate of growth in the world economy began to slow down. Despite the expansive orientation of economic policies (particularly monetary policies), there was less buoyancy in emerging economies and more modest rates of growth in advanced economies. This situation has continued since then, affected at different times by episodes of international political and trade uncertainty.

In Europe, despite the economy's gradual recovery in recent years, levels of inflation and lending have remained low. This situation, together with the more recent economic slowdown, has given rise to new monetary policy measures by the ECB both in terms of lower interest rates and new purchase programmes with a wider variety of eligible assets, and in terms of new longer-term refinancing operations, whose rates moved into negative territory for the first time in December 2015 (minus 10 basis points) and would fall to minus 40 basis points in March 2016, remaining at that level for several years.

In 2015, Spain reached its highest rate of economic growth (3.2% of GDP) and the economy's growth stage has continued, at a rate above the average for the euro area. The sustained growth (in the second quarter of 2017 the economy reached the same level of activity as prior to the crisis) has also been intense in job creation (the unemployment rate fell to 14.4% in 2018) and has been driven by domestic demand, offsetting the slower rate of growth in the external sector.

Given that the economic crisis has been overcome, work has progressed at an international level to minimise the occurrence and also the impact of future bank crises. In November 2014, as a further step in the actions undertaken by the FSB with regard to effective resolution, the Total Loss Absorbing Capacity (TLAC) framework was approved, which is applicable for global systemically important institutions as from 1 January 2019. The objective is for these institutions to have a sufficient level of loss absorbing capacity in the event of a crisis so that the losses may be absorbed by shareholders and creditors without requiring public financial support.

At a European level, further progress has been made in developing the Banking Union. Following the establishment of the SSM in November 2014, the SRM began to operate in January 2015, with the only outstanding pillar for completing the Banking Union project being the creation of the European Deposit Guarantee Scheme[47]. The ambitious Capital Market Union project was also launched in 2015 and is advancing slowly. In the field of resolution, a revision of the Resolution Directive and the Capital Requirements Directive was recently approved. This revision incorporates new international standards on requirements on Total Loss Absorbing Capacity (TLAC) into EU legislation.

[47] This project is not yet in operation and depositor protection therefore remains under national sovereignty. There is a European Commission proposal (initially submitted in 2015 and subsequently revised) for the creation of a harmonised deposit guarantee scheme in every European Union country.

In Spain, following the conclusion of the financial assistance programme, the situation of the banking sector has improved notably. Although the capital ratios of Spanish financial institutions have remained below the European average, their solvency is in line with regulatory requirements[48]. In addition, like other comparable countries, the volume of non-productive loans, geopolitical uncertainty and the pressure on profitability became the new areas of attention for the analyses of authorities and investors.

The widespread improvement in the situation of the European financial sector in recent years has not, however, prevented the new regulatory framework and the Single Resolution Board (SRB) from being tested earlier than expected. Some of the most significant interventions of European authorities in this period were the precautionary recapitalisation of Banco Monte dei Paschi di Siena, the winding up, with the intervention of State aid, of Banca Popolare di Vicenza and of Veneto Banca and resolution of Banco Popular Español, which is discussed in greater detail in a subsequent section. The lessons learned in recent cases have revealed the need to continue advancing in greater harmonisation and further consolidation of the Banking Union in order to achieve a true single market.

Legal and institutional framework

Single Resolution Mechanism

The SRM is a centralised resolution system made up of the national resolution authorities and a single authority - the SRB - the European agency to which many of the powers of the Member States in matters of resolution were transferred. These authorities are joined by the ECB, the European Commission and the Council in the terms established in the SRM Regulation[49]. The SRM includes a Single Resolution Fund (SRF) that is raised and managed by the SRB with contributions from all the entities of the Banking Union[50] to be used in case of resolution.

At a national level, Law 11/2015 set up a new institutional framework in order to comply with the principles set out in the Resolution Directive to separate the supervisory and resolution functions. Accordingly, the Spanish model distinguishes between two types of national resolution authorities: (i) the preventive resolution authorities, responsible for the preventive stage of the resolution, and (ii) the executive resolution authority responsible for the execution stage. As a major substantive new development, unlike the previous legislation and in line with the Resolution Directive, Law 11/2015 applies not only to credit institutions but also to investment firms. However, those whose legally required minimum share capital is lower than 730,000 euros or whose activity meets another series of characteristics[51] are exempt.

There are three national resolution authorities. Two preventive resolution authorities that must exercise their tasks through bodies that are operationally independent from their supervisory functions: the Bank of Spain, with regard to credit institutions and the CNMV (Spanish Securities Market Regulator) for investment firms. And an executive resolution authority which is also the contact authority at an international level, whose functions are entrusted to FROB.

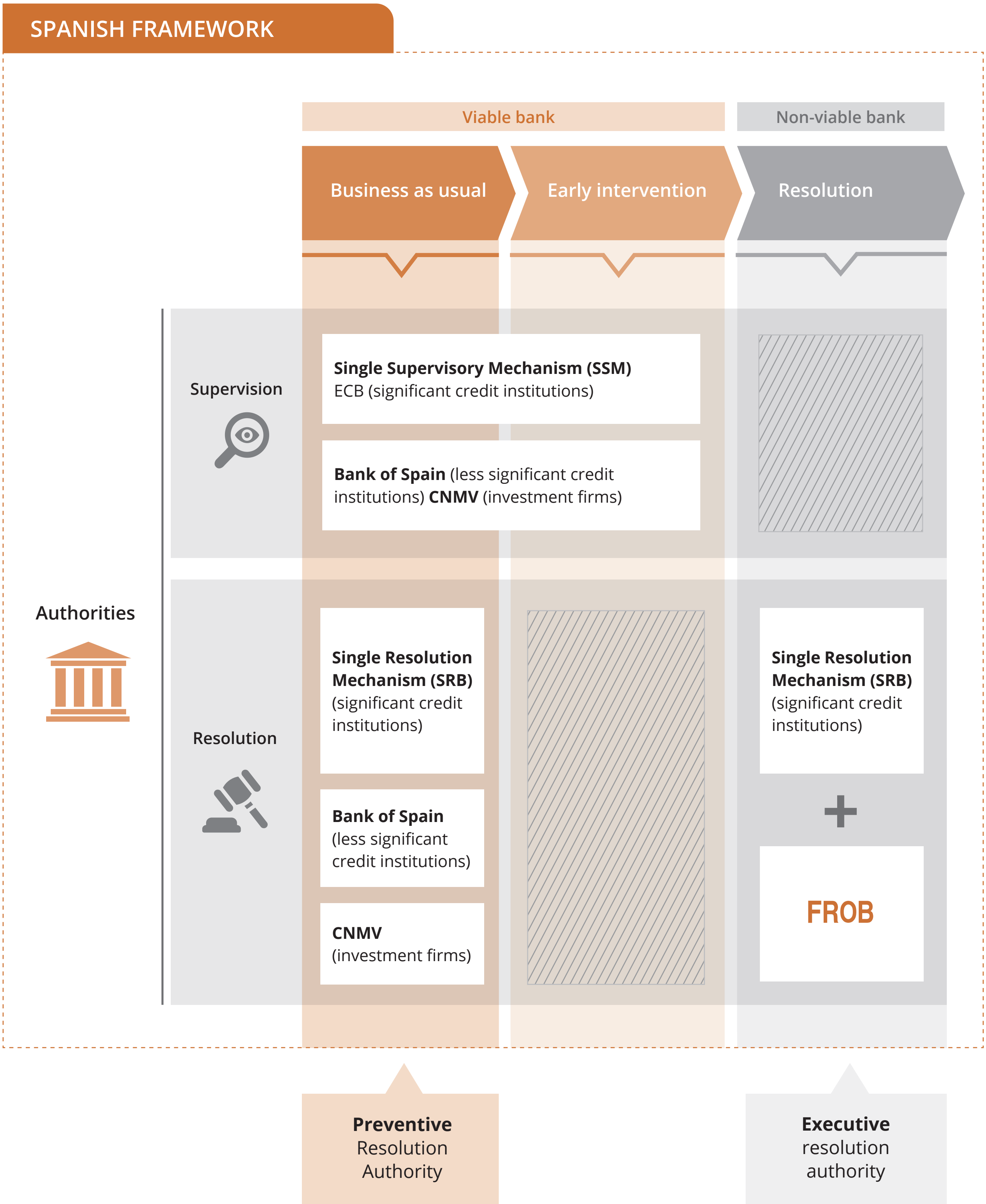
[48] EBA Risk Dashboard Q4 2014. Available at: https://eba.europa.eu/documents/10180/1097047/EBA+Dashboard+-+Q1+2015.pdf/ec1dac5e-99fe-410b-9058-0f14027c8d2d.

[49] Since only EU institutions may establish the EU's resolution policy and there is still margin for discretion in adopting each resolution scheme (Meroni doctrine), the SRM Regulation provides for intervention by the Council and the Commission. Therefore, the procedure for adopting resolution schemes involves both the Commission and the Council, which also strengthens the necessary operating independence of the Board, while respecting the principle of the delegation of powers to agencies as interpreted by the Court of Justice of the European Union.

[50] Instrument of ratification by Spain of the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, made in Brussels on 21 May 2014. Available at: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2015-13769.

[51] In Spain there are 30 investment firms within the scope of the act.

Figeure 7. Organisational framework for resolution in Spain



Single Resolution Board (SRB)

Since January 2015, the SRB has been responsible for the effective functioning of the SRM. In particular, it is empowered to take decisions relating to significant entities or groups[52] and cross-border groups. This basically includes the 12 most important Spanish banking groups together with another 124 large entities and groups in the euro area. There are therefore 56 credit institutions that remain under the national scope (38 are credit cooperatives).

With regards to its composition, the SRB operates in executive session, which may be restricted or extended, and in plenary session. The restricted executive session is composed of the Chair, the Vice-Chair and the four further full-time Board Members[53]. The scope of its powers is wide and it adopts all the decisions necessary to apply the SRM Regulation, unless otherwise provided. The extended executive session takes the decisions relating to a specific institution both in planning and in execution of the resolution (with exceptions in the case of the use of the SRF above a threshold). In addition to the members of the restricted executive session, it includes the representatives of the Member States in which the institution in question is established, which must act with independence and objectivity in the interest of the Union as a whole and whose vote, however, is not taken into account in the absence of consensus. For its part, the plenary session of the SRB is also comprised of the Chair, the four further full-time Board Members and the representatives of the national resolution authorities. They adopt decisions of a more general nature: annually, the decisions relating to its working programme, activity report and budget; decisions on investments and staff; on the need to collect extraordinary ex-post contributions for the Single Resolution Fund and decisions relating to its use if the specific resolution scheme requires support greater than 5 billion euros, etc.

Cooperation between the SRB and the national resolution authority is implemented through "internal resolution teams". For each group, the SRB has created teams made up of its own staff and staff from the national resolution authorities named IRTs that are responsible for drawing up the resolution plans.

The SRF is provided with the contributions of all credit institutions[54] and certain investment firms[55] in the 19 Member States participating in the Banking Union. It is managed by the SRB, which must use it exclusively for the purpose of guaranteeing application of the resolution instruments and efficient implementation of resolution competences. It is a key piece for guaranteeing that the financial sector will contribute towards effective resolution of its own institutions and, ultimately, to its stabilisation, thus reducing the cost to the taxpayer.

[52] In accordance with European legislation, a distinction is made in the Banking Union between significant and less significant institutions in accordance with the provisions of Article 6.4 of Regulation (EU) No. 1024/2013 of 15 October 2013,conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions

[53] The Council appointed the Chair, the Vice-Chair and the full-time members of the Single Resolution Board in December 2014.

[54] Both those under the scope of the SRB and those under the competence of the National Resolution Authority.

[55] Those included in banking groups subject to consolidated supervision by the ECB.

Table 16. SRF-NRF comparison

	Single Resolution Fund (SRF)	National Resolution Fund (NRF)
Applicable legislation	Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014, in relation to the established method and frequency. Council Implementing Regulation (EU) 2015/81 of 19 December 2014, in relation to the calculation of the annual contribution. Commission Delegated Regulation (EU) 2015/63 of 21 October 2014, in relation to the development of the contribution calculation method.	Law 11/2015, of 18 June, on recovery and resolution of credit institutions and investment firms. Commission Delegated Regulation 2015/63 of 21 October 2014 in relation to the development of the contribution calculation method.
Authority responsible		
Management of the fund	SRB	FROB
Determination of target level	SRB	FROB
Calculation of contributions	SRB	FROB
Collection	FROB (1)	FROB
Calculation of contributions	The proportion that each one of the institutions concerned represents in terms of total liabilities, excluding own funds and covered deposits, is taken into account. This result is then adjusted to the risk profile of each institution.	
Affected institutions	Credit institutions established in the participating Member States. Investment firms in a banking group subject to ECB supervision.	Spanish investment firms not integrated into a banking group. Branches in Spain of credit institutions and investment firms established in third countries.
Current Volume (2)	32.9 billion euros (target: 1% of the covered deposits at the end of 2023, estimated at 60 billion euros)	4.8 million euros.
Compartments and mutualisation	During the transition period, the contributions that the institutions provide to the SRB are assigned to the different national compartments so that each Member State of the Banking Union has its own compartment. The compartments are being gradually merged over eight years and will cease to exist at the end of 2023.	Not established.

(1) FROB then transfers the amount of the collected contributions to the SRB.
(2) Balance at 31/12/2018.

FROB as Executive Resolution Authority

Law 11/2015 introduced important new aspects in the composition of FROB's Governing Committee. It expanded the number of members (from 9 to 11), incorporated the CNMV, which will be represented by its Vice-Chair, and created the position of Executive Chair, appointed by the Council of Ministers following a hearing before Parliament, with a non-extendable mandate of five years and specified reasons for termination. Any decisions affecting the General State Budget would be adopted by a Governing Committee made up exclusively of representatives from the Ministry for Economic Affairs and Finance and the Chair[56]. A fee was also introduced to cover the entity's operating expenses[57].

Legal framework: Law 11/2015

Law 11/2015 gives continuity to both the content and the structure of Law 9/2012. Although it already considered the preparatory work that then existed with regard to the European Resolution Directive, it makes substantial progress in some key aspects, such as the mechanism for loss absorption by shareholders and private creditors.

The essential principles supporting the current resolution framework are as follows:

Special administrative procedure. The regime that would regulate the failure of institutions which could not be wound up through insolvency proceedings[58] for reasons of public interest and financial stability is a special administrative procedure which seeks maximum speed in the intervention of the institution in order to facilitate the continuity of its critical functions while at the same time minimising the impact of its failure on the economic system and public resources.

Separation between supervisory and resolution functions. The classic mandate of supervisory authorities consists of ensuring compliance with the legislation regulating the activity of institutions and, particularly, solvency legislation, with the ultimate aim of protecting financial stability. However, resolution is a new area of public intervention which autonomously requires institutions to operate in such a manner that their resolution is feasible and respectful of the general interest in the event of their failure. This difference in approaches in the task to be performed led the regulator to strengthen the tools so that both functions may be performed independently and, at the same time, with the heads of supervision and resolution to cooperate in good faith[59].

The resolution cost of an institution must mainly affect its shareholders and creditors. Public resources must be protected during the institution's resolution process with shareholders and creditors or, as the case may be, the industry, absorbing the losses. It is therefore essential to define the resources that will be used to finance the costs of a resolution procedure, which are sometimes extremely high. Consequently, Law 11/2015 defines both the internal mechanisms for shareholders and creditors to absorb the losses of an institution resolution (the bail-in instrument), as well as the establishment of a national resolution fund financed by contributions from the investment funds that do not already contribute to the SRB, as well as the branches in Spain of credit institutions and investment firms established in third countries (Table 16).

[56] See Table 4.

[57] This system of financing is consistent with that of the SRB, whose administrative costs are also paid by the private institutions themselves by means of the corresponding annual payments.

[58] The explanatory memorandum to Law 11/2015 states that "Traditional insolvency procedures, carried out through judicial channels, are often not useful for performing the restructuring or closure of a failing financial institution".

[59] In January 2018, FROB signed cooperation agreements with the CNMV and with the Bank of Spain on recovery and resolution issues.

[60] The bail-in rules entered into force on 1 January 2016.

BOX 14. Rules on the write-down and conversion of capital instruments and bail-ins

Bail-in principles.

The following principles are followed when performing the write-down and bail-in (conversion of liabilities into capital instruments):

- Losses are allocated equally among shares, other instruments of ownership and eligible liabilities of the same rank, with the exception of those that it has been decided to exclude, reducing their amounts in proportion to their value.
- An instrument class (capital or liabilities) will not be converted into capital or written down while there are other more subordinate classes that have not been written down or converted in full.
- Provided that the conversion rate for higher-ranking creditors is higher than that of lower-ranking creditors, different conversion rates may be applied to different types of capital instruments and liabilities when the conversion rate is appropriate compensation for the losses incurred by the creditor.

Eligible liabilities:

- **There are liabilities that are mandatorily excluded,** such as covered deposits, secured liabilities, client money or assets held by the institution and liabilities with an original maturity of less than seven days with regard to third-party credit institutions and investment firms and payment and securities settlement systems or operators of such systems.

The resolution authority may exclude certain liabilities when it is not possible to write down or convert such liabilities within a reasonable time or where necessary and proportionate to achieve the continuity of critical functions and core business lines and/or to avoid giving rise to contagion.

Bail-in sequence:

The write down and conversion or bail-in will be applied firstly in order to absorb losses and then to cover the amount of the necessary recapitalisation, writing down, reducing or converting the amount of the shares, instruments of ownership or eligible liabilities in line with the following sequence [(1)]:

- Firstly, Common Equity Tier 1 items are reduced in proportion to the losses and to the extent of their capacity.
- The principal amount of Additional Tier 1 instruments to the extent required and to the extent of their capacity.
- The principal amount of Tier 2 instruments to the extent required and to the extent of their capacity.
- The principal amount of subordinated debt that is not Additional Tier 1 or Tier 2 capital.
- The principal amount or outstanding amount payable in respect of the rest of the eligible liabilities in accordance with the hierarchy of claims in normal insolvency proceedings. Within this last category, it is important to note:
  - The preferential treatment for deposits covered by the DGF and the part of the deposits of SMEs and natural persons that exceeds the coverage level.
  - The new category of ordinary non-preferred claims that make it possible to distinguish between ordinary preferred claims and non-preferred claims.

(1) As defined by Regulation (EU) 2019/876 of 20 May 2019 amending Regulation (EU) 575/2013.

Strengthening of the resolution preventive stage. All institutions must have recovery plans, drawn up by the institution and reviewed by the supervisor, and resolution plans, prepared by the resolution authority itself and approved by the preventive resolution authorities.

The resolution plans evaluate the institutions' resolvability. In particular, in order to ensure that the institution has a liability structure that guarantees sufficient capacity to absorb losses and, as the case may be, adequate recapitalisation, the law establishes a minimum requirement for own funds and eligible liabilities (MREL).

BOX 15a. Changes introduced by BRRD2

In addition to the introduction of the TLAC into European legislation and the revision of the MREL framework, set out in Box 15b, other important changes introduced by the regulatory package published on 7 June 2019 in the Official Journal of the European Union, are as follows:

- **Strengthening the powers of the Resolution Authority in the event of a failure to comply with the MREL, with the power to limit the maximum distributable amount (MDA).** In the event of a failure to comply with MREL requirement, the Resolution Authority (RA) may prevent certain payments (dividends, remuneration on AT1 instruments and certain variable payments such as remuneration and pensions), if this measure is deemed to be adequate and proportional and bearing in mind the prevailing financial conditions.
- Power of the resolution authority to **suspend certain contractual obligations (moratorium tool)** following a declaration of FOLTF by the supervisor. The resolution authorities may suspend an institution's payment or delivery obligations for up to two days (although this will be as short as possible). This suspension may also be applied to covered deposits.
- **Disclosure and reporting.** The obligations established for institutions to disclose to the market the MREL requirement as well as information on own funds and eligible liabilities (maturities and insolvency ranking) at least on an annual basis. In the case of the TLAC, the requirement must be disclosed on a quarterly basis and information on own funds and eligible liabilities on a half-yearly basis.
- **Restrictions on the marketing and sale to retail clients of subordinated instruments eligible for bail-in.** Restrictive conditions are established to ensure that the marketing is suitable for these clients and they do not over-invest in these types of instruments.

BOX 15b. The Basics of MREL

From entry into force of the BRRD2, the MREL requirement will be set as the more demanding result, of either the calculation in terms of percentage of RWAs or as percentage of balance sheet exposure in terms of leverage. It is calculated as the sum of two components:

MREL = LAA + RCA

- Loss absorption amount or LAA, the volume of own funds and liabilities that would absorb losses in the event of failure and which will be calculated (i) in terms of RWA, as the sum of the institution's capital requirements (Solvency Pillar 1 [8%] + bank-specific Pillar 2 requirement [P2R]), or (ii) 3% of the exposure in terms of the leverage ratio (whichever is more demanding between the two described).

LAA = (P1 + P2R) x initial RWAs

LAA = 3% total leverage exposure

- Recapitalisation amount or RCA, the volume of own funds and liabilities whose conversion would ensure that the bank would be sufficiently recapitalised following the resolution, which will be calculated by applying capital requirements (i) in terms of RWAs, adjusted to take into account the resolution actions provided for in the plan or (ii) the 3% of the leverage ratio. This amount will be zero in the event that the planned strategy in the event of failure is insolvency proceedings.

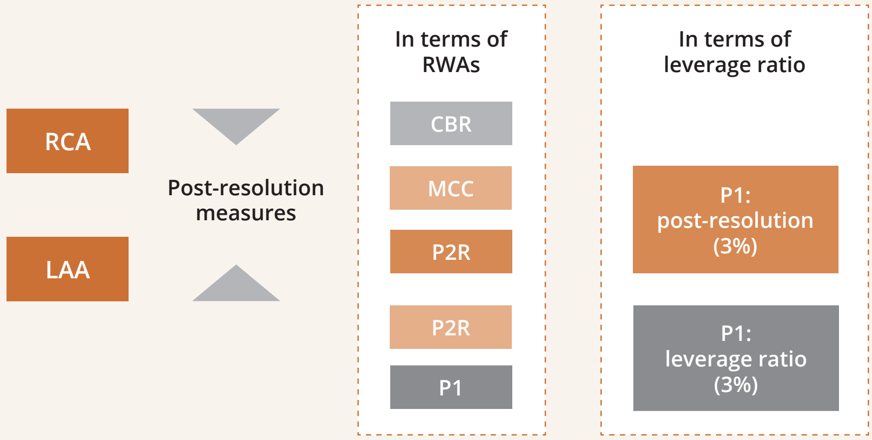
RCA = (P1 + P2R) x adjusted RWAs

RCA = 3% leverage ratio

When calculated in terms of the RWAs, this requirement may be raised to the level necessary to ensure market confidence (Market Confidence Charge or MCC) in the post-resolution bank in an amount equivalent to the combined buffer requirements (CBRs) less the counter-cyclical buffer.

Continues...

In short, the MREL requirement would be:



- In addition, the BRRD2 has established a **subordination requirement** with the aim of improving resolvability and limiting the possible risk of failing to comply with the level playing field principle (that no creditor would suffer in resolution greater losses than those it would have suffered if the bank had been wound up according to ordinary insolvency procedures (no creditor worse off or NCWO). The minimum subordination requirement depends on the type of institution in question and is applied to three categories of institution:

INSTITUTION CATEGORY	DESCRIPTION	SUBORDINATION REQUIREMENT
G-SIIs	Defined in CRR2 (in line with FSB methodology)	Maximum [18% RWA + CBR or 6.75% leverage] with a minimum of 8% TLOF
Top-tier banks (consolidated assets of the resolution group > €100 billion)	New category to ensure proportionality and level playing field in terms of harmonised requirements for subordination requirement in determining MREL	Maximum [13.5% RWA + CBR or 5% leverage] with a minimum of 8% TLOF but no greater than 27% RWA
Fished banks (not included in the above categories but selected by NRAs)	Institutions that are not G-SIIs or top-tier banks, but are selected by the NRA due to their systemic importance in the event of failure and which will be subject to the same subordination requirements as top-tier banks	Maximum [13.5% RWA + CBR or 5% leverage] with a minimum of 8% TLOF

- In the event that the risk of a failure to comply with the NCWO is noted, both the institutions included in the above table and other institutions may be subject to an additional subordination requirement up to a maximum equal to:

8% of total liabilities and own funds (TLOF) or 2 x (P1+P2R) + CBR

- Finally, BRRD2 establishes a transitional period for compliance with the MREL requirement which will be set by the resolution authority. This period will not generally extend beyond 1 January 2024 (with an interim objective of 1 January 2022), although it may be extended under certain conditions.

Enhancement of the resolution tools. Law 11/2015 sets out the tools for sale of the business, transfer of assets or liabilities to a bridge company (bridge bank), and transfer of assets and liabilities to an asset management company in similar terms to those provided for in the previous Law 9/2012 as tools to be adopted in the resolution scheme, although it enhances or completes them in line with the provisions of the Resolution Directive. However, the instrument of public financial support disappears.

BOX 16. What are the resolution tools?

The resolution scheme to be executed by the national authority may contain the exercise of the power to write down or convert capital instruments and eligible liabilities by the resolution authority prior to the use of one or several of the following tools:

Sale of business

This allows resolution authorities to force the sale of certain assets, liabilities or shares of an institution to one or several buyers, without requiring the consent of shareholders or other holders. If a partial sale of the institution is carried out, the residual institution must be wound up using ordinary insolvency proceedings

Bridge bank

This tool is similar to the above tool, with the difference that the segregated assets and liabilities are those that perform the institution's critical functions. These assets or liabilities are transferred to a bridge company, i.e., a company whose purpose is to perform, in full or in part, the activities of the institution in resolution, where they will remain for a maximum of two years. In practice, two institutions are created: the bridge company itself, which must be sold by that deadline, and an institution with the remaining assets, which must be wound up.

Separation of assets

This consists of transferring an institution's problematic assets to an asset management company (AMC). The AMC will manage the assets so as to maximise their value and minimise the impact that the direct sale of these assets to the market might have on a certain sector of the economy in general. Application of this tool must always be accompanied by application of another resolution tool.

Bail-in

This makes it possible to subject an institution's shareholders and/or creditors to a reduction in the amount of their shares and/or debt instruments or their conversion to capital in order to absorb losses and, as the case may be, recapitalise the institution in resolution (or the bridge bank) in order to allow continuity of its usual operations. The losses will be assumed firstly by the shareholders and then by the creditors of the institution in resolution in order of preference.

Single Resolution Mechanism Interventions

Law 11/2015 led to a transformation in the organisational structure, governance and functions of FROB[61]. From an operational perspective, in this new stage, FROB continues to be responsible for completion of the restructuring process in progress, which 10 years after its creation basically includes monitoring the holdings in BFA-Bankia and Sareb, as well as the guarantees granted in previous sale processes. However, this activity coexists with its new functions as executive resolution authority within the European SRM and cooperating with other Spanish preventive authorities (Bank of Spain and the CNMV) in the framework described above.

FROB has played an active role in the first years of operation of the SRB. It has supported the set up of the organization, sharing the Spanish experience in resolution and participating in the drafting of the many guides, manuals and policies of different nature that have been discussed and developed. Currently, FROB staff actively participates in numerous technical groups.

FROB has also significantly intensified its international activity at all levels. In addition to representing the Spanish resolution authorities in the SRB, holding the status of member in its plenary and extended executive sessions[62], FROB is a member of the EBA's Resolution Committee, which develops technical standards, guides and reports relating to resolution at a European level and it also participates in the Resolution Group (ReSG) of the FSB and its subgroups. It also supports the Treasury in international negotiations on legislation and other financial policy issues relating to resolution.

First European bank resolution. Banco Popular[63]

In 2017, FROB executed the SRB's mandate to implement the first bank resolution at a European level. In view of the continued worsening of Banco Popular's situation in the first half of 2017 and, in particular, the deterioration of the liquidity position notified by its supervisor, the ECB, the European authorities responsible for the bank stepped up the exchange of information, tightened monitoring of the bank and began work to manage its possible resolution should the difficult situation not improve. Consequently, given the information passed on by the ECB and the risk of an imminent outcome, the extended executive session of the SRB decided to launch a process of sale of Banco Popular conditional on its eventual entry into resolution. The events came to a head on Tuesday, 6 June with the formal declaration of failure of the bank by the ECB.

In view of the existence of a clear public interest, the option chosen by the SRB was resolution. Its aim was to avoid the consequences that the declaration of the ordinary insolvency of the bank, listed on the stock exchange, might have for its depositors (around 60 billion euros, of which 35 billion euros were deposits of under 100,000 euros), its customers (around 4.5 million), its employees (about 12,000) and, in general, for financial stability in Spain and in the Banking Union.

The SRB then approved the resolution scheme with the specific measures to be applied to Banco Popular. These consisted of the sale of the bank, following the exercise of the powers to write down Banco Popular shares and Additional Tier 1 instruments and the conversion into shares of Tier 2 instruments, which were subsequently sold at a price of 1 euro to Banco Santander, as the winner of a competitive sale process

[61] Its official name was also changed from an acronym to a proper name. See footnote 1.

[62] The Bank of Spain participates therein as observer.

[63] For further information, see Section II, subsection on Banco Popular.

carried out in accordance with the rules of procedure and instructions agreed by the SRB. The sale agreement was not subject to any conditions precedent and was fully effective from the moment it was adopted.

The European Commission formally endorsed the resolution adopted by the SRB. Subsequently, in accordance with Articles 18.9 and 29 of Regulation (EU) No 806/2014, FROB's Governing Committee approved a resolution enabling the resolution scheme signed off by the SRB immediately beforehand to be implemented. As a result of the purchase of 100% of the shares of Banco Popular, Banco Santander acquired all the bank's assets and liabilities and undertook to guarantee the liquidity necessary to meet its obligations from the very same day of the transaction. Since then, the resolution of Banco Popular has given rise to numerous administrative and legal proceedings, both at a European and a national level, in which appeals have been lodged against the aforementioned resolutions of the SRB, the European Commission and FROB's Governing Committee.

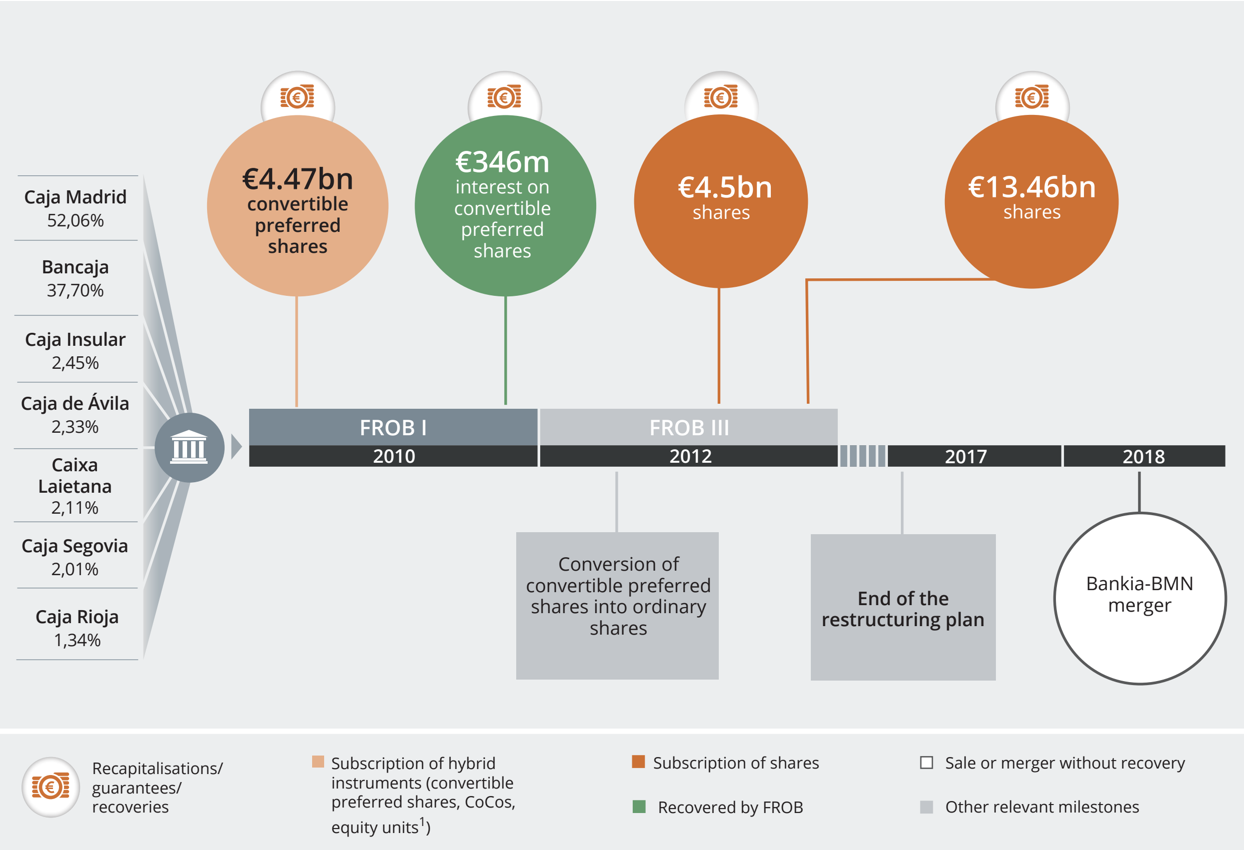
In 2018, complying with legal requirements, the SRB initiated a procedure aimed at assessing whether shareholders and creditors would have received a better treatment if the institution subject to resolution had been wound up under normal insolvency proceedings. For this purpose, the SRB commissioned an independent expert to carry out said valuation. Although not yet final, this report concludes that shareholders and creditors whose instruments were written down or converted would not have received a better treatment if Banco Popular had been wound up in accordance with Spanish insolvency law. It would not therefore be necessary to compensate the affected shareholders and creditors. The SRB opened a "right to be heard" procedure so that eligible shareholders and creditors might submit their comments on the report[64].

[64] Available at: https://srb.europa.eu/en/content/banco-popular.

SECTION II

FROB interventions bank-by-bank

BFA-Bankia



On 30 July 2010, Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid), Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), Caja Insular de Ahorros de Canarias (Caja Insular), Caja de Ahorros y Monte de Piedad de Ávila (Caja de Ávila), Caixa d`Estalvis Laietana (Caixa Laietana), Caja de Ahorros y Monte de Piedad de Segovia (Caja Segovia) and Caja de Ahorros de La Rioja (Caja Rioja) set themselves up into a group by means of an IPS, a process for which they requested financial support from FROB. In December 2010, Banco Financiero y de Ahorros, S.A. (BFA) was created as the central vehicle of the IPS and, at the start of 2011, the savings banks transferred to BFA their banking and banking-related assets and liabilities, with the savings banks maintaining the assets used for social welfare activities[2] together with their shareholding in BFA. In April 2011, a second segregation was approved whereby BFA transferred the bulk of its assets and liabilities to a subsidiary - Bankia, S.A. (Bankia) - which went public on 20 July 2011.

[1] Equity units on Spanish savings banks, *cuotas participativas*. Applies to all tables.

[2] Originally, savings banks had a welfare role, being one of their purposes to devote their excess income to welfare activities.

POSITION OF THE GROUP AT THE TIME OF ITS CREATION

- Balance sheet of 325 billion euros
- Network of 4,000 branches and 25,000 employees
- Presence throughout Spain and **market shares** of over **10%** in most of its original territories. The BFA was at that time the largest European savings bank group

The entity required financial support of **22.42 billion euros** from FROB, which was granted in 2010 and 2012.

GROUP'S CURRENT POSITION

- Balance sheet of 205 billion euros
- Network of 2,300 branches and 16,000 employees
- Performance of the banking activity through Bankia, whose **profit** in 2018 amounted to **703 million euros** and with a **CET1** Fully Loaded ratio of **12.39%**.

Since June 2012, FROB has held a 100% stake in BFA. In addition, at 30 June 2019, FROB holds an indirect 61.77% stake in Bankia through BFA. Furthermore, BFA has received 3.08 billion euros from the sale of 7.5% of the bank in February 2014 (1.3 billion euros) and 7% in December 2017 (818 million euros) and from the dividends received from the distribution of profits in accordance with its holding in Bankia (961 million euros).

1. RESTRUCTURING PROCESSES

The total aid received by the group was 22.42 billion euros. Of this amount, 4.47 billion euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB) and 17.96 billion euros to FROB III (capital increase fully subscribed and paid in by FROB).

With regard to the amounts recovered, FROB received interest from the convertible preferred shares subscribed in 2010 in an amount of 346 million euros. The income from the divestments performed in 2014 and 2017 and the dividends received by BFA from its subsidiary Bankia are not yet considered as recovered by FROB as they have been received by BFA.

In addition, at 30 June 2019, FROB holds a direct stake in BFA of 100% and an indirect stake in Bankia through BFA of 61.77%.

FROB I. Convertible preferred shares: 4.47 billion euros

Request for support and authorisation

- On 14 June 2010, the savings banks that would make up the BFA-Bankia Group submitted an integration plan and requested from FROB, through the Bank of Spain, the subscription of 4.47 billion euros of preferred shares convertible in equity units in the integration process that they were going to undertake. On 29 June 2010, the Executive Committee of the Bank of Spain approved said plan, which included deeming the IPS a consolidated group of credit institutions, as well as the requested financial support. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB submitted an economic report to the Ministry of the Economic Affairs and Finance detailing the estimated impact that the subscription of the convertible preferred shares would have on the General State Budget.

The plan included a request for financial support to support the integration of the seven savings banks and foresaw a restructuring process including the reduction of staff and of the network of branches

Convertible preferred shares

- On 3 December 2010, BFA was incorporated as the central vehicle of the IPS with the seven savings banks as shareholders while, at the same time, the General Meeting of BFA approved the issuance of the preferred shares convertible into ordinary shares which, at the end of that same month, were fully subscribed and paid in by FROB.

Transfer of the savings banks' assets and liabilities to BFA (1st segregation)

- Between February and March 2011, the General Shareholders' Assemblies and Meetings of the seven savings banks and of BFA approved the terms of the transfer of banking and banking-related assets and liabilities to the bank, with the savings banks continuing to hold the assets used for the social welfare activities and their shareholding in BFA.

FROB II. Compliance with the new capital requirements without public aid

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which raised the core capital requirement to 10% of RWAs or 8% for listed banks or banks with a wholesale funding ratio of less than 20%, BFA sent the Bank of Spain the strategy and timetable for compliance with the new core capital requirements, as it had a shortfall of 5.78 billion euros (core capital requirement of 10%). The strategic priority of the plan was for the bank to go public with an IPO, which would reduce the core capital requirement from 10% to 8% of RWAs, thereby reducing the shortfall to 1.8 billion euros, which would be covered by the funds raised in said IPO. The bank therefore had no capital shortfall according to the new regulatory requirements. However, an alternative option was established that entailed requesting financial support from FROB. This strategy and timetable were approved by the Bank of Spain on 14 April 2011.

Transfer of BFA assets and liabilities to Bankia (2nd segregation)

- On 5 April 2011, the Board of Directors and the General Shareholders' Meeting of BFA approved the transfer of a significant part of this entity's banking business to Bankia, a subsidiary of BFA. BFA maintained certain assets: foreclosed land, loans on land considered doubtful or substandard, the portfolio of government bonds, equity holdings in Bankia and holdings such as those of Banco de Valencia and other industrial companies. It also maintained certain liabilities, basically the convertible preferred shares subscribed by FROB (FROB I) and certain subordinated financial instrument issues.

Bankia Flotation

- On 20 July 2011, Bankia was floated on the stock exchange with the placement of 824,572,253 shares representing 47.59% of the bank's share capital. The initial price was 3.75 euros per share, with total capital raised of 3.92 million euros. The flotation and the raising of these funds made it possible to comply with the core capital requirements provided for in Royal Decree-Law 2/2011.
- Following the IPO, BFA, which had owned 100% of Bankia reduced its shareholding to 52.41% although it continued to control the bank.

Conversion of convertible preferred shares into capital (FROB I)

On 9 May 2012, BFA's Board of Directors appointed a new Group Chairman and launched a series of changes in the composition of the governing bodies of both BFA and Bankia.

On the same day, BFA's Board of Directors, deeming unlikely the redemption of the 4.47 billion euros of convertible preferred shares subscribed by FROB in 2010, made a request to FROB, through the Bank of Spain, to convert them into ordinary shares in order to strengthen the group's financial position. As a response to this request, the Bank of Spain asked BFA to provide a reinforced restructuring and recapitalisation plan. On 25 and 28 May 2012, the new management team submitted this plan and restated the group's financial statements for 2011, highlighting the recognition of new provisions and write-downs.

On 27 June 2012, the convertible preferred shares were exchanged for BFA shares. During the period in which the convertible preferred shares were outstanding, FROB collected interests on these instruments for an amount of 346 million euros. In order to calculate FROB's percentage share in the entity's capital after this conversion, an economic value for the entity was approved on the basis of the valuations performed by three independent experts in accordance with the provisions of Royal Decree Law 9/2009. This valuation was negative in an amount of 13.64 billion euros, and FROB therefore became the sole shareholder of BFA (100% of the share capital). The savings banks that originally set up BFA thus lost all their interest in the group's parent company. On the same date, the European Commission issued Decision 34820 (2012/N), which deemed the measure temporarily compatible with the internal market for reasons of financial stability.

FROB III Capital increase in BFA: 17.96 billion euros

Temporary capital injection

- On 3 September 2012, FROB's Governing Committee approved an urgent capital injection of 4.5 billion euros into BFA through the non-monetary contribution of Spanish Treasury Bills (*Letras del Tesoro*) in order to restore the Group's levels of regulatory capital. This aid was temporary in nature while the stress tests provided for in the MoU were being undertaken. In order to continue the process of strengthening Bankia, BFA's Board of Directors decided to make a contribution to Bankia of BFA own funds in the form of a subordinated loan for 4.5 billion euros. On 7 September, the European Commission issued Decision 35369 (2012/N), considering the measure temporarily compatible with the internal market for reasons of financial stability.

Calculation of capital needs

- On 20 July 2012, given that FROB already had a stake in the institution, the MoU established that the BFA-Bankia Group should be classified into Group 1. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 13.23 billion euros in a base scenario and 24.74 billion euros in an adverse scenario.
- With regard to calculating the public aid, the estimated capital needs in the adverse scenario of the stress test were reduced to 17.96 billion euros as a result of the estimated impact of the burden sharing resulting from exchanging hybrid instruments (preferred shares and subordinated debt) into capital and the planned transfer of assets to Sareb.

€24.74bn (adverse scenario)	- €6.59bn (burden sharing)	- €191m (transfer to Sareb)

€17.96bn estimated final need for FROB funds

Approval of restructuring plan

> The BFA-Bankia Group prepared a restructuring plan which was passed on by FROB to the Bank of Spain for approval, which was granted on 27 November 2012. One day later, it was approved by the European Commission by means of Decision 35253 (2012/N), and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The restructuring plan provided for several measures to be taken, which included the following:

A

Injection of public funds of 17.96 billion euros

1. After determining the entity's economic value at a negative amount of 10.44 billion euros (*) (on the basis of the reports by three independent experts in accordance with Law 9/2012), a capital increase in BFA was carried out in December 2012 in an amount of 13.46 billion euros, subscribed and paid in by FROB through a non-monetary contribution of ESM securities. This amount was in addition to the 4.5 billion euros injected in September 2012 (total capital increase of 17.96 billion euros).

2. Issuance by Bankia of contingent convertible bonds with exclusion of pre-emptive subscription rights in December 2012 for an amount of 10.7 billion euros, fully subscribed by BFA and paid in by contribution of fixed-income securities issued by the ESM. This issue was temporary while the final capital increase was performed.

3. Decrease in Bankia's share capital by reducing the par value of the shares (from 2 euros to 0.01 euros). Consequently, previous Bankia shareholders lost practically all their investment in the bank. In addition, a grouping of Bankia shares was carried out (reverse split) in a proportion of 100 old shares for each new share with the aim of reducing the number of outstanding shares and facilitating an appropriate listed price.

4. Redemption of the bonds subscribed by BFA in December 2012 for an amount of 10.7 billion euros and capital increase in Bankia in May 2013 with pre-emptive subscription right for the same amount, with BFA undertaking to take on the shares not subscribed by other shareholders. Finally, between 30 April and 14 May, the issue was subscribed by BFA (10.62 billion euros) and by the other shareholders (79 million euros).

(*) The valuation of Bankia was a negative amount of 4.42 billion euros.

B
Transfer to Sareb

On 31 December 2012, BFA and Bankia transferred to Sareb their assets relating to the real estate sector in accordance with the provisions of Royal Decree 1559/2012 for an approximate gross value of 46 billion euros and a transfer price of 22.32 billion euros (average haircut of around 50%). In exchange, they received senior debt securities issued by Sareb with a State guarantee.

C
Burden sharing

On 16 April 2013, FROB's Governing Committee decided to carry out the subordinated liabilities exercise, which affected issues of the BFA-Bankia Group for a nominal value of 6.91 billion euros, of which a total of 5.06 billion euros were held by retail investors. This exercise had a positive gross impact of 6.67 billion euros on the group's net worth position:

- 1.82 billion euros as a result of the haircut on the nominal value of the instruments (with an average haircut of 26%).
- 4.85 billion for the conversion of the securities into newly issued shares of Bankia.

Following the above operation, Bankia's shareholders were distributed as follows: BFA with 68.39%, shareholders from the subordinated liability exercise with 31.01% and previous shareholders with 0.6%.

An arbitration system was set up in order to allow the retail customers who met certain requirements that indicated mis-selling to recover their investment. In application of this system, customers corresponding to issues for a nominal value of 2.17 billion euros received a positive decision.

Finally, following enforcement of the court rulings issued in favour of customers in relation to the selling of hybrid instruments and bearing in mind the amounts returned to customers as a result of the arbitration carried out and the value of the listed Bankia shares received in the conversion of hybrid instruments, the vast majority of the affected retail investors recovered practically all of their investment.

D

Resizing and reorganisation of the institution's structure

The restructuring plan also included specific commitments relating to European legislation on State aid, which involved significant measures to adapt the business:

- Splitting the activity between the banking business on which the institution had to focus and the other activities with the aim of divesting.
- Reduction in the bank's size:
    - balance sheet
    - lending and LTD ratio
    - employees
    - branches
- Divestment of investees.
- Prohibitions and restrictions as regard activities relating to acquisitions, disclosure of the aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.
- It also included a commitment relating to simplification of the group's structure.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser stated that, at 31 December 2017, BFA-Bankia had complied with all the plan's requirements.

2. MANAGEMENT OF FROB'S STAKE IN THE BFA-BANKIA GROUP

The basic principles forming the basis of FROB's management of its stake in the capital of the BFA-Bankia Group were set out in the «Agreement relating to management of the indirect holding of FROB, through BFA Tenedora de Shares S.A.U., in BANKIA, S.A.», signed by FROB, BFA and Bankia in January 2019 and which maintains the spirit of the management policy previously applied:

Responsible management of the holding. FROB manages its stake in the institutions as an informed and responsible shareholder so that the institutions might be administered in a professional, transparent and efficient manner with the aim of maximising the return on the public aid.

Informed monitoring. FROB exercises its rights as a shareholder and powers as resolution authority in a responsible and diligent manner, on the basis of the significant information of the institutions, in order to comply with the public objectives pursued.

Independent administration of the credit institution. FROB does not participate in the administration of the BFA-Bankia Group, for which its managers are exclusively responsible under the principles of freedom of judgement, independence and professionalism.

Good governance and good practice in securities markets. FROB exercises its rights as a shareholder in accordance with the best standards of good governance and it will encourage Bankia to adopt the recommendations for listed companies in this area. It also carries out the divestments of its stake in accordance with the best practices of the securities market.

Simplification of the BFA Group	> In compliance with the commitment foreseen in the restructuring plan, on 2 January 2015 the Bank of Spain authorised BFA's request to cease operating as a credit institution and to set up as a holding company without a banking licence. > Since then, BFA's balance sheet has been gradually reduced, with the stake in Bankia becoming its main asset as well as its main source of income through dividends, without it performing any other significant economic activity. > BFA is part of a group subject to the ECB's prudential and supervisory regulations as a holding company of a controlling stake in a credit institution (Bankia).
Bankia Dividends	> Bankia's reorganisation and performance have allowed it to pay out dividends against profits in financial years 2014 to 2018. Of the 1.52 billion euros in dividends paid out by Bankia in this period, BFA has received 961 million euros.
Bankia-BMN merger	> On 14 March 2017, following the corresponding analysis performed by external experts, FROB's Governing Committee decided that the merger of Bankia and BMN was the best strategy for complying with the mandate to optimise the ability to recover the public aid. > On 26 June 2017, the Boards of Directors of BMN and Bankia approved the draft terms of merger for both entities, which included the exchange formula that determined the number of Bankia shares to be received in exchange for BMN shares, which would be one Bankia share for every 7.82987 BMN shares. The merger was approved by the respective Shareholders' Meetings on 14 September 2017. It took effect for accounting purposes in December 2017 and had full legal effect as from January 2018.
Legal contingencies (hybrid instruments and IPO)	> With regard to the contingencies for the mis-selling of hybrid instruments and Bankia's IPO, the Group has been required to repay the contributions from retail investors for an amount of 4.71 billion euros at year-end 2018 (including repayment of the amount invested and costs and expenses associated with the proceedings). > BFA and Bankia signed agreements to share the cost of such contingencies. Consequently, of said amount, BFA has paid a total of 3.69 billion euros, of which 2.59 billion euros result from arbitration and losses associated with the selling of hybrid instruments and 1.1 billion euros to losses associated with the IPO.

3. PROCESS FOR THE DIVESTMENT OF THE STAKE IN BFA AND BANKIA

FROB's obligations include carrying out the divestment process in accordance with Law 9/2012. This divestment must be performed within five years from the subscription or acquisition date.

However, Royal Decree Law 4/2016 approved the extension of the timeframe in which the divestments had to take place to seven years and opened the possibility of making further extensions in the deadline under the corresponding governmental authorisations. Accordingly, the Council of Ministers meeting held on 21 December 2018, with the mandatory report from FROB and the Ministry of Finance, approved the extension of the deadline for divestment by an additional two years. The current deadline for divestment is therefore December 2021.

First divestment

- With the aim of complying with the legal mandate for divestments, on 21 February 2014, FROB's Governing Committee approved a framework for divesting Bankia's shares through BFA under Article 31 of Law 9/2012.
- In accordance with the recommendations of its strategic advisor, FROB carried out the first divestment of its stake in Bankia through BFA. Specifically, it sold 863,799,641 Bankia shares, accounting for 7.5% of the bank's capital, at a price of 1.51 euros per share and for a total amount of 1.3 billion euros.

Second divestment

- On 12 September 2017, FROB approved a new general divestment framework prepared with the advice of an independent expert, with the aim of executing the divestment strategy in a dynamic and flexible manner that would offer the possibility of combining different transactions in capital markets and their execution over several stages.
- On 11 December 2017, FROB carried out the second divestment of its holding in banking through BFA by selling 201,553,250 shares, equal to 7% of the bank's capital, at a price of 4.06 euros per share, for a total amount of 818 million euros*.

* This sale took place following the capital reduction by lowering the nominal value and subsequent grouping of outstanding shares (reverse share split), which meant a fourfold increase in the price per share. Therefore, the equivalent price to that of the first divestment is 1.02 euros per share.

Evolution of the stake in Bankia

- After the SLE was executed and following the injection of funds in May 2013, BFA held a 68.39% stake in Bankia. The divestments were performed in February 2014 and December 2017 by selling 7.5% and 7% of Bankia's capital, respectively.
- In January 2018, as a result of the merger between Bankia and BMN, FROB's indirect stake in the merged entity rose by 0.3%. In addition, since 2014, BFA's stake in Bankia has undergone gradual increases as a result of the enforcement of court rulings ordering the repurchase of shares from minority investors.
- As a result of the above, at 30 June 2019, FROB holds a 100% stake in BFA, while BFA holds a 61.77% stake in the capital of Bankia.

Following the various structural changes, the merger with BMN, the divestment transactions and the enforcement of court rulings, at 30 June 2019, FROB holds an indirect stake in Bankia through BFA of 61.77%

4. 4. KEY MILESTONES

29/06/2010
Approval of the integration plan by the Bank of Spain and financial support by FROB

30/07/2010
Establishment of the IPS, the origin of the group

03/12/2010
Creation of the BFA as the central vehicle of the IPS

16/12/2010
Subscription of convertible preferred shares for an amount of 4.47 billion euros (FROB I)

23/05/2011
Registration with the Companies Registry of the instruments recording the transfer of assets and liabilities from the savings banks to BFA (1st segregation) and from BFA to Bankia (2nd segregation)

20/07/2011
Flotation of Bankia and capital increase of 3.09 billion euros

25/05/2012
Restatement of Bankia's 2011 financial statements

28/05/2012
Restatement of BFA's 2011 financial statements

27/06/2012
Decision 34820 (2012/N) of the European Commission on the adoption of financial support measures

27/06/2012
Conversion of convertible preferred shares into ordinary shares in an amount of 4.47 billion (FROB I)

07/09/2012
Decision 35369 (2012/N) of the European Commission on the temporary and urgent injection of 4.5 billion euros

12/09/2012
Subscription of shares in an amount of 4.5 billion euros (FROB III

27/11/2012
AApproval by the Bank of pain of the restructuring plan submitted by FROB

28/11/2012
Decision 35253 (2012/N) of the European Commission on the restructuring plan of BFA-Bankia

27/12/2012
Subscription of shares in an amount of 13.46 billion euros (FROB III) and issue by Bankia of contingent convertible bonds subscribed by BFA in an amount of 10.7 billion euros

31/12/2012
Transfer of assets to Sareb

16/04/2013
Reduction of Bankia capital and reverse split capital increase of Bankia with pre-emptive subscription right for BFA and redemption of the contingent convertible bonds and performance of the subordinated liabilities exercise

27/02/2014
First sale of Bankia shares: 7.5% of the capital in an amount of 1.3 billion euros

02/01/2015
Authorisation by the Bank of Spain for BFA to cease operating as a credit institution

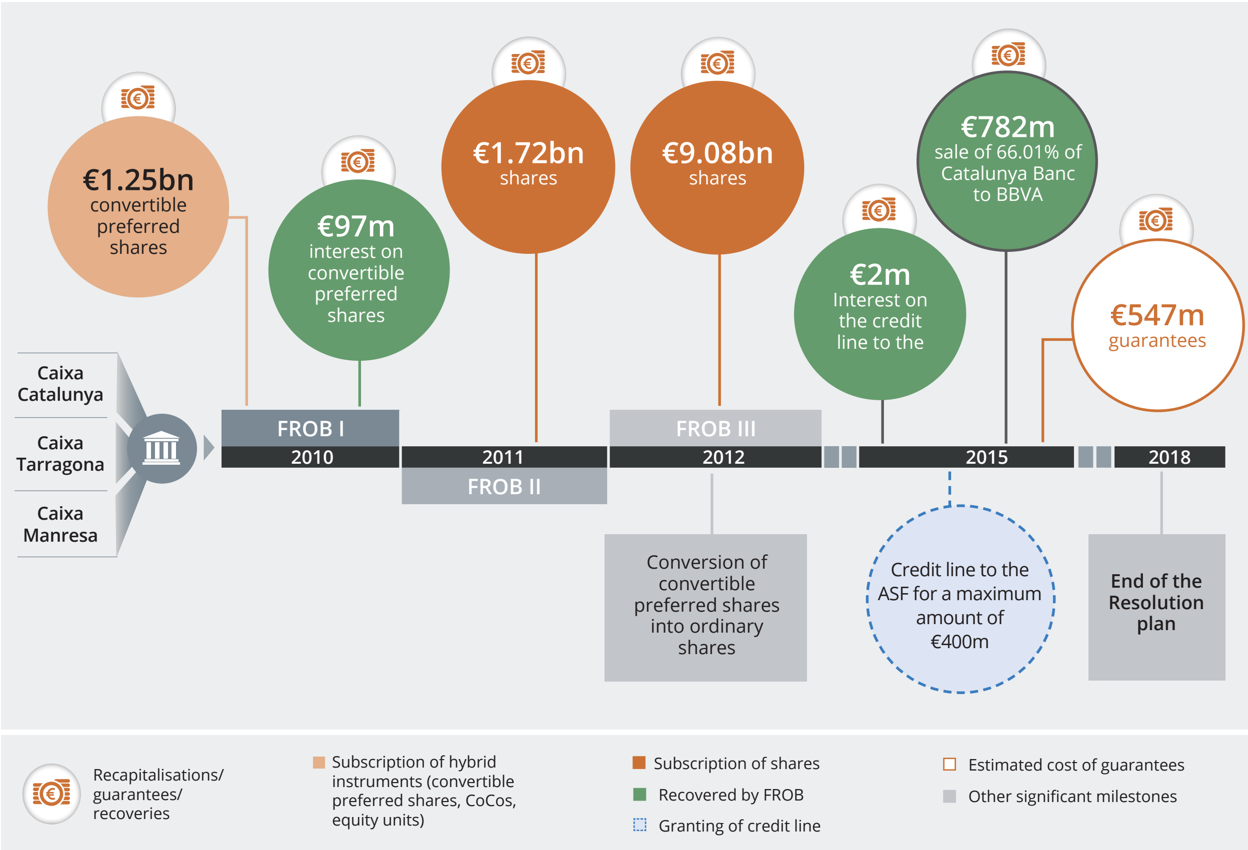
14/03/2017
Decision of FROB with regard to the merger of Bankia and BMN as the best strategy for optimising the recovery of public aid

11/12/2017
Second sale of Bankia shares: 7% of the capital for an amount of 818 million euros

31/12/2017
End of the restructuring plan having fully complied with all commitments

8/01/2018
Registration with the Companies Registry of the instrument recording the merger between Bankia and BMN

CatalunyaCaixa



On 1 July 2010, Caixa d'Estalvis de Catalunya (Caixa Catalunya), Caixa d'Estalvis de Tarragona (Caixa Tarragona) and Caixa d'Estalvis de Manresa (Caixa Manresa) formalised the integration of the three banks by registering the instrument of merger and changing their name to Caixa d'Estalvis de Catalunya Tarragona i Manresa (CatalunyaCaixa), a process for which they requested financial support from FROB. In October 2011, CatalunyaCaixa transferred its banking and banking-related assets and liabilities to a newly created bank called Catalunya Banc, S.A. (Catalunya Banc), maintaining the assets used for its social welfare work and its shareholding in the new bank.

SITUATION OF THE BANK AT THE TIME OF ITS CREATION

Balance sheet of 75 billion euros

Network of 1,500 branches and 8,000 employees

Presence throughout Spain and **market shares of** between **12%** and **14%** in Catalonia and over **3%** in the rest of Spain

The bank required financial support from FROB of **12.05 billion euros**, which was granted between 2010 and 2012

On 24 April 2015, all the bank's shares held by FROB (66.01%) and the DGF (32.39%) were sold to BBVA for 1.17 billion euros, of which 782 million corresponded to FROB.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 12.05 billion euros. Of this amount, 1.25 billion euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB), 1.72 billion euros to FROB II and 9.08 billion euros to FROB III (capital increases fully subscribed and paid in by FROB).

In addition, in the sale to BBVA, FROB granted certain guarantees to Catalunya Banc with an estimated cost of 547 million euros, of which 471 million euros have already been paid.

In addition, FROB granted to FTA2015, Fondo de Titulización de Activos, (an asset securitisation fund) a credit line for a maximum amount of 400 million euros, of which 7.5 million euros had been drawn down at 30 June 2019.

With regard to the amounts recovered, FROB received interest on the convertible preferred shares subscribed in 2010 for an amount of 97 million euros and it received 782 million euros from the sale of the institution's shares. In addition, fees and interest of over 2 million euros have been received on the asset securitisation fund's credit line up to 30 June 2019.

FROB I. Convertible preferred shares: 1.25 billion euros

Request for support and authorisation

- On 24 March 2010, the savings banks that would make up CatalunyaCaixa submitted an integration plan and requested from FROB, through the Bank of Spain, subscription of 1.25 billion euros of preferred shares convertible into equity units in the integration process that they were going to undertake. On 25 March 2010, the Executive Committee of the Bank of Spain approved this plan, which included the merger of the three savings banks, and the financial support requested. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB also submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact on the General State budget of the subscription of the convertible preferred shares.

The plan included a request for financial support to support the integration of the three savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Integration of the savings banks

- On 1 July 2010, Caixa Catalunya, Caixa Tarragona and Caixa Manresa formalised the merger of the three institutions under the new name of CatalunyaCaixa.

Convertible preferred shares

- On 27 July 2010, the Assembly of CatalunyaCaixa approved the issuance of preferred shares convertible into equity units which, at the end of that same month, were fully subscribed and paid in by FROB.

FROB II. Capital increase: 1.72 billion euros

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or 8% for listed institutions or institutions with a wholesale funding ratio of under 20%, CatalunyaCaixa submitted to the Bank of Spain its strategy and timetable for meeting the new core capital requirements. The requirement for the bank was 10% of RWAs, which meant the need for a significant increase in the bank's own funds. According to the new regulatory requirements, CatalunyaCaixa had a capital shortfall of 1.72 billion euros. The strategy submitted included the following actions:
    - Carrying out an organic optimisation and business disinvestment plan that would reduce RWAs.
    - Setting up a bank through which it would perform its financial activity.
    - Requesting financial aid from FROB in order to reach the required capital level for a maximum amount of 1.72illion euros.
- On 14 April, the Bank of Spain approved this strategy and FROB indicated its agreement and undertook to grant the financial aid requested.
- On 28 July, the General Assembly of CatalunyaCaixa agreed to transfer its entire financial business to a newly created bank - Catalunya Banc.

Recapitalisation plan and creation of Catalunya Banc

- On 23 September 2011, the bank approved the recapitalisation plan and subsequently formalised a public deed recording the incorporation of Catalunya Banc and the transfer of CatalunyaCaixa's assets and liabilities to the new institution (the savings bank maintained the assets and liabilities used for social welfare activities and its shareholding in Catalunya Banc).
- On 26 September, the Bank of Spain approved the recapitalisation plan prepared by the institution and informed FROB.
- On 29 September, in order to calculate FROB's percentage of the capital of the new institution, FROB's Governing Committee approved an economic value for Catalunya Banc, based on the valuations performed by three independent experts, of 196.5 million euros. Based on this valuation and following the completion of a capital increase of 1.72 billion euros, FROB would have a shareholding of 89.74% of Catalunya Banc. At the express request of CatalunyaCaixa, FROB granted a share buyback option to the institution and investors proposed by the institution.
- Finally, on 30 September, the European Commission issued Decision 33103 (2011/N) on the institution's recapitalisation plan, considering that the aid received by the entity was temporarily compatible with the internal market for reasons of financial stability.

Entry of FROB in the capital of Catalunya Banc

- On 11 October 2011, the capital increase of Catalunya Banc for an amount of 1.72 billion euros, fully subscribed and paid in by FROB, was completed and FROB joined the institution's Board of Directors through three representatives. The estimated financial impact that this contribution of funds would have on the General State Budget was reported to the Ministry of Economic affairs and Finance by means of the corresponding economic report.

FROB III Capital increase: 9.08 billion euros

Calculation of capital needs

- On 20 July 2012, given that FROB already had a stake in the institution, the MoU established that Catalunya Banc was classified as belonging to Group 1. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 6.49 billion euros in a base scenario and 10.82 billion euros in an adverse scenario.
- For the purposes of calculating the public aid, the capital needs estimated in the adverse scenario of the stress test were reduced to 9.08 billion euros as a result of the estimated impact of the burden sharing through the exchange of hybrid instruments (preferred shares and subordinated debt) into capital and the planned transfer of assets to Sareb.

Stress test – Oliver Wyman. Calculation of capital needs

€10.82bn (adverse scenario)	**- €1.55bn** (exchange of hybrid instruments)	**- €187m** (transfer to Sareb)

€9.08b estimated final need for FROB funds

Approval of the resolution plan

- On 27 November 2012, FROB submitted Catalunya Banc's resolution plan for approval by the Bank of Spain, which was granted on the same day. One day later, it was approved by the European Commission by means of Decision 33735 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The resolution plan established the adoption of various measures, including the following:

A

Injection of public funds of 9.08 billion euross

After determining the economic value for the bank at a negative amount of 6.67 billion euros (on the basis of the reports by three independent experts in accordance with Law 9/2012), on 26 December 2012, FROB's Governing Committee decided to convert the convertible preferred shares subscribed under FROB I for an amount of 1.25 billion euros into capital and write down the bank's capital to zero in order to increase voluntary reserves to absorb the losses recognised in the resolution plan prepared by the bank. During the period in which the convertible preferred shares were outstanding, FROB received interest on these instruments for an amount of 97 million euros.

A

Injection of public funds of 9.08 billion euross

Accordingly, firstly, the holding of CatalunyaCaixa (10.26% of the capital) in the bank's capital was written down to zero and, secondly, FROB absorbed losses for the full amount of the first aid granted (FROB I and FROB II) and part of the 9.08 billion euros injected in the form of shares in execution of the same resolution of 26 December (FROB III). The rest of the aid under FROB III was used to recapitalise the bank and therefore, following the aforementioned resolution, FROB became the company's sole shareholder until the SLE was executed.

B

Transfer to Sareb

On 31 December 2012, Catalunya Banc transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 16.5 billion euros and a transfer price of 6.71 billion euros (average haircut of about 60%). In exchange,, it received senior debt securities issued by Sareb with a State guarantee.

C

Reparto de la carga

On 17 December 2012, 7 February 2013 and 7 June 2013, FROB's Governing Committee decided to carry out the subordinated liabilities exercise on issues of Catalunya Banc for a nominal value of 1.82 billion euros, of which 1.72 billion euros corresponded to retail issues. This exercise had a positive gross impact of 1.68 billion euros on the bank's net worth position.

- 457 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 25%).
- 1.22 billion euros as a result of conversion of the securities into capital of the bank.

An arbitration system was set up whereby retail customers that met a series of requirements indicating mis-selling in the securities subject to the haircut might recover their investment. In application of said system, customers corresponding to issues for a nominal value of 463 million euros received a positive decision.

In addition, the DGF set up a liquidity mechanism consisting of an offer of purchase to retail customers holding the bank's shares resulting from the subordinated liabilities exercises without a positive decision in the arbitration. The offer price included a 13.8% haircut on the economic value of the share set in the subordinated liability exercise. Liquidity was therefore provided to these customers for an amount of 1 billion euros.

Following application of the aforementioned mechanism, FROB held a stake of 66.01% in the shares of Catalunya Banc, while the DGF held 32.29% of the shares. The remaining 1.6% corresponded to:

- Shareholders from the wholesale subordinated liabilities exercise.
- Shareholders from the retail subordinated liabilities exercise which had voluntarily decided not to make use of the facility offered by the DGF.
- Treasury stock.

Finally, following these measures and enforcement of the court rulings issued in favour of retail customers resulting from the subordinated liabilities exercise relating to the marketing of hybrid instruments, most of the affected retail customers have recovered almost all of their investment.

D

Resizing and reorganisation of the institution's structure

The resolution plan also included commitments relating to European legislation on State aid, which involved significant business adjustment measures:

- Splitting the activity between the banking business on which the institution had to focus (Core Unit) and the other activities with the aim of divesting.
- Reduction in the bank's size:
  - balance sheet
  - lending and LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibitions and restrictions as regard activities relating to acquisitions, disclosure of the aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.

E

Divestment

The divestment of FROB's shareholding in the bank had to take place within a maximum period of five years or, failing that, the bank would have to disappear completely from the market.

To this end, the Spanish authorities had to initiate the sale of the bank by the end of July 2015. If in December 2016 the bank had not been sold, a divestiture trustee would have to be appointed with the exclusive mandate of selling the bank. If this sale mandate had not been executed in September 2017, a resolution plan for the core unit was to be submitted.

2. DIVESTMENT PROCESS

Previous processes

- On 12 April 2012, FROB decided to initiate the process of divesting its stake in Catalunya Banc, which at that time was equal to 89.74% of the capital. In June, this divestment process was delayed in anticipation of the results of the stress test being performed within the framework of the MoU.
- In November 2012, FROB resumed the process under the new regulatory framework of Law 9/2012 and taking into account the measures set out in the bank's resolution plan. After the deadline for submitting non-binding bids for purchasing Catalunya Banc, in March 2013, FROB decided not to continue with the process of awarding the institution.

Strategy, analysis and start of the sale process

- On 25 March 2013, a specialised consulting firm was hired to evaluate the different strategies for managing and divesting the institutions owned by FROB. With regard to Catalunya Banc, the consultant recommended a swift sale as the best alternative to minimise the use of public resources.
- On 18 July 2013, FROB's Governing Committee awarded a contract to an advisory firm for analysis and advice on the future sale of the bank. This advisor recommended selling Catalunya Banc in parallel with the sale of a portfolio of the bank's loans with little commercial value (gross book value of 6.39 billion euros and provisions of 2.21 billion euros).
- On 2 June 2014, FROB's Governing Committee decided to open the auction for Catalunya Banc. After potential buyers had access to detailed information on the bank, this auction resulted in offers being received for 98.4% of the bank's capital owned by FROB (66.01%) and by the DGF (32.39%).

Awarding of the portfolio of impaired loans

- On 17 July 2014, the sale of Catalunya Banc's loan portfolio was completed. Blackstone offered 3.62 billion euros, with FROB assuming the cost of the remaining amount up to the net book value of this portfolio in Catalunya Banc's balance sheet (4.19 billion euros). The estimated cost therefore initially amounted to 572 million euros, which would be implemented through the subscription of a subordinated bond to be issued by the asset securitisation fund that would purchase the portfolio (of which 384 million euros would correspond to FROB according to its percentage stake in the bank).
- Sale of the portfolio was formalised in April 2015 with fulfilment of the conditions precedent. The performance of the portfolio's loans between July and April allowed FROB's support for the transaction in the form of the subscription of the subordinated bond to fall to 525 million euros (of which 352 million euros corresponded to FROB), compared with the originally planned 572 million euros.
- The sale of this portfolio increased the appeal of Catalunya Banc and made it possible to maximise its value, leaving the bank in a sound and strengthened position.

Awarding of Catalunya Banc

- On 21 July 2014, FROB's Governing Committee decided to award 98.4% of Catalunya Banc (both FROB's and the DGF's shares) to BBVA for 1.17 billion euros as it involved the most efficient use of public resources. The sale of the bank included a series of guarantees.

Approval of the new resolution plan

- On 17 December 2014, by means of Decision 39402 (2014/N), the European Commission approved the new resolution plan of Catalunya Banc, after FROB submitted it to the Bank of Spain and the latter approved it. The new plan included the sale of the bank to BBVA and compliance with several of the commitments made in the initial plan.
- In addition, the plan included new commitments relating to reducing the staff and branches in Catalonia.

Conclusion of the sale agreement

- On 20 April 2015, a supplementary agreement to the sale agreement was signed and, finally, on 24 April 2015, a public instrument was executed recording the sale of the bank's shares.

Merger with BBVA

- Finally, on 1 September 2016, Catalunya Banc was absorbed by BBVA.

Compliance with the commitments was verified by an independent third party (monitoring trustee). At 24 April 2018, Catalunya Banc had fulfilled all the requirements set out in the plan

3. GUARANTEES PROVIDED

In order to maximise efficient use of public funds, FROB provided a series of guarantees in the sale of Catalunya Banc. At 30 June 2019, the estimated cost amounted to 817 million euros (including the 525 million euros of the subordinated bond issued by the ASF), of which 547 million euros corresponded to FROB and the rest to the DGF, in accordance with the percentage of shares sold by each institution.

As of that date, guarantees amounting to 702 million euros have been paid (including the 525 million euros of the subordinated bond issued by the ASF), of which 471 million euros corresponded to FROB and the rest to the DGF. The guarantees provided refer to the following items (in million euros):

Guaranteed Items	Paid
Provided to Catalunya Banc	
Tax risks resulting from the transfer of assets to Sareb	0
Certain sums that Catalunya Banc was forced to pay to insurance companies	93
Liabilities resulting from the marketing of hybrid instruments	0
Liabilities resulting from the granting of interest-rate hedges in relation to mortgage credits granted to families and self-employed workers	0
Liabilities resulting from certain significant lawsuits identified in the contract	0
Provided to the ASF	
Court rulings that may cancel the floor clauses of the portfolio and require refunds to customers corresponding to the period prior to the cut-off date	0
Compensation for damages resulting from the provision of incorrect information in the sale process relating to characteristics of the loans and their guarantees	25
Subscription and disbursement of a subordinated bond issued by the ASF	352

4. KEY MILESTONES

25/03/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB

01/07/2010
Integration of Caixa Catalunya, Caixa Tarragona and Caixa Manresa (CatalunyaCaixa)

28/07/2010
Subscription of convertible preferred shares for an amount of 1.25 billion euros (FROB I)

07/06/2011
Incorporation of Catalunya Banc and transfer of assets and liabilities of CatalunyaCaixa to the new bank

26/09/2011
Approval of the recapitalisation plan by the Bank of Spain

30/09/2011
Decision 33103 (2011/N) of the European Commission on the recapitalisation plan of Catalunya Banc

11/10/2011
Subscription of shares in an amount of 1.72 billion euros (FROB II)

27/11/2012
Approval by the Bank of Spain of the resolution plan submitted by FROB

28/11/2012
Decision 33735 (2012/N) of the European Commission on the resolution plan of Catalunya Banc

17/12/2012
First subordinated liabilities exercise

26/12/2012
Conversion of convertible preferred shares into ordinary shares (FROB I), reduction of capital to zero (FROB I and FROB II) and subscription of shares for an amount of 9.08 billion euros (FROB I)

31/12/2012
Transfer of assets to Sareb

07/02/2013
Second subordinated liabilities exercise

07/06/2013
Third subordinated liabilities exercise

21/07/2014
Awarding of the 98.4% of Catalunya Banc owned by FROB (66.01%) and the DGF (32.39%) to BBVA for 1.17 billion euros

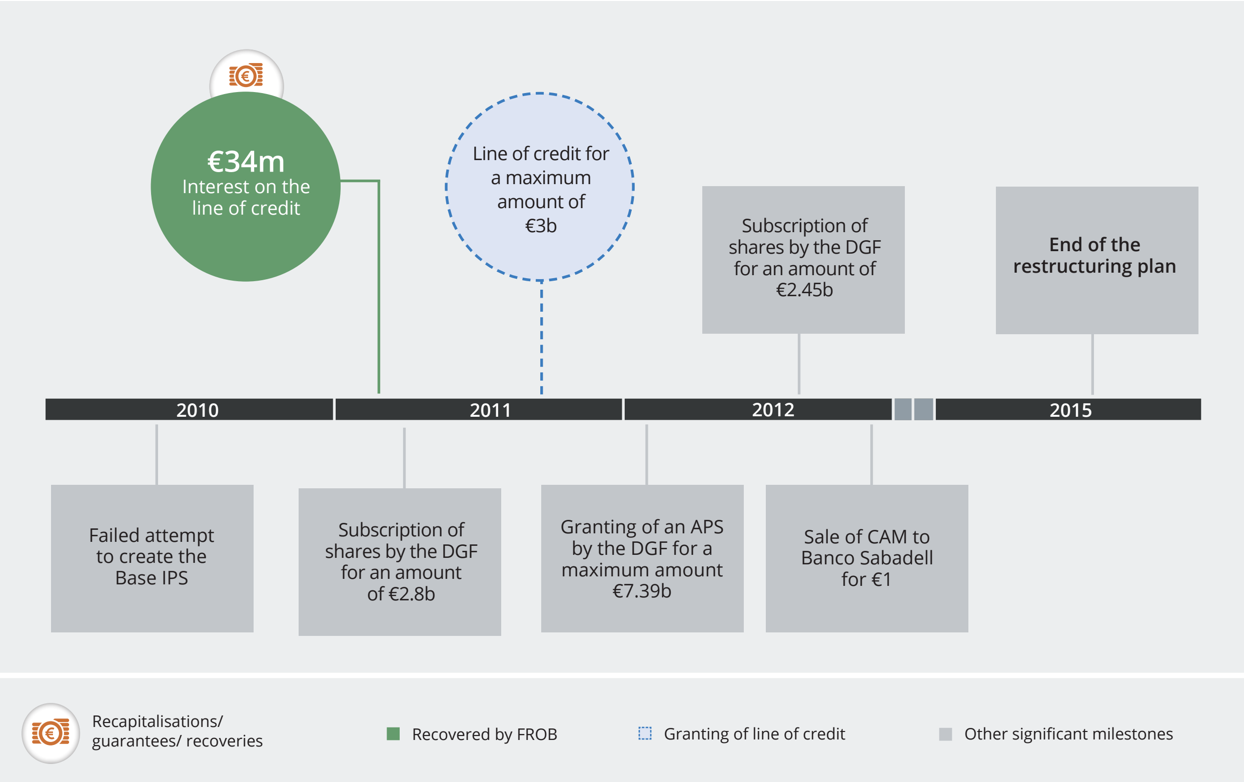
17/12/2014
Decision 39402 (2014/N) of the European Commission on the new resolution plan of Catalunya Banc

24/04/2015
Conclusion of the sale of 66.01% of Catalunya Banc to BBVA for 782 million euros

01/09/2016
Merger of BBVA and Catalunya Banc

24/04/2018
End of the resolution plan having fully met all commitments

CAM



On 27 July 2010, Caja de Ahorros del Mediterráneo (CAM) together with Caja de Ahorros de Asturias (CajAstur) - in the process of integration with Caja de Ahorros de Castilla-La Mancha (CCM) - Caja de Ahorros y Monte de Piedad de Extremadura (Caja Extremadura) and Caja de Ahorros de Santander y Cantabria (Caja Cantabria) signed an integration agreement to set up a contract-based economic group that would be configured as an IPS, the central vehicle of which would be Banco Base, S.A. (Banco Base), a bank set up for this purpose on 28 December 2010, although this project resulted in a failed attempt. On 30 March 2011, CAM transferred its banking and banking-related assets and liabilities to Banco Base, with the savings bank continuing to hold the assets used for the social welfare activities and its shareholding in the new bank. On 21 June 2011, the bank was renamed Banco CAM, S.A. (Banco CAM).

POSITION OF THE BANK AT THE TIME OF ITS INTERVENTION

Balance sheet of 72 billion euros

Network of 1,000 branches and 7,500 employees

Market shares at a national level of close to **3%** and in the regions of Valencia and Murcia of over **15%**

The financial support of this process was fully paid by the DGF

On 1 June 2012, the sale was concluded of 100% of the bank's shares held by the DGF to Banco Sabadell for 1 euro

1. RESTRUCTURING PROCESSES

The total aid received by the institution was 5.25 billion euros, which was provided by the DGF and which corresponded to two capital increases fully subscribed and paid in by the DGF for 2.8 billion euros and 2.45 billion euros, respectively.

In addition, in the process of the sale to Banco Sabadell, the DGF granted the institution an APS with a maximum cost set at 7.39 billion euros, while FROB provided guarantees to CAM at zero cost.

Moreover, FROB granted the institution a line of credit with a limit of 3 billion euros, which was fully repaid and cancelled.

With regard to the amounts recovered, FROB received interest on the line of credit granted to the institution for an amount of 34 million euros between 2011 and 2012.

FROB I. Failed integration plan

Request for support and authorisation

- On 15 June 2010, the savings banks that intended to form an IPS whose central vehicle would be Banco Base submitted an integration plan and requested from FROB, through the Bank of Spain, subscription of 1.49 billion euros of convertible preferred shares as part of the integration process they were going to undertake. On 29 June 2010, the Executive Committee of the Bank of Spain approved said plan, which included deeming the IPS a consolidated group of credit institutions, as well as the requested financial support. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB also submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact on the General State budget of the subscription of the convertible preferred shares.
- On 23 December 2010, the Board of the institutions participating in the ISP approved development of the integration agreement to speed up this process. Consequently, the convertible preferred shares were subscribed on 30 December 2010, but payment was postponed until compliance with the conditions precedent, which were expected to be fulfilled in the second quarter of 2011.

Cancellation of the request for support and the planned integration

- On 30 March 2011, the Assembly of CAM approved the transfer of its financial business to Banco Base. However, the Assemblies of CajAstur, Caja Extremadura and Caja Cantabria voted against continuing with the segregation, which was one of the conditions precedent for entry into force of the IPS and payment of the convertible preferred shares, and said payment therefore remained suspended. On 6 April, Banco Base and the aforementioned savings banks participating in this integration project signed an agreement for settlement, in an orderly manner and in good faith, of their relationships resulting from the integration process, including the sale of the entire share capital of said entity by CAM. This meant that the convertible preferred shares were not eventually paid in and were therefore cancelled.
- On 21 June 2011, the name of Banco Base was changed to Banco CAM.

Increase in capital requirements

- Following application of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, Banco CAM agreed a recapitalisation strategy on 1 April 2011 that involved requesting financial support from FROB for a total amount of 2.8 billion euros. This support would be implemented by subscription of convertible preferred shares in an amount of 1.03 billion euros, equivalent to the part that corresponded to CAM from FROB I granted to the former Banco Base, as FROB did not pay out this support in the end.

Intervention and start of the CAM restructuring process

- On 21 July 2011, the Bank of Spain decided that the recapitalisation plan submitted by the institution had not set out a coherent and realistic project that would solve the institution's situation and it therefore ordered CAM to submit within 10 days an alternative action plan that would ensure its future viability.
- On 22 July 2011, the Boards of Directors of CAM and Banco CAM recorded in a public deed the agreement for transfer of the business to Banco CAM and informed the Bank of Spain that finding a viable solution was impossible.
- The Executive Committee of the Bank of Spain decided, at a meeting held on the same day and at the request of the Boards of Directors of CAM and Banco CAM, that, in application of Article 7 of Royal Decree Law 9/2009, the intervention and orderly restructuring of CAM and Banco CAM, with the participation of FROB, should be carried out. This gave rise to a process aimed at recapitalising Banco CAM.
- The Bank of Spain decided to provisionally replace the governing bodies of the institutions and to appoint FROB as provisional administrator of CAM and Banco CAM.

CAM's situation made it necessary to carry out its intervention and orderly restructuring and to replace its governing bodies

Temporary financial support

- At a meeting also held on 22 July 2011, FROB's Governing Committee agreed on a series of measures aimed at stabilising the group and guaranteeing its normal operations so as to fulfil all its obligations with third parties. FROB agreed to provide Banco CAM with the following temporary financial support:
  - Immediately available line of credit for a maximum amount of 3 billion euros. This line of credit was gradually drawn down by Banco CAM and was fully repaid following the sale of the bank.
  - Subscription of new shares of Banco CAM for a maximum amount of 2.8 billion euros to capitalise the bank and allow it to continue operating normally as a credit institution. These were eventually subscribed by the DGF.
- On 24 July, the European Commission issued Decision 33402 (2011/N) confirming that the emergency aid approved by FROB was temporarily compatible with the internal market.

Initial restructuring plan

- FROB drew up an initial restructuring plan that included the sale of the bank to another more solvent bank, as well as the contribution of the planned support. The initial restructuring plan was approved on 7 September 2011.
- FROB's Governing Committee also approved the valuation of CAM made on the basis of the reports from three independent experts for a negative amount of 727 million euros. This figure determined that the subscription of the capital increase of 2.8 billion euros must necessarily give the subscriber 100% of the bank's capital.

2. DIVESTMENT PROCESS

Development of the divestment process

- Once the initial CAM restructuring plan had been approved, FROB agreed to begin the planned sale process with the aim of divesting the stake that FROB was foreseeably going to have in Banco CAM.
- Potential buyers submitted their initial interest and were given access to detailed information on the bank.

Awarding of Banco CAM and support from the DGF

- On 7 December 2011, FROB decided that the offer from Banco Sabadell represented the most efficient use of public resources. On the basis of the negative valuation of Banco CAM and prior to drawing up the bank's restructuring plan, FROB's governing committee passed on Banco Sabadell's bid to the DGF for it to assess whether the restructuring plan should be supported. On that same day, the DGF's Management Committee informed FROB of its decision to provide the necessary financial support for the restructuring of Banco CAM.
- The commitments provided by the DGF consisted of financially supporting the sale transaction by subscribing 100% of the capital of Banco CAM for 5.25 billion euros (a figure that included the 2.8 billion euros that had previously been committed by FROB and which were therefore then committed by the DGF), which would subsequently be transferred to Banco Sabadell for the price of 1 euro. The sale included an APS granted by the DGF and guarantees granted by FROB so as to cover certain tax contingencies from the sale transaction.

Approval of the restructuring plan

- The restructuring plan involved implementing several measures, which included subscription by the DGF of one or more capital increases totalling 5.25 billion euros and the subsequent transfer of the entire holding to Banco Sabadell for 1 euro and the granting of an APS to Banco CAM as financial support for the restructuring.
- The plan also included specific commitments relating to the European legislation on State aid, which involved significant measures to adapt the business:
- Reduction in the bank's size:
    - lending
    - employees
    - branches
    - divestment from companies with exposure to the real estate sector.
- On 15 December 2011, it was agreed to reduce CAM Bank's capital to zero with the consequent cancellation of all the shares issued in order to adjust the entire value of the shareholding of CAM to the real value of the bank's shares, as well as to perform the simultaneous aforementioned capital increase for 2.8 billion euros, fully subscribed by the DGF, which became the sole shareholder of Banco CAM.
- Consequently, the aforementioned corporate transaction resulted in CAM's holding in Banco CAM being reduced to zero with the consequent negative impact on its net worth and on the value of the outstanding equity units issued on 22 May 2008.
- On 30 May 2012, by means of [Decision 34255 (2012/N)], the European Commission approved the restructuring plan for Banco Cam, after FROB submitted it to the Bank of Spain.

Conclusion of the sale agreement	> On 1 June 2012, the sale of Banco CAM from the DGF to Banco Sabadell was concluded and the full amount drawn down from the line of credit with FROB was settled.
Merger with Banco Sabadell	> Finally, on 2 August 2012, Banco CAM was absorbed by Banco Sabadell.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser stated that, at 31 December 2015, Banco CAM had complied with all the plan's requirements

3. GUARANTEES PROVIDED

With the aim of maximising the efficient use of public funds, both FROB and the DGF supported Banco CAM by granting guarantees.

In addition to the financial support of 5.25 billion euros, the DGF agreed to grant an APS to Banco CAM as part of its sale process through which the DGF would cover, for a period of ten years, 80% of the losses that might arise for a predetermined asset portfolio totalling 24.64 billion euros, for which provisions of 3.88 billion euros had been recorded.

On 17 December 2018, Banco Sabadell, the DGF and FROB signed an agreement to clarify Section II of the Protocol, clearly setting out certain situations related to the content and development of the APS and establishing that the amount of the payments to be made by the DGF, following signing of the agreement, would be limited to a maximum of 4.15 billion euros. Consequently, the maximum loss for the DGF from the APS, bearing in mind the payments made up to the date of the agreement, would not exceed 7.39 billion euros.

At year-end 2018, the payments made by the DGF amounted to 3.3 billion euros, with an estimated loss pending settlement of 4.09 billion euros. The updated value of this amount at 31 December 2018 was 3.93 billion euros. Therefore, including the payments already made, the updated estimated cost at said date to be covered by the DGF amounted to 7.23 billion euros. Subsequently, in February 2019, a payment of 995 million euros was made.

For its part, FROB made commitments in the process focused on certain tax contingencies of the sale to Banco Sabadell. These contingencies have had a zero cost. The breakdown of the commitments is as follows:

Guaranteed Items	Paid
Guarantee with regard to the tax effect of the transaction on use of tax credits for loss carryforwards activated in Banco CAM.	0
Guarantee with regard to the tax effects of the transaction on the income for the possible difference between the theoretical book value of Banco CAM and the value for the purposes of Corporate Income Tax of the shares acquired in the purchase.	0

4. KEY MILESTONES

15/06/2010
Request for creation of the Banco Base IPS

29/06/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB (failed integration and non-payment of the authorised aid).

30/03/2011
Approval of the segregation of CAM's financial business to Banco Base (later Banco CAM). The other participating savings banks put an end to the IPS

22/07/2011
The Boards of Directors of CAM and Banco CAM recorded in a public deed the segregation of the financial business and informed the Bank of Spain that finding a viable solution was impossible. Intervention of the institution by the Bank of Spain and start of the restructuring process. Appointment of FROB as its provisional administrator

24/07/2011
Decision 33402 (2011/N)
of the European Commission on the CAM recapitalisation plan

07/09/2011
Approval of the initial restructuring plan for Banco CAM. Start of the process to sell the institution

31/12/2015
End of the restructuring plan having fully complied with the commitments

02/08/2012
Merger of Banco Sabadell and Banco CAM

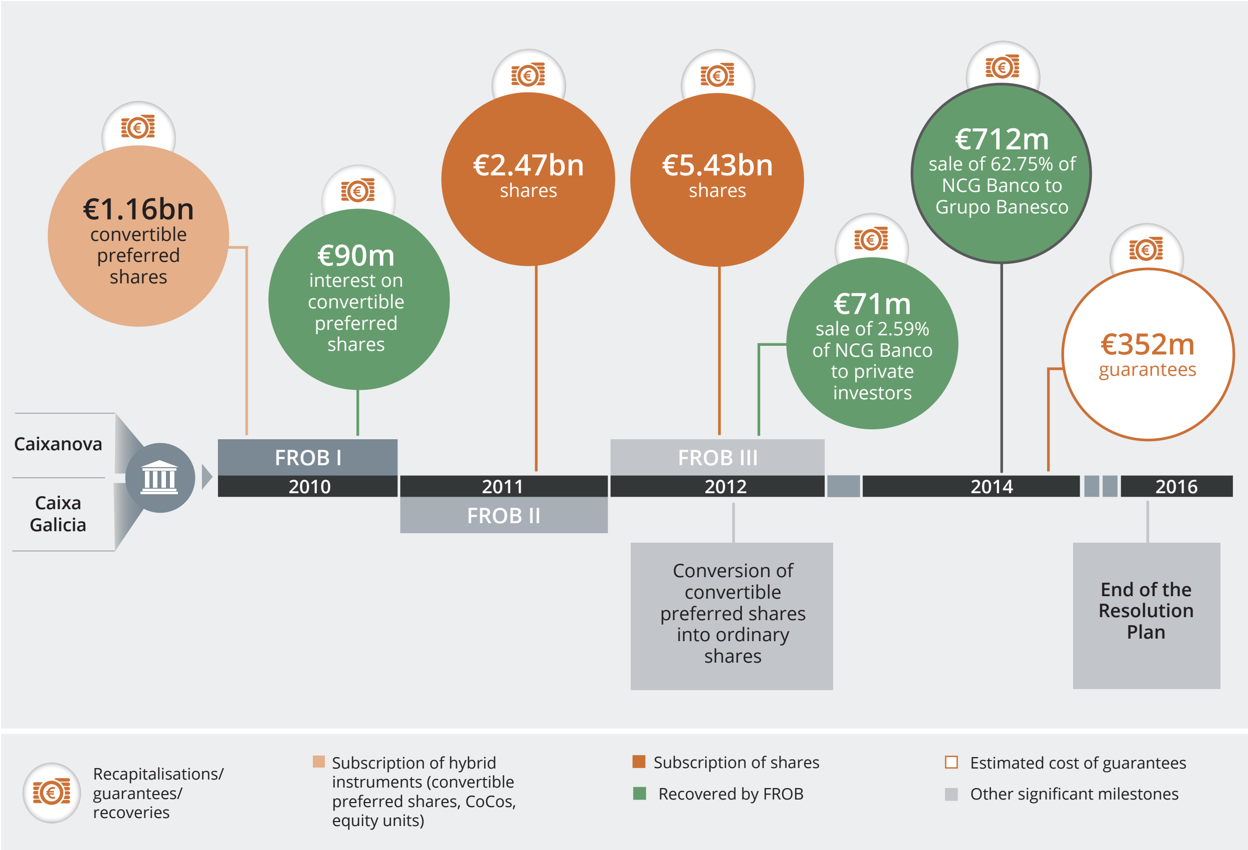
01/06/2012
Capital increase of 2.45 billion euros subscribed and paid in by the DGF

30/05/2012
Decision 34255 (2012N) of the European Commission on the CAM restructuring plan

15/12/2011
Reduction of share capital to zero and cancellation of all shares. Capital increase of 2.8 billion euros subscribed and paid in by the DGF

07/12/2011
Drafting by FROB of the CAM restructuring plan and approval by the Bank of Spain, including awarding of Banco CAM to Banco Sabadell. Decision of the DGF to provide the necessary financial support for restructuring Banco CAM.

Novacaixagalicia



On 1 December 2010, Caixa de Aforros de Vigo, Ourense e Pontevedra (Caixanova) and Caja de Ahorros de Galicia (Caixa Galicia) formalised the integration of the two institutions by registering the notarised instrument recording their merger, with their name changed to Caixa de Aforros de Galicia, Vigo, Ourense e Pontevedra (Novacaixagalicia), a process for which they requested financial support from FROB. In September 2011, Novacaixagalicia transferred its banking and banking-related assets and liabilities to a newly created bank named NCG Banco, S.A. (NCG Banco), maintaining the assets used for its social welfare work and its shareholding in the new bank.

POSITION OF THE GROUP AT THE TIME OF ITS CREATION

- **Balance sheet of 75 billion euros**
- **Network of 1,500 branches and 9,000 employees**
- **Market shares** of between **40%** and **50%** in its original territories

The bank required financial support of **9.05 billion euros** from FROB, which was granted between 2010 and 2012.

On 12 January 2012, the sale of 2.59% of the bank to private investors for 71 million euros was formalised. Subsequently, on 25 June 2014, a public deed was executed recording the sale of all of the bank's shares held by FROB (62.75%) and the DGF (25.58%) to Grupo Banesco for 1 billion euros, of which 712 million corresponded to FROB.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 9.05 billion euros. Of this amount, 1.16 billion euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB) and 2.47 billion euros to FROB II and 5.43 billion euros to FROB III (capital increases fully subscribed and paid in by FROB).

In addition, in the sale to Grupo Banesco, FROB granted certain guarantees to NCG Banco with an estimated cost of 352 million euros, of which 243 million euros have already been paid.

With regard to the amounts recovered, FROB received interest on the convertible preferred shares subscribed in 2010 for an amount of 90 million euros and it received 783 million euros from the sale of the institution's shares.

FROB I. Convertible preferred shares: 1.16 billion euros

Request for support and authorisation

- On 14 June 2010, Caixa Galicia and Caixanova submitted an integration plan and requested from FROB, through the Bank of Spain, subscription of 1.16 billion euros of preferred shares convertible into equity units as part of the integration process they were to going to undertake. On 29 June 2010, the Executive Committee of the Bank of Spain approved this plan, which included the merger of the two savings banks, and the financial support requested. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB also submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact on the General State budget of the subscription of the convertible preferred shares.

The plan included a request for financial support to support the integration of the two savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Integration of the savings banks

- On 1 December 2010, Caixanova and Caixa Galicia formalised the merger of both institutions under the new name of Novacaixagalicia.

Convertible preferred shares

- On 20 December 2010, the first Assembly of Novacaixagalicia approved the issuance of preferred shares convertible into equity units which, at the end of that same month, were fully subscribed and paid in by FROB.

FROB II. Capital increase: 2.47 billion euros

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, Novacaixagalicia submitted to the Bank of Spain the strategy and timetable for compliance with the new core capital requirements. The requirement for the bank was 10% of RWAs, which meant the need for a significant increase in the bank's own funds. According to the new regulatory requirements, Novacaixagalicia had a capital shortfall of 2.62 billion euros. The strategy submitted included the following actions:
  - Carrying out an organic optimisation and business divestment plan that would reduce RWAs.
  - Setting up a bank through which it would perform its financial activity.
  - Requesting financial aid from FROB in order to reach the required capital level for a maximum amount of 2.62 billion euros.
- On 14 April, the Bank of Spain approved this strategy and FROB indicated its agreement and undertook to grant the requested financial aid.
- On 21 July, the General Assembly of Novacaixagalicia agreed to transfer its entire financial business to a newly created bank, NCG Banco.
- The institution was able to partially carry out its recapitalisation strategy by selling assets, reducing its capital needs to 2,465 million euros. This was the amount that was eventually injected by FROB.

Recapitalisation plan and creation of NCG Banco

- On 8 September 2011, the bank approved the recapitalisation plan and subsequently formalised a public deed recording the incorporation of NCG Banco and the transfer of Novacaixagalicia's assets and liabilities to the new bank (the savings bank maintained the assets and liabilities used for social welfare activities and its shareholding in NCG Banco).
- On 26 September, the Bank of Spain approved the recapitalisation plan prepared by the institution and informed FROB.
- On 29 September, in order to calculate FROB's percentage of the capital of the new bank, and pursuant to the provisions of Royal Decree Law 9/2009, FROB's Governing Committee approved an economic value for NCG Banco, based on the valuations performed by three independent experts, of 181 million euros. Based on this valuation and following the completion of a capital increase of 2.47 billion euros, FROB would have a shareholding of 93.16% of NCG Banco. At the express request of Novacaixagalicia, FROB granted a share buyback option to the institution and investors proposed by the institution.
- Finally, on 30 September, the European Commission issued Decision 33096 (2011/N) on the institution's recapitalisation plan, considering that the aid received by the entity was temporarily compatible with the internal market for reasons of financial stability.

Entry of FROB in the capital of NCG Banco

- On 10 October 2011, the capital increase of NCG Banco for an amount of 2.46 billion euros, fully subscribed and paid in by FROB, was completed and FROB joined the bank's Board of Directors through three representatives. The estimated financial impact that this contribution of funds would have on the General State Budget was reported to the Ministry of Economic Affairs and Finance by means of the corresponding economic report.
- On 12 January 2012, the sale of 2.59% of the capital of NCG Banco on which there was an irrevocable commitment to sell by FROB was made effective at the price at which FROB subscribed the shares plus agreed interest for the period that elapsed between the date FROB subscribed those shares and the date of sale. These shares were sold to private investors for 70.7 million euros and FROB's stake in the capital of NCG Banco fell to 90.57%.

FROB III. Capital increase: 5.43 billion euros

Calculation of capital needs

- On 20 July 2012, given that FROB already had a stake in the institution, the MoU established that NCG Banco should be classified into Group 1. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 3.97 billion euros in a base scenario and 7.18 billion euros in an adverse scenario.
- For the purposes of calculating the public aid, the capital needs estimated in the adverse scenario of the stress test were reduced to 5.43 billion euros as a result of the estimated impact of the burden sharing through the exchange of hybrid instruments (preferred shares and subordinated debt) into capital and the planned transfer of assets to Sareb.

Stress test – Oliver Wyman. Calculation of capital needs

€7.18bn (adverse scenario)	- €2.03bn (burden sharing)	€276m (transfer to Sareb)

€5.43bn estimated final need for FROB funds

Approval of the resolution plan

- On 27 November 2012, FROB submitted NCG Banco's resolution plan for approval by the Bank of Spain, which gave its approval on the same day. One day later, it was approved by the European Commission by means of Decision 33734 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The resolution plan established the adoption of various measures, including the following:

A

Injection of public funds of 5.43 billion euros

After determining the bank's economic value at a negative amount of 3.09 billion euros (on the basis of the reports by three independent experts in accordance with Law 9/2012), on 26 December 2012, FROB's Governing Committee decided to convert the convertible preferred shares subscribed under FROB I for an amount of 1.16 billion euros into capital and write down the bank's capital to zero in order to increase voluntary reserves to absorb the losses recognised in the resolution plan prepared by the bank. During the period in which the convertible preferred shares were outstanding, FROB received interests on these instruments for an amount of 90 million euros.

Accordingly, firstly, the shares of Novacaixagalicia (6.85% of the capital) and the minority shareholders (2.59% of the capital) were written down to zero and, secondly, FROB absorbed losses for the full amount of the initial aid granted (under FROB I and FROB II) and part of the 5.43 billion euros injected in the form of shares in execution of the same resolution of 26 December (FROB III). The rest of the aid under FROB III was used to recapitalise the bank and therefore, following the aforementioned resolution, FROB became the company's sole shareholder until the SLE was executed.

B

Transfer to Sareb

On 31 December 2012, NCG Banco transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 10.5 billion euros and a transfer price of 5.1 billion euros (average haircut of about 50%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C

Burden sharing

On 7 June 2013, FROB's Governing Committee decided to carry out the subordinated liabilities exercise, which affected issues of NCG Banco for a nominal value of 2.05 billion euros, of which a total of 1.5 billion euros were held by retail investors. This exercise had a positive gross impact of 1.96 billion euros on the bank's net worth position.

- 604 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 30%).
- 1.36 billion euros as a result of conversion of the securities into capital of the bank.

An arbitration system was set up whereby retail customers that met certain requirements indicating mis-selling in the securities subject to the haircut might recover their investment. In application of this system, customers corresponding to issues for a nominal amount of 497 million euros received a positive decision.

In addition, the DGF set up a liquidity mechanism consisting of an offer of purchase to retail customers holding the bank's shares resulting from the subordinated liabilities exercises without a positive decision in the arbitration. The offer price included a 13.8% haircut on the economic value of the share set in the subordinated liability exercise. Liquidity was therefore provided to these customers for an amount of 802 million euros.

C

Burden sharing

Following application of the aforementioned mechanism, FROB held a stakeof 62.75% in the share capital of NCG Banco, while the DGF held 25.58% of the shares. The remaining 11.67% corresponded to:

- shareholders from the wholesale subordinated liabilities exercise,
- shareholders from the retail subordinated liabilities exercise which had voluntarily decided not to make use of the facility offered by the DGF.
- treasury stock.

Finally, following these measures and enforcement of the court rulings issued in favour of retail customers resulting from the subordinated liabilities exercise relating to the marketing of hybrid instruments, most of the affected retail customers have recovered almost all of their investment.

D

Resizing and reorganisation of the institution's structure

The resolution plan also included specific commitments relating to European legislation on State aid, which involved significant measures to adapt the business:

- Splitting the activity between the banking business on which the institution had to focus (Core Unit) and the other activities with the aim of divesting.
- Reduction in the bank's size:
  - balance sheet
  - lending and LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibition and restriction as regards certain activities relating to acquisitions, disclosure of aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.

In addition, noteworthy among the commitments included in the plan were two sales that had to be carried out between 2013 and 2014.

- Sale of Banco Gallego by 30 April 2013: on 19 April 2013, FROB's Governing Committee agreed to award Banco Gallego to Banco Sabadell for 1 euro, following the capital increase of 245 million euros subscribed by FROB.
- Sale of EVO Banco by 31 December 2014: on 9 September 2013, NCG Banco agreed to transfer to the entity designated by Apollo Management International LLP 100% of the EVO Banco business unit through segregation of the banking business of 80 branches of NCG Banco that had been operating under the EVO brand with a sale price of 60 million euros.

E

Divestment

The divestment of FROB's shareholding in the bank had to take place within a maximum period of five years or, failing that, the bank would have to disappear completely from the market.

To this end, the Spanish authorities had to initiate the sale of the bank by the end of July 2015. If in December 2016 the bank had not been sold, a divestiture trustee would have to be appointed with the exclusive mandate of selling the bank. If this sale mandate had not been executed by September 2017, a resolution plan for the core unit was to be submitted.

2. DIVESTMENT PROCESS

Strategy, analysis and start of the sale process	> On 25 March 2013, a specialised consulting firm was hired to evaluate the different strategies for managing and divesting the institutions owned by FROB. With regard to NCG Banco, the consultant recommended a swift sale as the best alternative to minimise the use of public resources. > On 4 July 2013, the contract for analysis and advice with regard to a possible sale of the institution was awarded to an investment bank. In addition, contact was made with different entities and funds to test the market's appetite for this institution. Potential buyers had access to detailed information about the institution. > On 19 November 2013, FROB's Governing Committee decided to open the auction for NCG Banco, which resulted in offers being received for 88.33% of the bank's capital owned by FROB (62.75%) and by the DGF (25.58%).
Awarding of NCG Banco	> On 18 December 2013, FROB's Governing Committee decided to award 88.33% of NCG Banco (both FROB's and the DGF's share) to Grupo Banesco for 1 billion euros as this was the most efficient use of public resources. This bid considered the sale of the two portfolios of non-performing loans that were included in the process. The sale of the bank included a series of guarantees.
Provisional administration of NCG Banco by FROB	> As part of the process of awarding NCG Banco, the Bank of Spain's Executive Committee decided, on 17 January 2014, to replace the bank's Board of Directors and appoint FROB as its provisional administrator.
Approval of the new resolution plan	> On 20 June 2014, by means of Decision 38143 (2014/N), the European Commission approved the new resolution plan of NCG Banco, after FROB submitted it to the Bank of Spain and the latter approved it. The new plan included the sale of the bank to Grupo Banesco and compliance with several of the commitments made in the initial plan. > The plan included commitments relating to a reduction in size and certain limitations and restrictions.
Conclusion of the sale agreement	> On 25 June 2014, the sale of the bank was recorded in a public deed. The method of payment of the sale price was set such that 40% of the bid price had to be paid upon conclusion of the sale agreement, while the remaining 60% was to be paid in successive instalments until 2018. Ultimately, the buyer paid the instalments early and completed payment in February 2017.
Change of name	> On 1 December 2014, NCG Banco changed its name to Abanca Corporación Bancaria (Abanca).

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser stated that, at 31 December 2016, NCG Banco had complied with all the plan's requirements.

3. GUARANTEES PROVIDED

In order to maximise efficient use of public funds, FROB provided a series of guarantees in the sale of NCG Banco. At 30 June 2019, the estimated cost amounted to 496 million euros, of which 352 million euros corresponded to FROB and the rest to the DGF in accordance with the percentage of shares sold by each institution. At that date, guarantees amounting to 343 million euros have been paid, of which 243 million euros corresponded to FROB and the rest to the DGF. The guarantees provided refer to the following items (in million euros):

Guaranteed Items	Paid
Adjustments included in the agreement for transferring the assets from NCG Banco to Sareb.	33
Tax risks resulting from the transfer of assets to Sareb.	0
Certain sums that NCG Banco was forced to pay to insurance companies.	81
Liabilities resulting from the marketing of hybrid instruments.	121
Liabilities resulting from the marketing of mortgage loans including floor clauses.	Under 1
Liabilities resulting from the granting of interest-rate hedges in relation to mortgage credits granted to families and self-employed workers.	8
Guarantee of the possible use of tax assets in the event that the buyer opts for a merger with NCG Banco.	0

4. KEY MILESTONES

29/06/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB

01/12/2010
Integration of Caixa Galicia and Caixanova (Novacaixagalicia)

21/12/2010
Subscription of convertible preferred shares for an amount of 1.16 billion euros (FROB I)

14/09/2011
Incorporation of NCG Banco and transfer of assets and liabilities of Novacaixagalicia to the new bank

26/09/2011
Approval of the recapitalisation plan by the Bank of Spain

30/09/2011
Decision 33096 (2011/N) of the European Commission on the recapitalisation plan of NCG Banco

10/10/2011
Subscription of shares in an amount of 2.47 billion euros (FROB II)

12/01/2012
Sale of 2.59% of the share capital of NCG Banco for 71 million euros

27/11/2012
Approval by the Bank of Spain of the resolution plan submitted by FROB

28/11/2012
Decision 33734 (2012/N) of the European Commission on the resolution plan of NCG Banco

26/12/2012
Conversion of convertible preferred shares into shares (FROB I), reduction of capital to zero (FROB I and FROB II) and subscription of shares in an amount of 5.43 billion euros (FROB III)

31/12/2012
Transfer of assets to Sareb

19/04/2013
Awarding of Banco Gallego to Banco Sabadell

07/06/2013
Subordinated liabilities exercise

09/09/2013
Sale of Evo Banco

18/12/2013
Awarding of the 88.33% of NCG Banco owned by FROB (62.75%) and the DGF (25.58%) to Banco Etcheverría (Grupo Banesco) for 1 billion euros

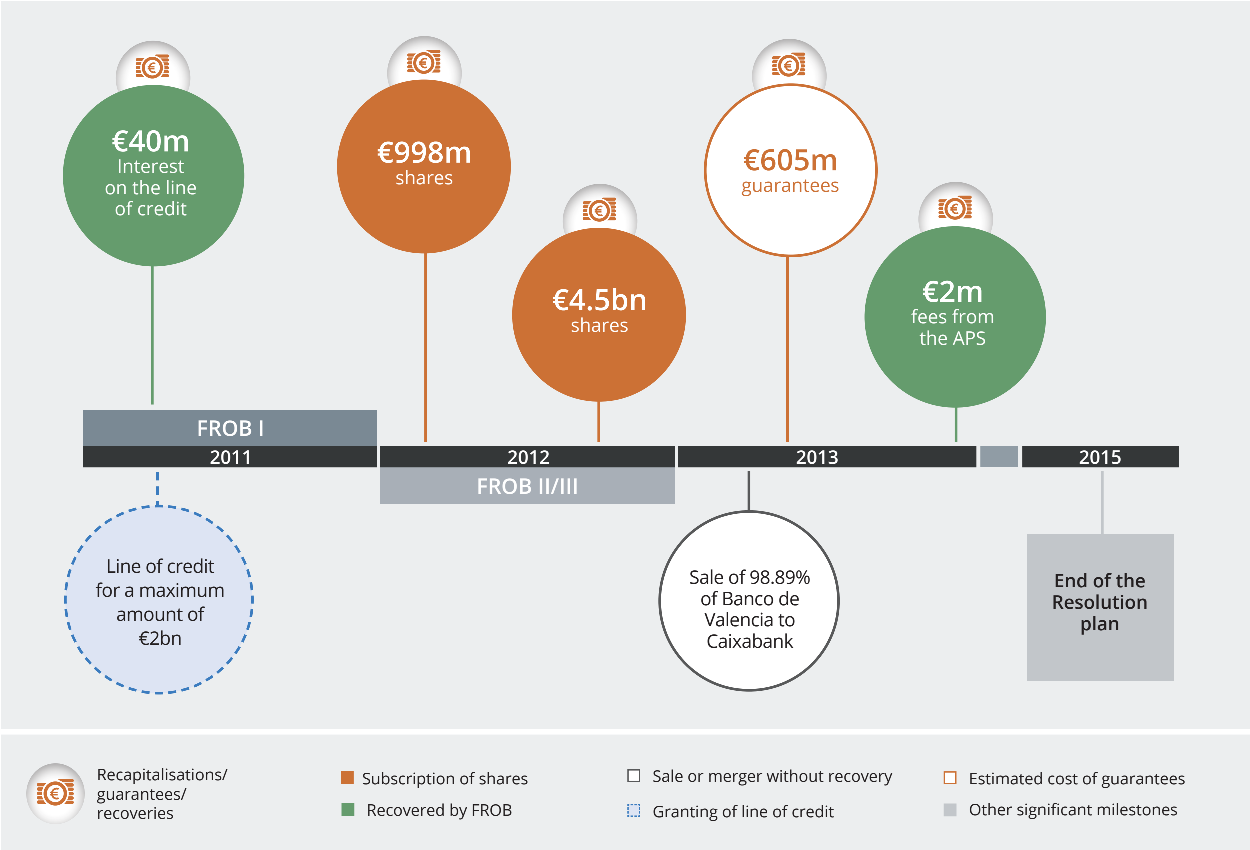
20/06/2014
Decision 38143 (2014/N) of the European Commission on the new resolution plan of NCG Banco

25/06/2014
Conclusion of the sale of 62.75% of NCG Banco to Grupo Banesco for 712 million euros

01/12/2014
Change of corporate name of NCG Banco to Abanca Corporación Bancaria (Abanca)

31/12/2016
End of the resolution plan having fully met all commitments

Banco de Valencia



Banco de Valencia, S.A. (Banco de Valencia) was a commercial bank whose shares had been listed on the stock exchange since 1967 and was set up as the head of its own group. As from 1994, it was part of a consolidated group whose parent company was Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), with an indirect holding in the capital of Banco de Valencia at 31 December 2010 of 38.33%.

On 14 June 2010, the Board of Directors of Bancaja approved a protocol for its integration into an IPS set up by seven savings banks and in which Banco Financiero y de Ahorros, S.A. (BFA) was established as the central vehicle. Banco de Valencia was part of the group as it was a subsidiary of Bancaja. At the start of 2011, a first segregation was performed whereby the savings banks transferred their banking and banking-related assets and liabilities to BFA. Subsequently, a second segregation was carried out whereby BFA transferred a significant part of the financial operations and assets received from the savings banks to a newly-created subsidiary (Bankia). The shareholding of Banco de Valencia remained in BFA following this second segregation.

POSITION OF THE GROUP IN 2010

- Balance sheet of 24 billion euros
- Network of 430 branches and 2,200 employees
- Market shares of between 5% and 7% in its original territories

The entity required financial support of **5.5 billion euros** from FROB, which was granted in 2012

On 28 February 2013, the sale of 100% of the bank's shares held by FROB (98.89%) to Caixabank for 1 euro was concluded.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 5.5 billion euros. Of this amount, 998 million euros corresponded to FROB II and 4.5 billion euros to FROB III (capital increases fully subscribed and paid in by FROB).

In addition, in the sale to Caixabank, FROB granted certain guarantees to Banco de Valencia with an estimated cost of 605 million euros, of which 259 million euros have already been paid.

Moreover, FROB granted Banco de Valencia a line of credit with a limit of 2 billion euros, which was fully repaid and cancelled.

With regard to the amounts recovered, FROB received interest of 40 million euros on the line of credit granted and, up to 30 June 2019, it received fees of 2 million euros for the APS.

FROB II. Capital increase: 998 million euros

Intervention of Banco de Valencia

- On 21 November 2011, following the notification from Banco de Valencia to the Bank of Spain in which it acknowledged its financial weakness and the impossibility of finding a viable solution by private means, the Bank of Spain's Executive Committee decided to provisionally replace the bank's management bodies and appoint FROB as provisional administrator as the bank was subject to one of the situations provided for in Article 7 of Royal Decree Law 9/2009.
- On that same date, FROB's Governing Committee decided on certain financial support measures that were authorised on the same day by the European Commission through Decision 33917 (2011/N), as it deemed them temporarily compatible with the internal market. These measures consisted of:
    - A credit line of up to 2 billion euros to meet immediate liquidity needs.
    - Subscription and payment for a capital increase to be performed by Banco de Valencia for a maximum amount of 1 billion euros.
- These measures were intended to stabilise the bank and ensure that it would operate normally so that it could meet its obligations with third parties

Entry of FROB in the capital of Banco de Valencia

- On 14 May 2012, the General Shareholders' Meeting of Banco de Valencia agreed to reduce the share capital of Banco de Valencia by reducing the nominal value of its shares to the weighted average listed share price in the month prior to the calling of the General Meeting and a simultaneous capital increase for 1 billion euros by issuing 5 billion new shares with a pre-emptive subscription right for its shareholders.
- On 21 June 2012, FROB's Governing Committee agreed to subscribe the shares that were not subscribed by Banco de Valencia's shareholders in this capital increase.
- On 26 June, the agreement was executed and FROB entered the share capital of Banco de Valencia, subscribing and paying in 4,992,242,050 shares for a total of 998 million euros, giving FROB a 90.89%stake in the bank's capital.

FROB III. Capital increase: 4.5 billion euros

Calculation of capital needs

- On 20 July 2012, given that FROB already had a stake in the institution, the MoU established that Banco de Valencia should be classified into Group 1. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 1.85 billion euros in a base scenario and 3.46 billion euros in an adverse scenario.
- For the purposes of calculating the public aid, the capital needs estimated in the adverse scenario of the stress test were reduced to 2.84 billion euros as a result of the estimated impact of the burden sharing through the exchange of hybrid instruments (preferred shares and subordinated debt) into capital and the planned transfer of assets to Sareb.

Stress test – Oliver Wyman. Calculation of capital needs

€3.46bn (adverse scenario)	- €416m (burden sharing)	- €208m (transfer to Sareb)

€2.84bn estimated final need for FROB funds

However, the funds that were eventually injected were those resulting from the bank's sale process, which amounted to 4.5 billion euros (in addition to the 998 million euros injected in FROB II).

Approval of the resolution plan

- On 27 November 2012, FROB's Governing Committee accepted the takeover bid for Banco de Valencia by Caixabank and then drew up the resolution plan for Banco de Valencia and submitted it to the Bank of Spain for approval, which took place on the same day. On 28 November 2012, it was approved by the European Commission by means of Decision 34053 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

In addition to the sale to Caixabank, which is described in detail in the following section, the resolution plan provided for the adoption of several measures, including the following:

A

Injection of public funds for a value of 4.5 billion euros

After determining the bank's net asset value at a negative amount of 6.34 billion euros (on the basis of the reports by three independent experts in accordance with Law 9/2012), on 26 December 2012, FROB's Governing Committee decided to apply the reserves and the share premium amounting to 307 million euros to offset losses and to reduce the share capital by 1.04 billion euros to 55 million euros, by reducing the nominal value of the shares from 0.20 euros per share to 0.01 euros per share to offset losses and finally to increase the share capital by 4.5 billion euros, by issuing shares with a nominal value of 0.01 euros each to be subscribed by FROB.

B

Transfer to Sareb

On 31 December 2012, Banco de Valencia transferred to Sareb its assets relating to the real estate sector in accordance with the provisions of Royal Decree 1559/2012 for an approximate gross value of 5 billion euros and a transfer price of 1.96 billion euros (average haircut of around 60%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C

Burden sharing

On 11 February 2013, FROB's Governing Committee decided to carry out the subordinated liabilities exercise, which affected issues of Banco de Valencia for a nominal value of 416 million euros, of which a total of 100 million euros were held by retail investors. This exercise had a positive gross impact of 416 million euros on the net worth position of Banco de Valencia.

- 357 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 86%).
- 59 million euros as a result of conversion of the securities into capital of the bank.

Following execution of the above operations, almost all of the share capital of Banco de Valencia was held by FROB (98.89%).

In the integration with Caixabank, the retail customers from the subordinated liabilities exercise of Banco de Valencia received an offer through which they were able to recover almost all of their investment.

D

Resizing and reorganisation of the institution's structure

The resolution plan also included specific commitments relating to the European legislation on State aid, which involved significant measures to adapt the business:

- Reduction in the number of employees and branches of Banco de Valencia.
- Unification of the central services of the two banks and migration of the systems to those of Caixabank.
- Achievement of size levels of the balance sheet, lending, deposits and solvency of the combined entity.

Compliance with the commitments was verified by an independent third party (monitoring trustee). At 31 December 2015, Banco de Valencia had fulfilled all the requirements set out in the plan

2. DIVESTMENT PROCESS

Previous processes

- In 2012, a process was started to divest FROB's stake in Banco de Valencia with the assistance of an investment bank.
- On 2 April 2012, the first stage of the sale procedure was started. Potential buyers were contacted, some of which sent preliminary indications of interest. Finally, the procedure was suspended on 21 June 2012 given the uncertainty of the time and in anticipation of the results of the stress test being performed within the framework of the MoU.

Development of the process

- On September 24, the divestment process was resumed by once again contacting most of the potential buyers, several of which stated their interest in the process and were given detailed information on the bank.

Awarding of Banco de Valencia

- On 27 November 2012, FROB's Governing Committee approved the resolution plan for Banco de Valencia, which included sale of 98.89% of the bank's share capital owned by FROB to Caixabank for 1 euro as this was the most efficient use of public resources. In addition to the capital increase to be subscribed by FROB in an amount of 4.5 billion euros, the sale of the bank included a series of guarantees.

Conclusion of the sale agreement	> The purchase by Caixabank of the Banco de Valencia shares owned by FROB was dependent on execution of the other measures provided for in the resolution plan and was concluded on 28 February 2013 following fulfilment of these measures.
Merger with Caixabank	> Finally, on 19 July 2013, Banco de Valencia was absorbed by Caixabank.

3. GUARANTEES PROVIDED

In order to maximise efficient use of public funds, FROB provided a series of guarantees in the sale of Banco de Valencia. At 30 June 2019, the estimated cost amounted to 605 million euros. Up to said date, guarantees have been paid for an amount of 259 million euros.

These guarantees include the APS granted to Banco de Valencia, which commits FROB to covering, for a period of 10 years from 30 September 2012, 72.5% of the losses arising out of a predetermined asset portfolio, with an initial value of 6.02 billion euros, for which provisions of 402 million euros had been recorded (first loss threshold). In April and August 2013, there were two reductions in the portfolio initially covered in the APS, for gross amounts of 833 million euros and 397 million euros, respectively, with the corresponding reductions in their provisions or first loss threshold. In 2016, a third reduction of the APS was formalised so as to exclude from the scheme a certain number of transactions that were transferred to Sareb. Consequently, the covered asset portfolio amounted to 5.19 billion euros, with the first loss threshold standing at 212 million euros. FROB's estimated cost of this guarantee at 30 June 2019 amounted to 439 million euros, with payments made to Caixabank up to that date for an amount of 93 million euros*.

In addition, FROB accrues a commission for the guarantee of 0.01% per year of the available balance of the APS at the start of each period. FROB has received over 2 million euros for this commission.

Other guarantees provided by FROB refer to the following items (in million euros):

* Includes the 56 million euros paid on 28 June 2019

Guaranteed Items	Paid
Compensation for a maximum amount of 171 million euros for the financial damages resulting from the changes between the estimated assets to be transferred to Sareb and the assets eventually transferred.	165
Guarantee for the use of certain tax assets of Banco de Valencia that would involve compensating Caixabank for higher Corporate Income Tax incurred as a direct consequence of the loss of any of the tax credits from the purchase.	0

4. KEY MILESTONES

13/07/2010
Establishment of the IPS that is the origin of the group in which Banco de Valencia is integrated

21/11/2011
Bank of Spain appoints FROB as provisional administrator. FROB decided to provide certain financial support measures

21/11/2011
Decision 33917 (2011/N) of the European Commission on the adoption of financial support measures

26/06/2012
Capital increase subscribed by FROB in an amount of 998 million euros (FROB II)

30/09/2012
Start of the APS coverage period (duration of 10 years)

27/11/2012
Approval by the Bank of Spain of the restructuring plan submitted by FROB and the awarding of 98.89% of the bank to Caixabank for 1 euro

28/11/2012
Decision 34053 (2012/N) of the European Commission on the resolution plan

26/12/2012
Capital increase subscribed by FROB in an amount of 4.5 billion euros (FROB III)

31/12/2012
Transfer of assets to Sareb

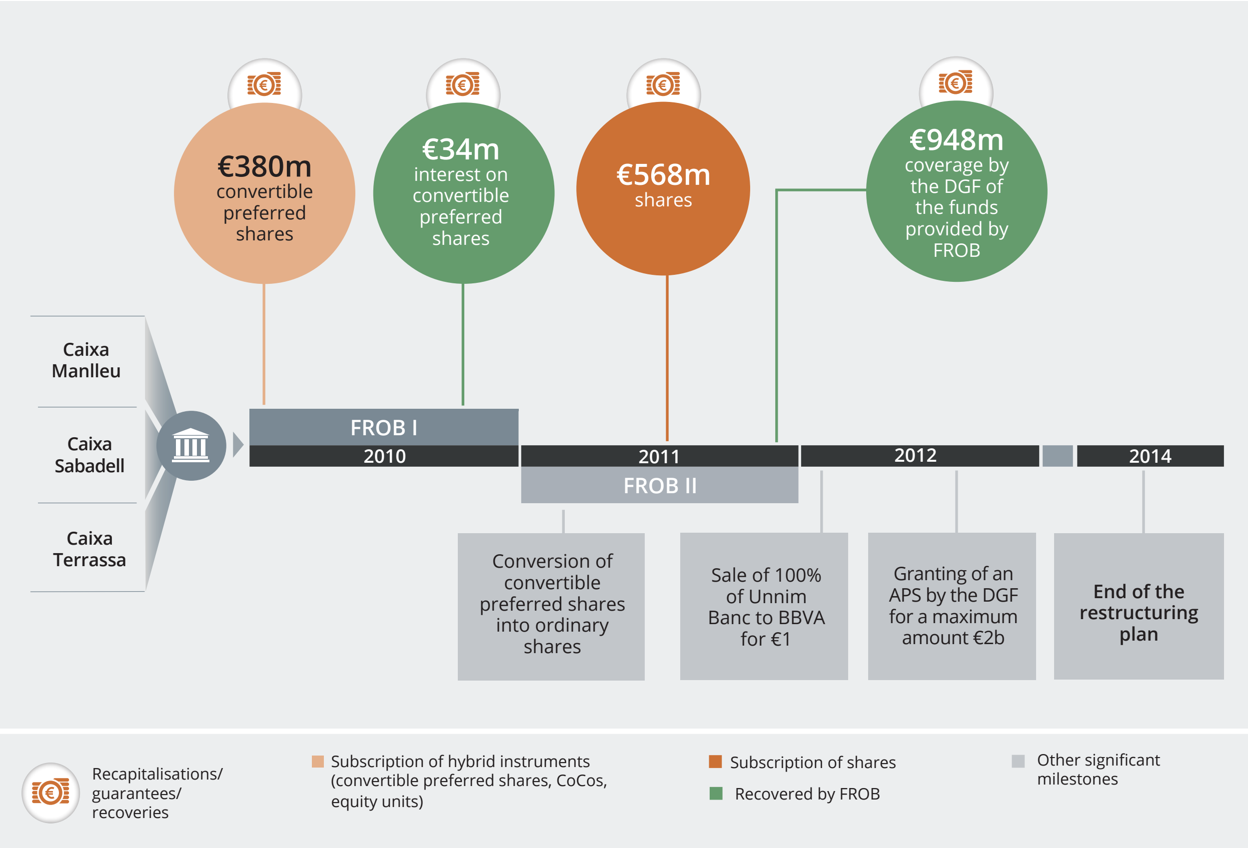
11/02/2013
Subordinated liabilities exercise

28/02/2013
Conclusion of the sale of 98.89% of Banco de Valencia to Caixabank for 1 euro

19/07/2013
FMerger of Caixabank and Banco de Valencia

31/12/2015
End of the resolution plan having fully met all commitments

Unnim



On 1 July 2010, Caixa d'Estalvis Comarcal de Manlleu (Caixa Manlleu), Caixa d'Estalvis de Sabadell (Caixa Sabadell) and Caixa d'Estalvis Terrassa (Caixa Terrassa) formalised their integration by registering the instrument of merger and changing their name to Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa (Unnim), a process for which they requested financial support from FROB. On 28 April 2011, Unnim transferred its banking and banking-related assets and liabilities to a newly created bank named Unnim Banc, S.A. (Unnim Banc), maintaining the assets used for its social welfare work and its shareholding in the new bank.

POSITION OF THE BANK AT THE TIME OF ITS CREATION

- **Balance sheet of 29 billion euros**
- **Network of 570 branches and 3,100 employees**
- **Market shares of close to 6% in its original territories**

The financial support of this process has been fully covered by the DGF

On 27 July 2012, the sale of 100% of the bank's shares held by the DGF to BBVA for 1 euro was concluded.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 948 million euros, which was fully covered by the DGF. Of this amount, 380 million euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB) and 568 million euros to FROB II (capital increase of Unnim Banc fully subscribed and paid in by FROB). The DGF covered the cost of the restructuring of Unnim and paid the 948 million euros injected to FROB.

In addition, in the process of the sale to BBVA, certain guarantees were provided to Unnim whose estimated cost is zero. For its part, the DGF granted the bank an APS whose maximum cost was set at 2 billion euros.

With regard to the recovered amounts, FROB received interest from the convertible preferred shares subscribed in 2010 for an amount of 34 million euros.

FROB I. Convertible preferred shares: 380 million euros

Request for support and authorisation

- On 23 March 2010, the savings banks that made up Unnim submitted an integration plan and requested from FROB, through the Bank of Spain, subscription of 380 million euros of preferred shares convertible into equity units as part of the integration process they were to going to undertake. On 25 March 2010, the Executive Committee of the Bank of Spain approved this plan, which included the merger of the banks, and the requested financial support. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB also submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact on the General State budget of the subscription of the convertible preferred shares.

The plan included a request for financial support to support the integration of the three savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Integration of the savings banks

- On 1 July 2010, Caixa Manlleu, Caixa Sabadell and Caixa Terrassa formalised the merger of the three institutions under the new name of CatalunyaCaixa.

Convertible preferred shares

- On 28 July 2010, Unnim issued convertible preferred shares for a total nominal value of 380 million euros, which were fully subscribed and paid in by FROB.

FROB II. Capital increase: 998 million euros

Increase in capital requirements

- In March 2011, following application of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, the requirement for the bank amounted to 10% of RWAs, which meant the need for a significant increase in the bank's own funds. According to the new regulatory requirements, the capital shortfall amounted to 568 million euros.
- On 28 March 2011, Unnim submitted to the Bank of Spain the strategy and timetable for compliance with the new core capital requirements, which involved:
  - Carrying out an organic optimisation and business disinvestment plan that would reduce RWAs.
  - Setting up a bank through which it would perform its financial activity.
  - Requesting financial aid from FROB in order to reach the required capital level for a maximum amount of 568 million euros.
- On 14 April 2011, the Bank of Spain approved this strategy and FROB indicated its agreement and undertook to grant the financial aid requested.

Creation of Unnim Banc

- On 26 September 2011, the bank formalised a public deed recording the incorporation of Unnim Banc and the transfer of Unnim's assets and liabilities to the new bank (the savings bank maintained the assets and liabilities used for social welfare activities and its shareholding in Unnim Banc).

Start of the restructuring process

- That same day, the Bank of Spain's Executive Committee found that in view of the financial situation of Unnim Banc and Unimm, it was unlikely that the repurchase of the convertible preferred shares subscribed by FROB as part of FROB I could be carried out under the terms set in the issuance instrument, as the bank itself stated in a letter sent to the Bank of Spain.
- Consequently, FROB's Governing Committee decided to call for conversion of the convertible preferred shares issued by Unnim into shares of Unnim Banc, raising the initially subscribed nominal amount of 380 million euros by a little over 5 million euros for accrued interest. During the period in which the convertible preferred shares were outstanding, FROB collected interest on these instruments for an amount of 34 million euros (including the aforementioned capitalisation of 5 million euros).
- On 29 September 2011, on the basis of the bank's financial forecasts, the Bank of Spain decided that, in application of Article 7 of Royal Decree Law 9/2009, the orderly restructuring of Unnim Banc should be carried out. Consequently, in view of the financial position of Unnim Banc as described in the reports prepared by the Bank of Spain's Inspection Services, it was found that the bank would need to issue instruments eligible as core capital for an amount of 568 million euros in order to meet the core capital requirements and to continue to run normally, while its restructuring was being implemented. FROB agreed to provide the financial support for the restructuring of Unnim Banc by subscribing and paying in shares representing capital for an amount of 568 million euros.
- For its part, the European Commission, through Decision 33095 (2011/N), deemed that the aforementioned operations were in line with European legislation on State aid. This decision included aid measures for Unnim Banc for a period of six months until notification of a restructuring plan.

2. DIVESTMENT PROCESS

Development of the divestment process

- Once the initial Unnim Banc restructuring plan had been approved, FROB agreed to begin the planned sale process with the aim of divesting FROB's stake. The sale procedure was organised with the assistance of an investment bank engaged for this purpose by FROB.
- Potential buyers submitted their initial interest and were given access to detailed information on the bank.
- Finally, in February 2012, several binding offers were received to purchase the shares of Unnim Banc.

Awarding of Unnim Banc

- On 7 March 2012, FROB's Governing Committee selected the bid from BBVA of 1 euro for 100% of Unnim Banc as this was the most efficient use of public resources. The sale of the bank included a series of guarantees.

Coverage by the DGF of the cost of the restructuring

- Prior to the drafting of the Unnim restructuring plan, on the same day as the awarding of Unnim Banc to BBVA, FROB decided to send a communication to the DGF for it to assess whether the restructuring plan should be supported. That same day, the DGF informed FROB of its decision to provide a series of financial support measures for the restructuring process of Unnim Banc, subject to the condition that the corresponding restructuring plan was approved by the Bank of Spain.
- The support measures consisted, firstly, of covering the loss resulting from the sale to BBVA of 100% of FROB's stake in Unnim Banc, for an amount of 953 million euros (380 million euros from the preferred shares converted into ordinary shares, 5 million euros of the capitalisation of the accrued interest and 568 million euros of the last capital increase approved in September 2011); secondly, the granting of an APS for a predetermined portfolio.

Approval of the restructuring plan

- That same 7 March 2012, FROB's Governing Committee decided to submit for approval by the Bank of Spain the Unnim Banc restructuring plan, which included the sale to BBVA and certain downsizing commitments related to European legislation on State aid. It was approved by the Bank of Spain on that same day.
- In July 2012, through Decision 33733 (2012/N), the European Commission approved the restructuring plan for Unnim Banc.

Conclusion of the sale agreement

- On 27 July 2012, the sale of Unnim Banc to BBVA was formalised in a public document.

Merger with BBVA

- Finally, on 23 May 2013, Unnim Banc was absorbed by BBVA.

3. GUARANTEES PROVIDED

With the aim of maximising the efficient use of public funds, both FROB and the DGF supported Unnim Banc by providing guarantees in the sale process of the bank.

These guarantees included the DGF granting an APS whereby the DGF would cover, for a period of ten years, 80% of the losses that might arise for a predetermined asset portfolio totalling 7.36 billion euros, for which provisions of 1.33 billion euros had been recorded.

On 13 December 2018, BBVA, the DGF and FROB signed a clarification agreement aimed at clearly setting out certain situations related to the content and development of the APS and establishing that the amount of the payments to be made by the DGF, following signing of the agreement, would be limited to a maximum of 1.51 euros. Consequently, the maximum loss for the DGF from the APS, bearing in mind the payments made up to the date of the agreement, would not exceed 2 billion euros.

At year-end 2018, the payments made by the DGF amounted to 492 million euros, with an estimated loss pending settlement of 1.51 billion euros. The updated value of this amount at 31 December 2018 was 1.46 billion euros. Therefore, including the payments already made, the updated estimated cost at said date to be covered by the DGF amounted to 1.95 billion euros.

For its part, FROB made commitments in the process focused on certain tax contingencies of the sale to BBVA. The breakdown of the commitments is as follows:

Guaranteed Items	Paid
Compensation to BBVA for any indirect taxes under Transfer Tax and Stamp Duty which, as the case may be, may be levied as a result of conclusion and execution of the sale.	0
Provision of certain guarantees relating to the tax effects of the transaction (essentially relating to use of tax loss carryforwards and those relating to the tax effects of the sale of the bank and its subsequent absorption by the buyer).	0

4. KEY MILESTONES

13/07/2010
Establishment of the IPS that is the origin of the group in which Banco de Valencia is integrated

1/07/2010
Integration of Caixa Manlleu, Caixa Sabadell and Caixa Terrassa (Unnim)

28/07/2010
Subscription of convertible preferred shares by FROB for an amount of 380 million euros (FROB I)

26/09/2011
Incorporation of Unnim Banc and transfer of assets and liabilities of Unnim to the new bank

29/09/2011
Resolution of the Bank of Spain to initiate the orderly restructuring of Unnim Banc

30/09/2011
Sale of Unnim Banc shares to FROB for 1 euro, conversion of convertible preferred shares (FROB I) and capital increase subscribed by FROB in an amount of 568 million euros (FROB II)

30/09/2011
Decision 33095 (2011/N) of the European Commission on the adoption of financial support measures

07/03/2012
Approval of the restructuring plan. Awarding of 100% of Unnim Banc to BBVA for 1 euro

07/03/2012
Coverage by the DGF of the cost of the restructuring process of Unnim Banc, paying 953 million euros to FROB

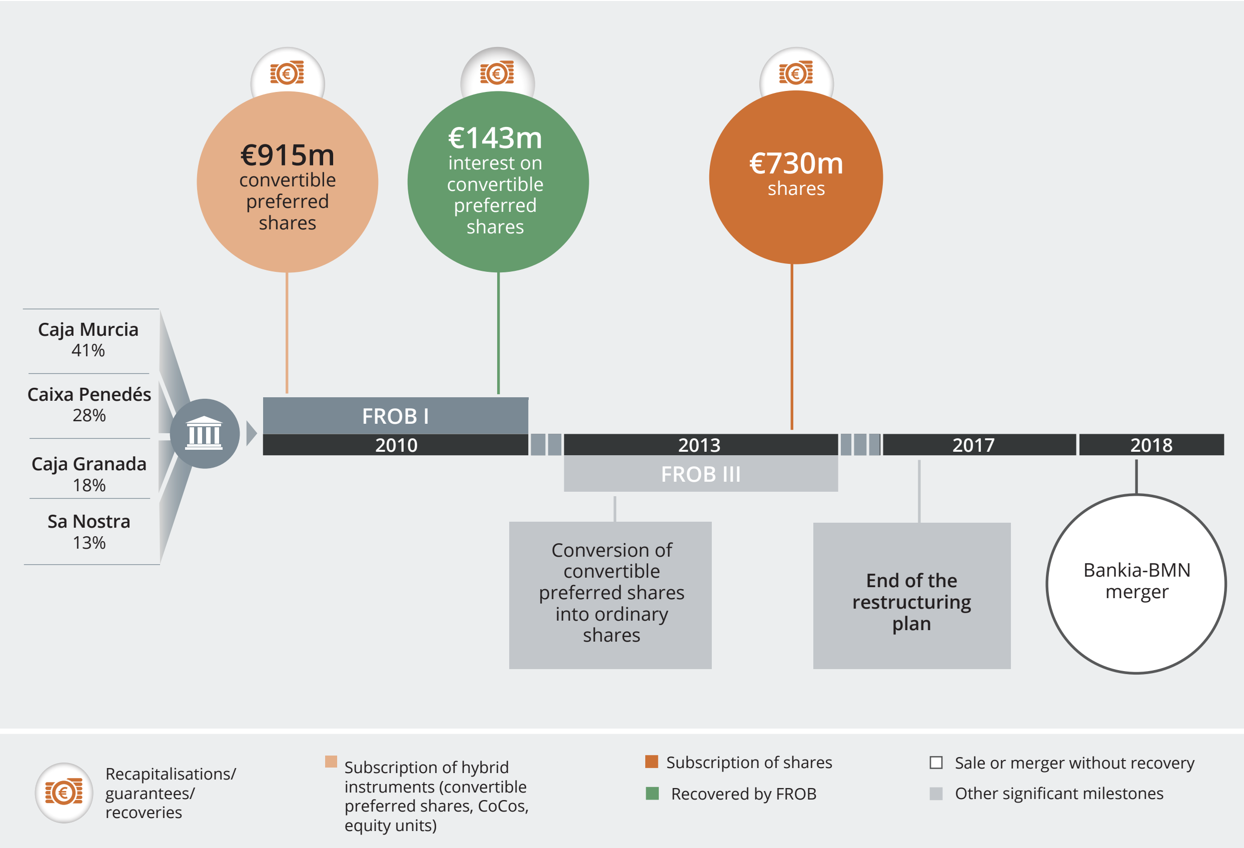
25/07/2012
Decision 33733 (2012N) of the European Commission on the restructuring plan for Unnim Banc

27/07/2012
Conclusion of the sale by the DGF of 100% of Unnim Banc to BBVA for 1 euro

23/05/2013
Merger of BBVA and Unnim Banc

30/06/2014
End of the restructuring plan having fully met the commitments

BMN



On 30 June 2010, Caja de Ahorros de Murcia (Caja Murcia), Caixa d'Estalvis del Penedés (Caixa Penedés), Caja General de Ahorros de Granada (La General) and Caja de Ahorros y Monte de Piedad de las Baleares (Sa Nostra) set up as a group by means of an IPS, for which they requested financial support from FROB.

In December 2010, Banco Mare Nostrum, S.A. (BMN) was created as the central vehicle of the IPS and, at the start of 2011, the savings banks transferred to BMN their banking and banking-related assets and liabilities, with the savings banks maintaining the assets used for social welfare activities together with their shareholding in BMN.

POSITION OF THE GROUP AT THE TIME OF ITS CREATION

- Balance sheet of 65 billion euros
- Network of 1,700 branches and 8,700 employees
- Market shares of 3% at a national level, reaching very high shares in some of its original territories (35% in Murcia and 30% in the Balearic Islands).

The entity required financial support from FROB of **1.65 billion euros,** which was granted in 2010 and 2013

On 8 January 2018, the merger between Bankia and BMN was formalised, with FROB holding 4.34% of Bankia's capital after the merger, as a result of the exchange of 65.03% of the capital it held in BMN.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 1.65 billion euros. Of this amount, 915 million euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB) and 730 million euros to FROB III (capital increase fully subscribed and paid in by FROB).

With regard to the amounts recovered, FROB received interest from the convertible preferred shares subscribed in 2010 for an amount of 143 million euros. FROB's 65.03% stake in BMN was exchanged for 134,013,852 Bankia shares as a result of the merger process of these banks, which was the equivalent of 4.34% of Bankia's capital.

FROB I. Convertible preferred shares: 915 million euros

Request for support and authorisation

- On 11 June 2010, the savings banks that made up BMN submitted an integration plan and requested from FROB, through the Bank of Spain, the subscription of 915 million euros of preferred shares convertible into equity units as part of the integration process they were to going to undertake. On 29 June 2010, the Executive Committee of the Bank of Spain approved said plan, which included deeming the IPS a consolidated group of credit institutions, as well as the financial support requested. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact that the subscription of the convertible preferred shares would have on the General State Budget.

The plan included a request for financial support to support the integration of the four savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Convertible preferred shares

- On 22 December 2010, BMN was incorporated as the central vehicle of the IPS with the four savings banks as shareholders while, at the same time, the General Meeting of BMN approved the issuance of the preferred shares convertible into ordinary shares which, at the end of that same month, were fully subscribed and paid in by FROB.

Transfer of the savings banks' assets and liabilities to BMN

- In May 2011, the General Shareholders' Assemblies and Meetings of the four savings banks and of BMN approved the terms of the segregation of banking and banking-related assets and liabilities to the bank, with the savings banks continuing to hold the assets used for the social welfare activities and their shareholding in BMN.

FROB II. Compliance with the new capital requirements without public aid

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, the requirement for the bank amounted to 10% of RWAs, which implied a capital shortfall of 637 million euros. BMN submitted to the Bank of Spain its strategy and timetable for meeting the new core capital requirements, which were approved by the Bank of Spain on 14 April 2011 and which included, as an alternative option to generating capital by its own means, a request for financial support from FROB. In the end, the institution achieved capital levels in accordance with the regulatory requirements by issuing convertible instruments with voting rights (subordinated mandatory convertible bonds subscribed by private investors) for an amount of 242 million euros and generating the necessary capital internally.

FROB III. Capital increase of 730 million euros

Calculation of capital needs

- On 20 July 2012, the MoU established that BMN was classified in Group 2 as it was deemed to have a capital shortfall that it was unable to meet privately without having recourse to State aid. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 368 million euros in a base scenario and of 2.21 billion euros in an adverse scenario.
- With regard to calculating the public aid, the estimated capital needs in the adverse scenario of the stress test were reduced to 730 million euros as a result of the estimated impact of the burden sharing resulting from exchanging hybrid instruments (preferred shares and subordinated debt) into capital, the sale of assets arising from Caixa Penedés to Banco Sabadell, the planned transfer of assets to Sareb and other measures.

Stress test – Oliver Wyman. Calculation of capital needs

€2.21bn (adverse scenario)	**- €182m** (burden sharing)	**- €382m** (transfer to Sareb)	**- €770m** (sale of assets)	**- €144m** (others)

€730m estimated final need for FROB funds

Approval of the restructuring plan

- BMN prepared a restructuring plan which was passed on by FROB to the Bank of Spain for approval, which was granted on 19 December 2012. One day later, it was approved by the European Commission by means of Decision 35488 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The restructuring plan provided for several measures to be taken, which included the following:

A

Injection of public funds for a value of 730 million euros

After determining the bank's economic value at a positive amount of 569 million euros (on the basis of the report by three independent experts in accordance with Law 9/2012), on 15 February 2013, FROB's Governing Committee decided to exchange the convertible preferred shares subscribed under FROB I for 915 million euros into capital. During the period in which the convertible preferred shares were outstanding, FROB received interest on these instruments for an amount of 143 million euros. In addition, at its meeting of 8 March of the same year, FROB approved the subscription of ordinary shares for an amount of 730 million euros.

On 18 February, the subordinated mandatory convertible bonds issued by the bank in 2013 for 242 million euros were converted into capital.

Following these operations, temporarily until execution of the subordinated liabilities exercise, the holding of the founding savings banks that were up to that time the sole shareholders of the bank was reduced to 18.08%, with FROB as the majority shareholder with 75.87%. The remaining 6.05% was held by former holders of subordinated mandatory convertible bonds.

B

Transfer to Sareb

On 28 February 2013, BMN transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 11 billion euros and a transfer price of 5.82 billion euros (average haircut of about 50%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C

Burden sharing

On 27 May 2013, FROB's Governing Committee decided to carry out the subordinated liabilities exercise, which affected BMN issues for a nominal value of 449 million euros, of which a total of 13 million euros were held by retail investors. This exercise had a positive gross impact of 425 million euros on the bank's net worth position.

- 116 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 26%).
- 309 million euros as a result of conversion of the securities into capital of the bank.

As a consequence of the above, the percentages of the holdings in the bank were as follows: FROB with 65.03% of the capital, Cajamurcia with 6.35%, Fundación Especial Pinna (formerly Caixa Penedès) with 4.34%, La General with 2.79%, Sa Nostra with 2.01%, Caser with 7.09%, Ahorro y Titulización, S.G.F.T. With 6.04% and other shareholders with 6.35%.

D

Resizing and reorganisation of the institution's structure

The restructuring plan also included specific commitments relating to the European legislation on State aid, which involved significant measures to adapt the business:

- Reduction in the bank's size:
  - balance sheet
  - lending and LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibition and restriction as regards certain activities relating to acquisitions, disclosure of aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.

In addition, there were two other significant commitments that were achieved as follows:

- Sale of the Caixa Penedés network to Banco Sabadell, where it was agreed to transfer the bulk of the assets and liabilities that made up the banking business in the regions of Catalonia and Aragon. On 18 December 2012, an asset and liability assignment agreement was signed in order to transfer the aforementioned banking business, encompassing 462 branches and 2,003 employees. The scope of the business to be transferred included 10.6 billion euros of loan assets and 7.9 billion euros of customer deposits, after excluding the assets to be transferred by BMN to Sareb. Banco Sabadell would compensate BMN for the difference between the net assets and liabilities actually transferred at the closing date of the transaction, amounting to 350 million euros.
- Submission of a flotation plan before the end of June 2013 and listing of the bank by 2018. The merger with Bankia (a listed entity), approved by the respective Shareholders' Meetings on 14 September 2017 and with full legal effect as from January 2018, fulfilled this commitment.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser indicated that, at 31 December 2017, BMN had complied with all the plan's requirements.

2. DIVESTMENT PROCESS

Bankia-BMN merger

- On 14 March 2017, following the corresponding analysis performed by external experts, FROB's Governing Committee decided that the merger of Bankia and BMN was the best strategy for complying with the mandate to optimise the ability to recover the public aid.
- On 26 June 2017, the Boards of Directors of BMN and Bankia approved the draft terms of merger for the two entities, which included the exchange formula that determined the number of Bankia shares to be received in exchange for BMN shares, which would be one Bankia share for every 7.82987 BMN shares. The merger was approved by the respective Shareholders' Meetings on 14 September 2017. It took effect for accounting purposes in December 2017 and had full legal effect as from January 2018.
- As a result of the merger, FROB increased itsstake in Bankia's capital by 4.34%.

4. KEY MILESTONES

29/06/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB

30/06/2010
Establishment of the IPS, the origin of the group

22/12/2010
Creation of BMN as the central vehicle of the IPS

27/12/2010
Subscription of convertible preferred shares for an amount of 915 million euros (FROB I)

28/09/2011
Registration with the Companies Registry of the instruments recording the transfer of assets and liabilities from the savings banks to BMN

19/12/2012
Approval by the Bank of Spain of the restructuring plan submitted by FROB

20/12/2012
Decision 35488 (2012/N) of the European Commission on the BMN restructuring plan

19/02/2013
Conversion of the convertible preferred shares into ordinary shares for an amount of 915 million euros (FROB I)

28/02/2013
Transfer of assets to Sareb

12/03/2013
Subscription of shares in an amount of 730 million euros (FROB III)

27/05/2013
Subordinated liabilities exercise

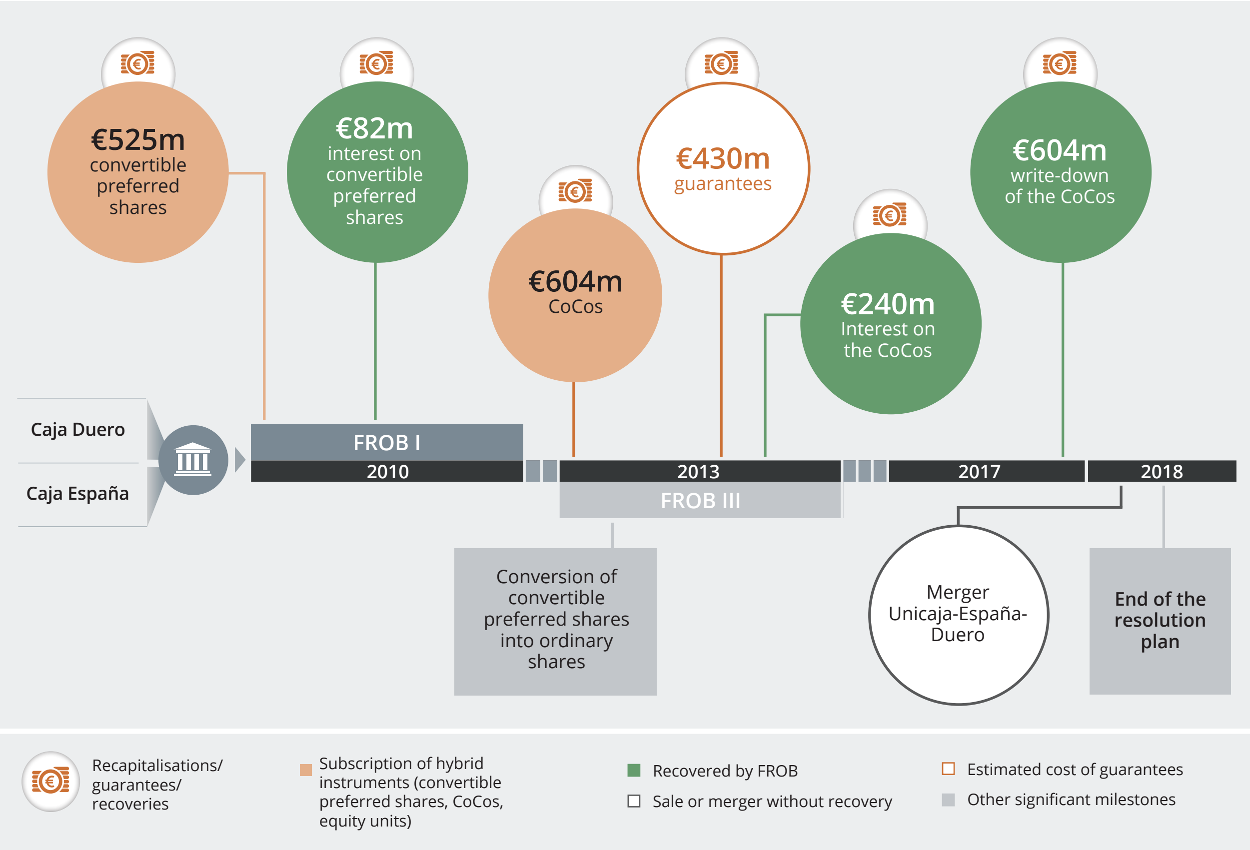
31/05/2013
Sale of the network in the Catalonia and Aragon region (Caixa Penedés)

14/03/2017
Decision of FROB with regard to the merger of Bankia and BMN as the best strategy for optimising the recovery of public aid

31/12/2017
End of the restructuring plan having fully complied with all commitments

8/01/2018
Registration with the Companies Registry of the instrument recording the merger between BMN and Bankia

Caja España-Duero



On 1 October 2010, Caja de Ahorros de Salamanca y Soria (Caja Duero) and Caja España de Inversiones, Caja de Ahorros y Monte de Piedad (Caja España) concluded the integration of the two entities by registering the notarised instrument of merger, with their name changing to Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad (Caja España-Duero), for which they requested financial support from FROB. In November 2011, Caja España-Duero transferred its banking and banking-related assets and liabilities to a newly created bank named Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (España-Duero), maintaining the assets used for its social welfare work and its shareholding in the new bank.

POSITION OF THE GROUP AT THE TIME OF ITS CREATION

- **Balance sheet of 45 billion euros**
- **Network of 900 branches and 5,000 employees**
- **Market shares of over 20% and 30% in most of its original territories**

The entity required financial support from FROB of **1.13 billion euros,** which was granted in 2010 and 2013

In 2014, Unicaja acquired a majority holding in the capital of España-Duero through an exchange offer made to shareholders and holders of convertible securities of this bank. The absorption of España-Duero by Unicaja was concluded on 21 September 2018. In addition, on 31 August 2017, the 604 million euros of the CoCos subscribed by FROB in 2013 were returned.

1. RESTRUCTURING PROCESSES

The total aid received by the bank amounted to 1.13 billion euros. Of this amount, 525 million euros corresponded to FROB I (convertible preferred shares fully subscribed and paid in by FROB) and 604 million euros to FROB III (CoCos subscribed and paid in by FROB).

In addition, in the integration process with Unicaja, certain guarantees were provided to España-Duero whose cost for FROB has amounted to 430 million euros (fully paid out).

With regard to the amounts recovered, FROB received interest on the convertible preferred shares subscribed in 2010 and the CoCos subscribed in 2013 for 82 million euros and 240 million euros, respectively. In addition, the bank paid FROB the full amount of the aid received under FROB III for a total of 604 million euros.

FROB I. Convertible preferred shares: 525 million euros

Request for support and authorisation

- On 23 March 2010, Caja Duero and Caja España submitted an integration plan and requested from FROB, through the Bank of Spain, the subscription of 525 million euros of preferred shares convertible into equity units as part of the integration process they were to going to undertake. On 25 March 2010, the Executive Committee of the Bank of Spain approved this plan, which included the merger of both savings banks, and the requested financial support. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact that the subscription of the convertible preferred shares would have on the General State Budget.

The plan included a request for financial support ito support the integration of the two savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Integration of the savings banks

- On 1 October 2010, Caja España and Caja Duero formalised the merger of the two banks under the new name of Caja España-Duero.

Convertible preferred shares

- On 28 October 2010, the Assembly of Caja España-Duero approved the issuance of preferred shares convertible into equity units which would subsequently be fully subscribed and paid in by FROB.

FROB II. Compliance with the new capital requirements without public aid

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, the requirement for Caja España-Duero amounted to 10% of RWAs, which implied a capital shortfall of 463 million euros. Caja España-Duero submitted to the Bank of Spain its strategy and timetable for meeting the new core capital requirements, which were approved by the Bank of Spain on 14 April 2011 and which opted for participation in a merger process with Unicaja. However, an alternative option was established that entailed requesting financial support from FROB.

Creation of España-Duero

- On 24 November 2011, the institution concluded a public deed recording the incorporation of Banco España-Duero and the transfer of the assets and liabilities of Caja España-Duero to the new bank (the savings bank maintained the assets and liabilities used for social welfare activities and its shareholding in España-Duero).

FROB III CoCos: 604 million euros

Calculation of capital needs

- On 20 July 2012, the MoU established that España-Duero was classified in Group 2 as it was deemed to have a capital shortfall in an adverse scenario that it was unable to meet privately without having recourse to State aid. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 1.27 billion euros in a base scenario and 2.06 billion euros in an adverse scenario.
- With regard to calculating the public aid, the estimated capital needs in the adverse scenario of the stress test were reduced to 604 million euros as a result of the estimated impact of the burden sharing resulting from exchanging hybrid instruments (preferred shares and subordinated debt) and the planned transfer of assets to Sareb.

Stress test – Oliver Wyman. Calculation of capital needs

€2.06bn (adverse scenario)	**- €2bn** (burden sharing)	**- €263m** (transfer to Sareb)

€604m estimated final need for FROB funds

Approval of the resolution plan

- On 19 December 2012, FROB submitted España-Duero's resolution plan for approval by the Bank of Spain, which gave its approval on the same day. One day later, it was approved by the European Commission by means of Decision 34536 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Resolution plan

The resolution plan established the adoption of various measures, including the following:

A
Injection of public funds for a value of 604 million euros

After determining the bank's economic value at a negative amount of 288 million euros (on the basis of the reports by three independent experts), on 24 April 2013, FROB's Governing Committee decided to execute the injection of public aid by subscribing CoCos* of España-Duero under FROB III for the amount of 604 million euros, which was paid on 30 April 2013.

On 16 May 2013, FROB's Governing Committee decided to reduce the capital to zero by cancelling the shares held by Caja España-Duero, converting the convertible preferred shares subscribed by FROB in an amount of 525 million euros into capital (FROB I) and once again reducing the bank's capital to zero to absorb the losses recognised in the resolution plan. During the period in which the convertible preferred shares were outstanding, FROB collected interest on these instruments for an amount of 82 million euros.

* The instrument initially planned for this aid was shares, which was changed to CoCos in Decision 36249 (2013/N).

B
Transfer to Sareb

On 28 February 2013, España-Duero transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 6.5 billion euros and a transfer price of 3.14 billion euros (average haircut of about 50%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C
Burden sharing

On 16 May y el 15 July 2013, FROB's Governing Committee decided to execute the subordinated liabilities exercise, which affected España-Duero issues with a nominal value of 1.43 billion euros, of which a total of 1.01 billion euros were held by retail investors. This exercise had a positive gross impact of 1.43 billion euros on the net worth of España-Duero.

- 274 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 19%).
- 1.16 billion euros for the conversion of the securities into ordinary shares (wholesale holders) and convertible instruments (retail holders) of España-Duero.

Once implemented, the institution's capital was entirely in the hands of shareholders that had previously been holders of preferred shares and subordinated debt issued by the institution.

Following enforcement of the court rulings issued in favour of retail customers resulting from the subordinated liabilities exercise relating to the marketing of hybrid instruments and implementation of an out-of-court procedure for this same purpose, most of the retail customers affected have recovered almost all of their investment.

D

Resizing and reorganisation of the institution's structure

The resolution plan also included specific commitments relating to the European legislation on State aid, which involved significant measures to adapt the business:

- Reduction in the bank's size:
  - balance sheet
  - lending and LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibition and restriction as regards certain activities relating to acquisitions, disclosure of aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.

2. INTEGRATION PROCESS

In February 2013, three years after the integration of Caja España-Duero, Unicaja submitted an offer to exchange securities for the purchase of España-Duero as a prior step towards its possible integration into said institution.

This option was considered the most recommendable as it meant the most efficient use of public resources. This situation made it necessary to adapt the previously approved resolution in the following terms:

New resolution plan

- On 9 May 2013, FROB's Governing Committee approved a new resolution plan for España-Duero in order to incorporate an offer by Unicaja to purchase España-Duero, with the following noteworthy aspects:
  - the level of acceptance of the exchange of equity instruments (ordinary shares and instruments convertible into shares) of España-Duero for Unicaja instruments had to be at least 75% of the capital of España-Duero;
  - the instrument of public support should not be shares, but CoCos;
  - a guarantee provided by FROB was added in relation to negative impacts in España-Duero as a result of the transfer of assets to Sareb, and
  - a repayment schedule was established for the CoCos issued by España-Duero, with a maximum term of four years from the date of their issuance. Although España-Duero was primarily responsible for the repurchase of the CoCos, Unicaja (combined entity) would be the guarantor of the operation so that if España-Duero were unable to repurchase the CoCos in a period of four years, Unicaja would take its position.
- On 10 May 2013, the Executive Committee of the Bank of Spain approved the new resolution plan setting 30 July 2013 as the deadline for acceptance of the exchange of equity instruments of España-Duero for Unicaja instruments. On 13 May 2013, the plan was approved by the European Commission by means of Decision 36249 (2013/N).
- On 15 July 2013, the Board of Directors of Unicaja decided to initiate the procedures for the start of the offer aimed at holders of necessarily and contingently convertible bonds of España-Duero and, in October, the necessary resolutions in the framework of this offer were taken, which included the condition of achieving a certain overall acceptance level.

First amendment of the new resolution plan

- There was an amendment to the resolution plan that was approved by means of Decision 36249 (2013/N-2) of 25 July 2013, in which it was agreed to extend the deadline for acceptance of the exchange offer.
- On 29 January 2014, Unicaja reported that the deadline had passed with the acceptance of 99.16% of the wholesale holders and 43.63% of the retail holders. These levels did not reach the minimum that the entity had proposed, but it was decided to continue with the integration of España-Duero.

Second amendment of the new resolution plan

- In March 2014, a second amendment of the resolution plan extended the guarantees provided by FROB to the entity: firstly, a compensation mechanism was created (limited to 241 million euros) and, secondly, a review mechanism (limited to 200 million euros together with the guarantee for Sareb issued in the first amendment of the plan*). Both of these related to the negative impacts for the entity from mis-selling hybrid instruments and were aimed at facilitating completion of the resolution and integration of España-Duero in Unicaja.
- This amendment to the plan was approved by the European Commission through Decision 36249 (2014/N-3) of 12 March 2014.

(*) This limit was originally intended for the Sareb guarantee but, as it was not fully used, the surplus was allowed to be used in the review mechanism

Third amendment of the resolution plan

- On 27 January 2017, the European Commission approved, through Decision 47174 (2016/N) the third amendment of the resolution plan, which extended the deadline for the flotation of Unicaja from the originally agreed date (31 December 2016) to December 2017 and established modifications for certain commitments. The flotation of Unicaja eventually took place in June 2017.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser indicated that, at 24 April 2018, España-Duero had complied with all the plan's requirements.

Repayment of the CoCos

- Following authorisation by the supervisor, on 31 August 2017, the entity repaid all of the issue of CoCos subscribed by FROB for an amount of 604 million euros.
- During the period in which the CoCos were outstanding, FROB received interest on these instruments for an amount of 240 million euros.

Merger with Unicaja

- Finally, on 21 September 2018, España-Duero was absorbed by Unicaja.

3. GUARANTEES PROVIDED

In order to maximise efficiency in the use of public funds, facilitating the integration of España-Duero into Unicaja and resolution of the institution, España-Duero received certain aid in the form of guarantees to cover potential damages that might have an impact on the institution. Unlike other processes, in which aid was granted resulting from the sale of the institutions to buyers, the guarantees provided to España-Duero were framed directly in the resolution plan by means of amendments to the plan. These were set out in successive decisions issued by the European Commission regarding the institution's resolution. These guarantees were provided in order to facilitate the integration process with Unicaja, which was deemed to be the best alternative for the institution in order to minimise the cost to the taxpayer.

The cost of the guarantees provided to España-Duero amounted to 430 million euros for the following items (in million euros):

Guaranteed Items	Paid
Excess over 40 million euros of the adjustments included in the agreement for the transfer of assets from España-Duero to Sareb.	1
Payments to retail investors that accepted the offer of the exchange of España-Duero instruments for Unicaja instruments in view of the conclusion by an independent expert relating to the marketing of hybrid instruments (review mechanism).	188
Liabilities resulting from the marketing of hybrid instruments (compensation mechanism).	241

4. KEY MILESTONES

25/03/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB

01/10/2010
Integration of Caja Duero and Caja España (Caja España-Duero)

29/10/2010
Subscription of convertible preferred shares for an amount of 525 million euros (FROB I)

24/11/2011
Incorporation of España-Duero and transfer of assets and liabilities of Caja España-Duero to the new bank

19/12/2012
Approval by the Bank of Spain of the resolution plan submitted by FROB

20/12/2012
Decision 34536 (2012/N) of the European Commission on the resolution plan for España-Duero

19/02/2013
Percentage of the purchase offer of the shares of España-Duero by Unicaja

28/02/2013
Transfer of assets to Sareb

30/04/2013
Subscription of CoCos by FROB in an amount of 604 million euros (FROB III)

13/05/2013
Approval of the new resolution plan by the European Commission.
Decision 36249 (2013/N)

16/05/2013
Conversion of convertible preferred shares into ordinary shares and reduction of capital to zero to absorb losses (FROB I) and first subordinated liability exercise

15/07/2013
Second subordinated liabilities exercise

25/07/2013
Approval of the first amendment of the new resolution plan by the European Commission.
Decision 36249 (2013/N-2)

12/03/2014
Approval of the second amendment of the new resolution plan by the European Commission.
Decision 36249 (2014/N-3)

25/06/2014
Mandatory conversion of España-Duero bonds into ordinary shares and contingent convertible bonds of Unicaja

27/01/2017
Approval of the third amendment of the new resolution plan by the European Commission.
Decision 47174 (2016/N)

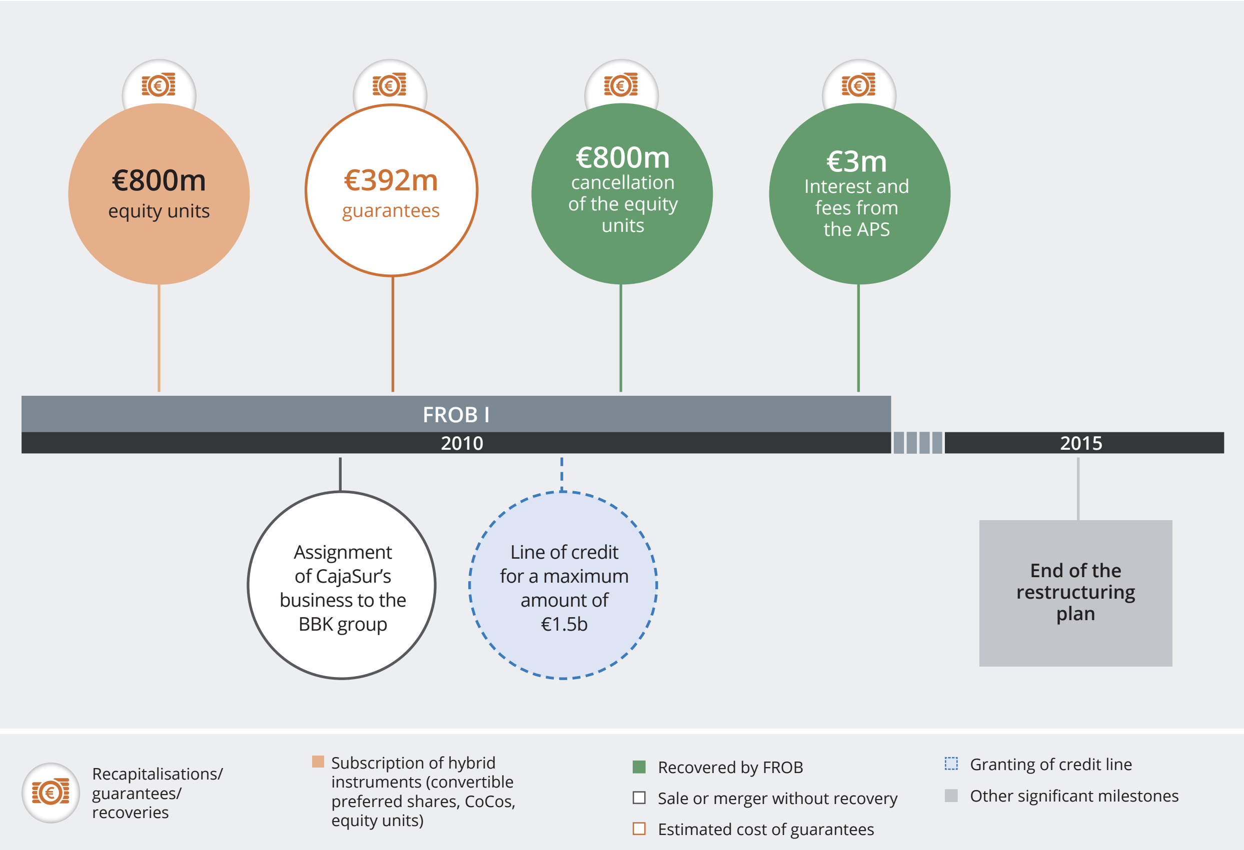
30/06/2017
Unicaja flotation

31/08/2017
Repayment of the CoCos for an amount of 604 million euros

24/04/2018
End of the resolution plan having fully met all commitments

21/09/2018
Merger of Unicaja and España-Duero

CajaSur



On July 27, 2009, the Board of Directors of Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur) approved an Action Plan, submitted jointly with Unicaja, to implement a merger process of the two institutions. However, on 21 May 2010, the Board of CajaSur definitively rejected the plan to merge with Unicaja.

POSITION OF THE BANK IN 2009

- **Balance sheet of 18 billion euros**
- **Network of 475 branches and 3,000 employees**
- **Dominant position in the region of Cordoba**

The entity required financial support from FROB of **800 million euros,** which was granted in 2010

On 29 December 2010, the transfer en bloc of CajaSur's assets and liabilities to the BBK group was formalised and the full amount of the 800 million euros subscribed in June of that year in the form of equity units was recovered.

1. RESTRUCTURING PROCESSES

The total aid received by the institution amounted to 800 million euros, which corresponded to the subscription of an issue of equity units in 2010.

In addition, the process of the sale to the BBK Group, FROB granted CajaSur an APS that had a cost 392 million euros, which has now been paid.

Moreover, FROB granted CajaSur a line of credit with a limit of 1.5 billion euros, which was not used.

With regard to the amounts recovered, the nominal value of the equity units was repaid for an amount of 800 million euros. In addition, FROB received almost 3 million euros for interest and fees while the APS was in force.

FROB I. Restructuring of CajaSur

Background

> On 29 July 2009, the Executive Committee of the Bank of Spain approved the action plan that had been jointly requested by CajaSur and Unicaja, which included the merger of the two savings banks and a request for aid from the DGF. In May of the following year, the Board of CajaSur informed the Bank of Spain that the draft terms of merger had not been approved.

Request for support and authorisation

> As a result of the breakdown in the merger process and in view of the financial and asset difficulties faced by the savings bank, the Bank of Spain ordered, on 21 May 2020, the orderly restructuring of CajaSur and provisional replacement of its board of directors, appointing FROB as provisional administrator.

> On 22 May 2010, FROB's Governing Committee decided to provide CajaSur, in accordance with the estimates made by the Bank of Spain, with temporary financial support with the aim of guaranteeing the normal operations of the institution, allowing it to achieve the minimum statutory solvency ratio and providing it with sufficient liquidity, with the aim of making the most efficient use of public resources.

> The temporary support approved consisted of:

- Acquisition of equity units issued by CajaSur for 800 million euros in order to achieve the solvency ratio of 8% of RWAs.
- Granting CajaSur a line of credit for a maximum amount of 1.5 billion euros to ensure that the institution would be able to meet any temporary liquidity difficulties. This line was formalised on 26 May 2010, with no amount drawn down while it was in force.

> This support was reported to the European Commission, which communicated, on 23 May 2010, that it was temporarily compatible with the internal market through Decision N 202/2010.

> In addition, and in accordance with the provisions of Article 7 of Royal Decree Law 9/2009, FROB drafted a report on the net worth position and viability of the institution and designed a restructuring plan that would allow CajaSur to overcome the difficulty that it faced by means of a merger with one or more institutions of recognised solvency, or the full or partial assignment of its business to one or more institutions by means of procedures that guaranteed competition.

Issuance of equity units

- On 16 June 2010, FROB drafted a report on the economic value of CajaSur, which showed that the bank had a negative economic value. Moreover, the institution's net worth at the latest available closing date was also negative. Therefore, subscription by FROB of equity units granted it (i) 100% of the freely available surplus attributable to equity units and, (ii) a right to 100% representation at CajaSur's General Assembly.
- On 17 June 2010, the equity units were issued and subscribed and paid in by FROB, thus allowing FROB to take control of the institution's Assembly.

2. DIVESTMENT PROCESS

Development of the process

- FROB performed a procedure for selecting an offer to purchase CajaSur's business with the technical assistance of an external advisor.
- CajaSur's delicate liquidity and solvency position, the impairment of certain assets that appeared on its balance sheet and its deficient structure required FROB to offer a support scheme to guarantee the viability of the restructuring process. Therefore, potential bidders were offered three types of aid which were not mutually exclusive:
  - Temporary reinforcement of its solvency through the subscription of equity in the form of convertible preferred shares.
  - An APS relating to a portfolio closed at 31 May 2010 for a gross value of 5.54 billion euros. FROB would share with the entity, for a period of five years, any losses resulting from the assets covered by the APS (90% for FROB and 10% for the entity), up to the maximum amount specified in the bid.
  - Granting by FROB of a credit line remunerated under market conditions.

Awarding of the institution

- On 15 July 2010, FROB's Governing Committee drew up the restructuring plan for CajaSur, which set as a fundamental milestone the transfer en bloc of all its assets and liabilities to a bank fully owned by BBK as this was the most efficient use of public resources. The offer by the BBK Group included FROB providing financial support by granting an APS for a maximum amount of 392 million euros and an advance of said amount by means of a loan.
- The legal nature of CajaSur did not allow the transaction to be structured by means of a transfer of shares or other equity instruments and therefore the transfer en bloc of the institution's assets and liabilities was deemed to be the best alternative.

Approval of the restructuring plan and formalisation of the transfer

- FROB immediately submitted the CajaSur restructuring plan for approval by the Bank of Spain and the corresponding economic report was submitted to the Ministry of Economic Affairs and Finance.
- On 30 July 2010, the Bank of Spain, after receiving the reports from the regional governments provided for in legislation and not having received a reasoned objection from the Ministry of Economic Affairs and Finance, approved the CajaSur restructuring plan proposed by FROB in the terms and conditions outlined above. This plan was submitted to the European Commission for approval with regard to legislation on State aid. The European Commission gave its approval on 8 November 2010, declaring that the planned support was State aid compatible with the internal market through Decision N 392/2010. In addition to the transfer of assets and liabilities to the BBK Group, the plan set out limitations and restrictions relating to disclosure of the aid and to aggressive commercial policies.
- On 23 November, the General Assembly of CajaSur was held with the participation of FROB as holder of the equity units that provided it with 100% of the voting rights. Said assembly approved the transfer en bloc of CajaSur's assets and liabilities to the BBK Group and redemption of the equity units issued by CajaSur and subscribed by FROB through repayment of the nominal amount of the issue. This payment freed FROB from covering any cost for these items.
- The transfer of CajaSur's business to the BBK group and the setting up of the APS were formalised on 29 December 2010 and became effective as from 1 January 2011. At the same time, the equity units were redeemed and the 800 million euros initially subscribed were returned to FROB and the credit line granted for 1.5 billion euros was cancelled.

3. GUARANTEES PROVIDED

In order to maximise efficient use of public funds, FROB provided an APS in the framework of the divestment from CajaSur. The offer submitted by the BBK group only included the request for this APS (it did not make use of the other potential aid offered).

The CajaSur APS was set up for a five-year period on a total portfolio of 5.54 billion euros, for which an associated accounting provision of 1.13 billion euros had been recorded. The maximum amount to be covered by FROB, in accordance with BBK's offer, was set at 392 million euros. This amount was made available to the entity by means of a loan which would be remunerated in favour of FROB at one-year Euribor plus 50 basis points. The amount of the APS was paid out on 11 January 2011.

The cost of the APS reached its maximum amount of 392 million euros.

In addition, FROB accrued a commission for the guarantee of 0.1% per year of the average unused balance of the APS in the period.

FROB has received over 3 million euros for interest and fees on the APS.

4. KEY MILESTONES

29/07/2009
Approval by the Executive Committee of the Bank of Spain of the joint action plan between CajaSur and Unicaja setting out their merger

21/05/2010
Communication by CajaSur of non-approval of the draft terms of merger with Unicaja. The Bank of Spain ordered the orderly restructuring of CajaSur and provisional replacement of its governing body

22/05/2010
FROB resolution to provide temporary financial support to CajaSur

23/05/2010
Decision N 202/2010 of the European Commission on the adoption of financial support measures

17/06/2010
Subscription of equity units by FROB for an amount of 800 million euros (FROB I)

15/07/2010
Drafting of the CajaSur restructuring plan, which included transfer of its business to BBK and the setting up of an APS

30/07/2010
Approval of CajaSur restructuring plan by the Bank of Spain

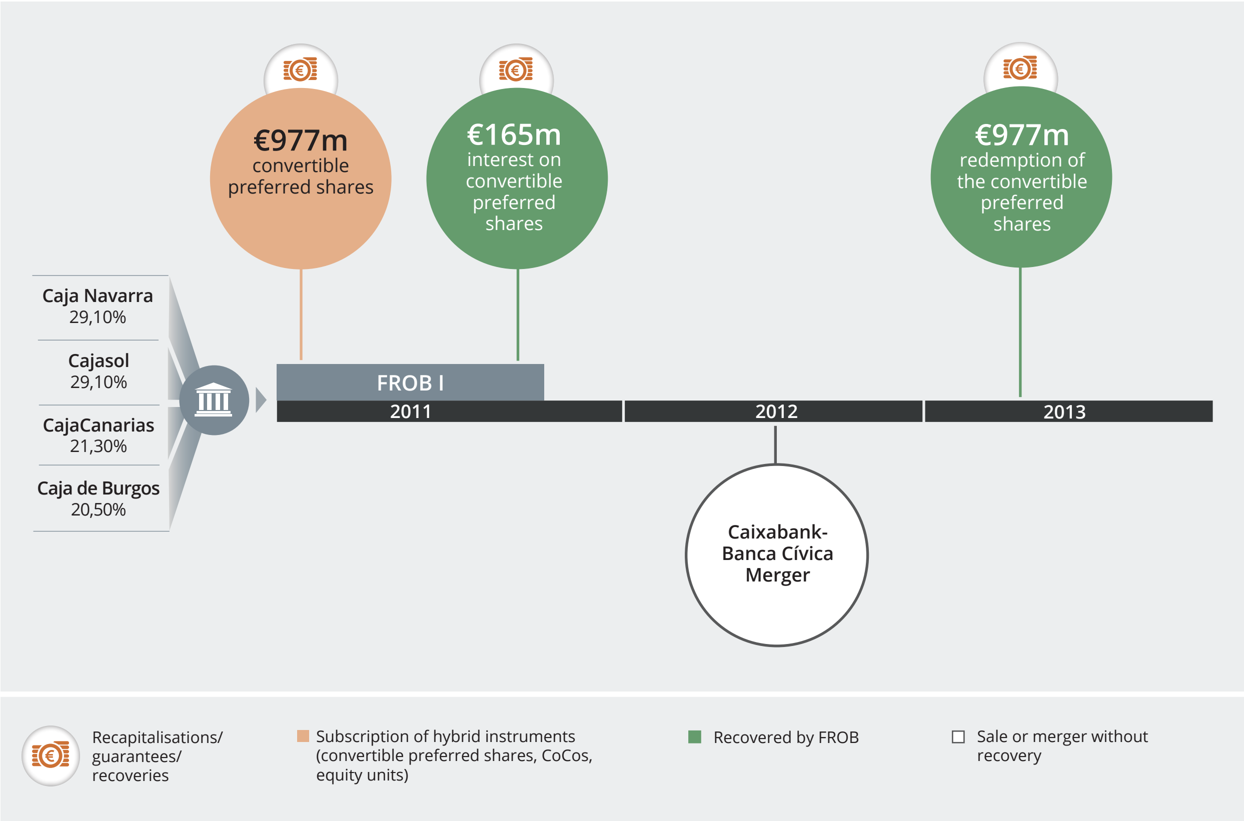
08/11/2010
Decision N 392/2010 of the European Commission on the CajaSur restructuring plan

29/12/2010
Repayment to FROB of the 800 million euros of the equity units issued by CajaSur and formalisation of the transfer of the business to BBK Bank with the setting up of the APS

31/05/2015
End of the APS with the cost for FROB of 392 million euros

31/12/2015
End of the restructuring plan having executed the measures set out therein

Banca Cívica



On 7 April 2010, Caja General de Ahorros de Canarias (CajaCanarias), Caja de Ahorros Municipal de Burgos (Caja de Burgos) and Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra) were set up as a group by means of an IPS, which took on full effect in June 2010 following the incorporation of Banca Cívica, S.A. (Banca Cívica) on 17 June 2010, which joined the IPS as its central vehicle. Subsequently, on 19 November 2010, a merger protocol was signed for the integration of Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (Cajasol) in the Banca Cívica Group, for which financial support from FROB was requested. In December 2010, Cajasol was formally integrated into the Banca Cívica Group and in April 2011, the savings banks transferred their banking and banking-related assets and liabilities to the new bank. The savings banks retained the assets used for social welfare work and their shareholding in Banca Cívica, which was floated on 21 July 2011.

POSITION OF THE BANK AT THE TIME OF ITS CREATION

- Balance sheet of 70 billion euros
- Network of 1,600 branches and 9,500 employees
- Market shares of 40% in Navarra

The entity required financial support from FROB of **977 million euros,** which was granted in 2011

On 3 August 2012, the absorption of Banca Cívica by Caixabank was formalised. In addition, on April 8, 2013, the full amount of the 977 million euros subscribed in 2011 in the form of convertible preferred shares was recovered.

1. RESTRUCTURING PROCESSES

The aid received by the entity totalled 977 million euros, in the form of convertible preferred shares fully subscribed and paid in by FROB under FROB I.

With regard to the amounts recovered, FROB received interest from the convertible preferred shares subscribed in 2010 for an amount of 165 million euros, and the 977 million euros of aid granted were returned in full.

FROB I. Convertible preferred shares: 977 million euros

Request for support and authorisation

- On 13 December 2010, the savings banks that would eventually make up Banca Cívica (up to that time the central vehicle of the IPS) submitted an integration plan and requested from FROB, through the Bank of Spain, the subscription of 977 million euros of convertible preferred shares as part of the integration process they were to going to undertake. On 22 December 2010, the Executive Committee of the Bank of Spain approved said plan, which included deeming the IPS a consolidated group of credit institutions, as well as the requested financial support. On the same day, FROB's Governing Committee approved the financial aid foreseen in the integration plan.
- The European Commission's Directorate-General for Competition was then informed of the integration process. It decided not to raise objections by means of a common Decision for all FROB I institutions (Decision N 28/2010). FROB submitted an economic report to the Ministry of Economic Affairs and Finance detailing the estimated impact that the subscription of the convertible preferred shares would have on the General State Budget.

The plan included a request for financial support to support the integration of the four savings banks and foresaw a rationalization process including the reduction of staff and of the network of branches

Convertible preferred shares

On 10 December 2010, the General Shareholders' Meeting of Banca Cívica, as the central vehicle of the IPS, approved the issuance of the convertible preferred shares, which were fully subscribed and paid in by FROB in February 2011.

FROB II. Compliance with the new capital requirements without public aid

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, Banca Cívica submitted to the Bank of Spain the strategy and timetable for complying with the new core capital requirements as it had a shortfall of 847 million euros (requirement of 10% of core capital). The plan established a priority strategy of flotation of the bank through an IPO, which would reduce the core capital requirement from 10% to 8% of RWAs. The bank therefore had no capital shortfall according to the new regulatory requirements. However, an alternative option was established that entailed requesting financial support from FROB. This strategy and timetable were approved by the Bank of Spain on 14 April 2011.

Transfer of the savings banks' assets and liabilities to Banca Cívica

- In May 2011, the General Shareholders' Assemblies and Meetings of the four savings banks and of Banca Cívica approved the terms of the transfer of banking and banking-related assets and liabilities to the bank, with the savings banks continuing to hold the assets used for the social welfare activities and their shareholding in Banca Cívica.

Flotation

- On 21 July 2011, Banca Cívica began trading on the stock exchange with the placement of 222,142,800 shares representing 44.68% of the bank's share capital. The initial price was 2.70 euros per share, with total capital raised of 600 million euros. The flotation made it possible to comply with the core capital requirements set in Royal Decree-Law 2/2011.

2. INTEGRATION PROCESS

Merger with Caixabank

- On 26 March 2012, Caixabank and Banca Cívica published a merger agreement and, on 26 June 2012, the General Meetings of the banks approved the merger of Banca Cívica and Caixabank.
- Finally, on 3 August 2012, Banca Cívica was absorbed by Caixabank.

Repayment of the convertible preferred shares

- On 7 March 2013, the Board of Directors of Caixabank agreed to repay the public aid that Banca Cívica had received from FROB for amount of 977 million euros. Accordingly, on 8 April 2013, the convertible preferred shares were fully repaid.
- During the period in which the convertible preferred shares were outstanding, FROB collected interest on these instruments for an amount of 165 million euros.

3. KEY MILESTONES

07/04/2010
Establishment of the IPS, the origin of the group

17/06/2010
Creation of Banca Cívica as the central vehicle of the IPS

10/12/2010
Cajasol joined the IPS

22/12/2010
Approval of the integration plan by the Bank of Spain and the financial support by FROB

09/02/2011
Subscription of convertible preferred shares for an amount of 977 million euros (FROB I)

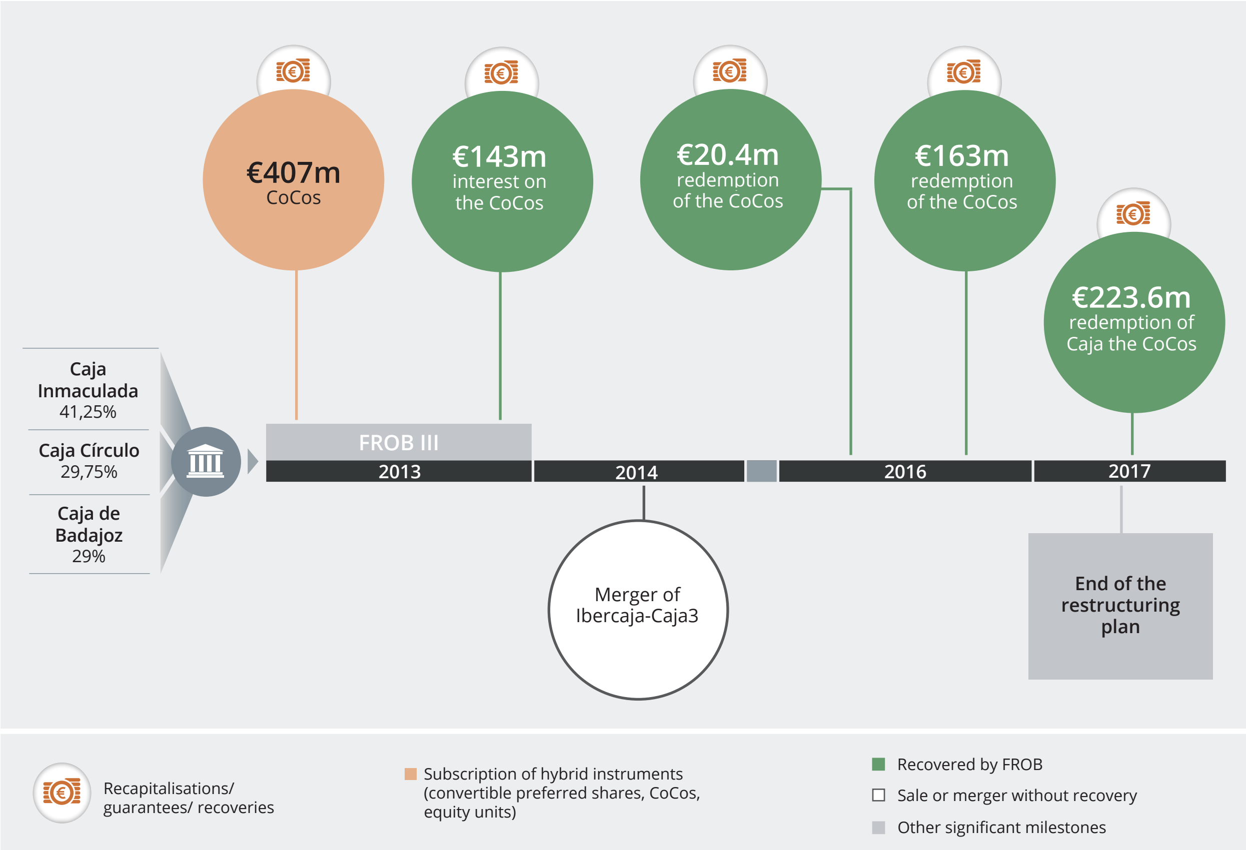
20/05/2011
Registration with the Companies Registry of the instruments recording the transfer of assets and liabilities from the savings banks to Banca Cívica

21/07/2011
Flotation of Banca Cívica and increase in capital of 600 million euros

03/08/2012
Merger of Caixabank and Banca Cívica

08/04/2013
Redemption of the convertible preferred shares by FROB for an amount of 977 million euros

Caja3



On 22 December 2010, Banco Grupo Cajatres, S.A. (Caja3) was created to act as the head of an IPS, in accordance with the integration agreement signed on 28 July 2010 by Caja de Ahorros de la Inmaculada de Aragón (Caja Inmaculada), Caja de Ahorros y Monte de Piedad del Círculo Católico de Obreros de Burgos (Caja Círculo) and Caja General de Ahorros de Badajoz (Caja de Badajoz), with these entities thus setting up as a group. In December 2011, the three savings banks transferred to Caja3 their banking and banking-related assets and liabilities, with the savings banks maintaining the assets used for social welfare activities together with their shareholding in Caja3.

POSITION OF THE BANK AT THE TIME OF ITS CREATION

- Balance sheet of 20 billion euros
- Network of 600 branches and 2,900 employees
- Market shares of between 5% and 20% in their traditional regions

The entity required financial support from FROB of **407 million euros,** which was granted in 2013

On 25 July 2013, Ibercaja acquired 100% of Caja3 and on 1 October 2014, the latter was formally absorbed by the former. In addition, FROB recovered the full amount of the 407 million euros subscribed in 2013 in the form of convertible preferred shares: 20.4 million on 31 March 2016, 163 million on 29 December 2016 and 223.6 million on 24 March 2017.

1. RESTRUCTURING PROCESSES

The aid received by the bank totalled 407 million euros, corresponding to FROB III (issuance of CoCos fully subscribed and paid in by FROB).

With regard to the amounts recovered, FROB received interest from the CoCos subscribed in 2013 for an amount of 143 million euros. In addition, with the redemption of these instruments, the 407 million euros injected into the bank were recovered.

Background

- On 22 December 2010, the incorporation of Caja3 as the central vehicle of the IPS, with the three savings banks as shareholders, was recorded in a public deed. However, the institution did not request public aid in the framework of this integration process (FROB I).

FROB II. Compliance with the new capital requirements

Increase in capital requirements

- In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, the requirement for Caja3 amounted to 8% of RWAs, which implied that it did not have a capital shortfall and did not therefore require public aid.

Transfer of the savings banks' assets and liabilities to Caja3

- In November and December 2011, the General Shareholders' Assemblies and Meetings of the three savings banks and of Caja3 approved the terms of the transfer of banking and banking-related assets and liabilities to the bank, with the savings banks continuing to hold the assets used for the social welfare activities and their shareholding in Caja3.

FROB III. CoCos: 407 million euros

Calculation of capital needs

- On 20 July 2012, the MoU established that Caja3 was classified in Group 2 as it was deemed to have a capital shortfall that it was unable to meet privately without having recourse to State aid. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed capital needs of 188 million euros in a base scenario and 779 million euros in an adverse scenario.
- With regard to calculating the public aid, the estimated capital needs in the adverse scenario of the stress test were reduced to 407 million euros as a result of the estimated impact of the burden sharing resulting from exchanging hybrid instruments (preferred shares and subordinated debt) and the planned transfer of assets to Sareb and the merger with Ibercaja.

Stress test – Oliver Wyman. Calculation of capital needs

€779m (adverse scenario)	- €36m (burden sharing)	- €228m (transfer to Sareb)	- €108m (merger with Ibercaja)

€407m estimated final need for FROB funds

Approval of the restructuring plan

Caja3 prepared a restructuring plan which was passed on by FROB to the Bank of Spain for approval, which was granted on 19 December 2012. One day later, it was approved by the European Commission by means of Decision 35489 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The restructuring plan provided for several measures to be taken, which included the following:

A

Injection of public funds for a value of 407 million euros

Once the economic value of the bank had been set at a positive value of 370 million euros (on the basis of the reports by three independent experts in accordance with Law 9/2012), FROB's Governing Committee decided on 8 March 2013 to implement the injection of public aid for an amount of 407 million euros by subscribing CoCos.

Caja3 undertook to repurchase the securities as soon as it met the necessary conditions to do so or, at any event, within five years. On 12 March 2013, the CoCos were subscribed and paid in.

B

Transfer to Sareb

On 28 February 2013, Caja3 transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 4.3 billion euros and a transfer price of 2.21 billion euros (average haircut of about 50%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C

Burden sharing

Caja3 had outstanding subordinated debt for a nominal amount of 93 million euros, of which 1.5 million euros corresponded to retail issues. The subordinated liability exercise was performed on issues of subordinated debt of wholesale investors.

The restructuring plan established that the entity would carry out, firstly, an exchange offer to be voluntarily accepted by the investors of said securities. In the event that the voluntary offer made by Caja3 did not obtain a sufficient result to obtain at least 36 million euros of basic own funds (with it also being a requirement to exceed 75% acceptance among holders of the affected securities), FROB would adopt the necessary measures to perform a mandatory subordinated liabilities exercise.

On 20 June 2013, the offer for the voluntary repurchase of subordinated bonds ended with acceptance by 85.4%, but without achieving the objective of generating 36 million euros of basic own funds.

For this reason, on 27 June 2013, FROB's Governing Committee decided to perform the mandatory subordinated liabilities exercise aimed at holders of subordinated debt that had not accepted the voluntary exercise and which had an outstanding balance of a little over 13 million euros.

These exercises (voluntary and mandatory) had a gross positive impact of 44 million euros on Caja3's net worth:

- 35 million euros were the result of the haircut on the nominal value of the instruments (with an average haircut of 38%).
- 9 million euros as a result of conversion of the securities into capital instruments of the bank.

As a result of the above, the percentage holdings in Caja3 were as follows: founding savings banks with 98% and shareholders from the subordinated liabilities exercise with 2%.

D

Resizing and reorganisation of the institution's structure

The restructuring plan also included specific commitments relating to European legislation on State aid, which involved significant measures to adapt the business:

- Reduction in the bank's size:
  - balance sheet
  - LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibitions and restrictions as regards certain activities relating to disclosure of aid, remuneration and coupon payments.

E

Integration with Ibercaja

The restructuring plan took into account the merger protocol signed between Ibercaja and Caja3 on 27 November 2012.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser indicated that, at 31 December 2017, Caja3 had complied with all the plan's requirements.

2. INTEGRATION PROCESS

Integration with Ibercaja

- On 27 November 2012, Ibercaja and Caja3 signed a merger protocol by means of the acquisition of Caja3 by Ibercaja. On 25 July 2013, and in accordance with the restructuring plan after complying with the conditions precedent and obtaining the mandatory administrative exemptions and authorisations, Ibercaja became the holder of 100% of the shares in Caja3.
- Finally, on 1 October 2014, Caja3 was absorbed by Unicaja.

Repayment of the CoCos

- Caja3 undertook to repurchase the CoCos as soon as it was in a position to do so and, at any event, within a maximum of five years from their issue (2018 limit). However, the restructuring plan set out that the bank would repurchase the securities from FROB in advance and staggered over three years: 5% at year-end 2014, 40% at year-end 2015 and 55% at year-end 2016.
- Later, on 10 June and 30 July 2014, Caja3 obtained authorisation from the European Commission and from FROB's Governing Committee to push back the timetable, setting new payment deadlines: 5% on 31 March 2016, 40% on 31 March 2017 and 55% at the end of 2017. This postponement meant increasing the rate of interest on the CoCos by 50 basis points in the last period.
- The CoCos were eventually redeemed earlier than planned: on 31 March 2016 for 5% of the nominal value issued (20.4 million euros), on 29 December 2016 for 40% (163 million euros) and on 24 March 2017 for 55% (223.6 million).
- During the period in which the CoCos were outstanding, FROB received interest on these instruments for an amount of 143 million euros.

3. KEY MILESTONES

28/07/2010
Establishment of the IPS, the origin of the group

22/12/2010
Creation of Caja3 as the central vehicle of the IPS

30/12/2011
Registration with the Companies Registry of the instruments recording the segregation of assets and liabilities from the savings banks to Caja3

27/11/2012
Signing of the merger protocol with Ibercaja

19/12/2012
Aprobación por parte del Banco de España del plan de reestructuración elevado por el FROB

20/12/2012
Decision 35489 (2012/N) of the European Commission on the Caja3 restructuring plan

28/02/2013
Transfer of assets to Sareb

12/03/2013
Subscription of CoCos by FROB in an amount of 407 million euros (FROB III)

20/06/2013
End of the voluntary period for the subordinated liabilities exercise

27/06/2013
Mandatory subordinated liabilities exercise

25/07/2013
Acquisition by Ibercaja of 100% of the shares of Caja3

1/10/2014
Merger of Ibercaja and Caja3

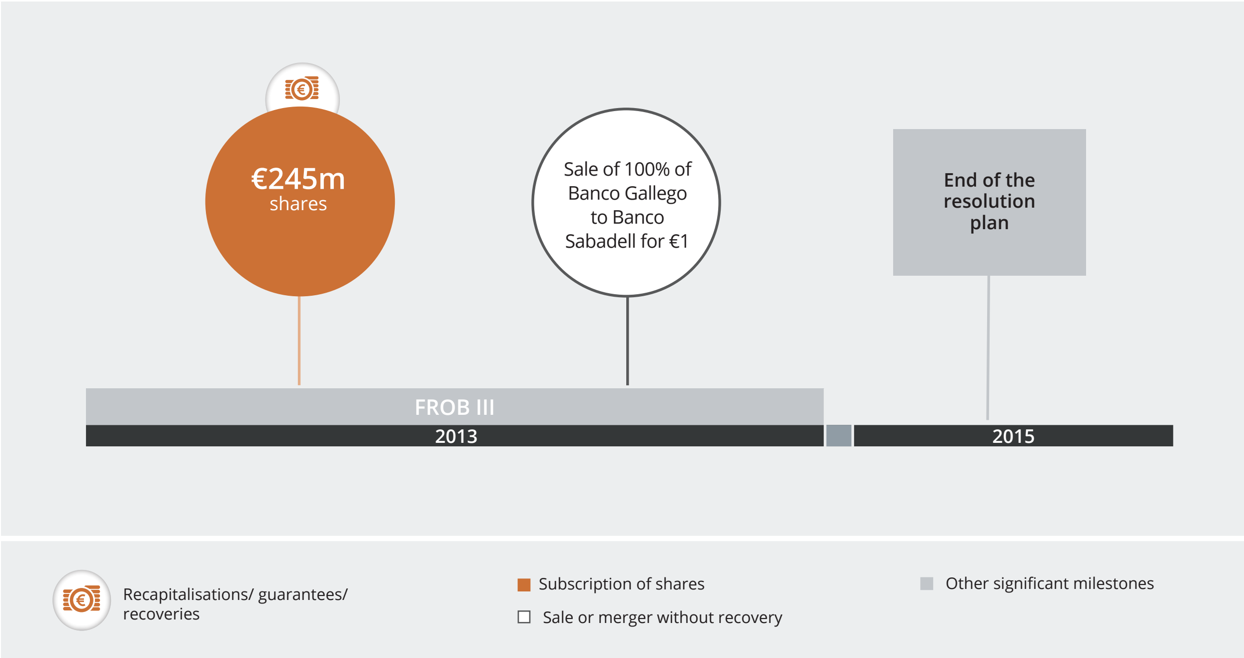
31/03/2016
Repayment of the CoCos for an amount of 20.4 million euros

29/12/2016
Repayment of the CoCos for an amount of 163 million euros

24/03/2017
Repayment of the CoCos for an amount of 223.6 million euros

31/12/2017
End of the restructuring plan having fully complied with all commitments

Banco Gallego



Banco Gallego, S.A. (Banco Gallego) was founded as a private credit institution in 1991. Seven years later, it merged with Banco 21 and later became part of the Caixavigo Group (Caixanova following the merger of three Galician savings banks), by subscribing a capital increase carried out by the bank. With the integration of Caixanova and Caixa Galicia in Novacaixagalicia and the subsequent transfer of assets and liabilities to NCG Banco, Banco Gallego became a subsidiary of the latter, with a holding of 49.85%.

POSITION OF THE BANK IN 2012

- **Balance sheet of 4.3 billion euros**
- **Network of 180 branches and 740 employees**
- **Market shares of around 2% in its natural territory**

Banco Gallego required financial support from FROB of **245 million euros,** which was granted in 2013

On 28 October 2013, the sale of 100% of the bank's shares to Banco Sabadell for 1 euro was concluded.

1. RESTRUCTURING PROCESSES

The aid received by the bank totalled 245 million euros, resulting from the subscription by FROB of the bank's capital increase under FROB III. Banco Gallego did not participate directly in the aid under FROB I and FROB II, which was granted to Novacaixagalicia as the head of the group.

In addition, in the process of the sale to Banco Sabadell, certain guarantees were provided to Banco Gallego whose cost for FROB was zero.

FROB III. Capital increase: 245 million euros

Calculation of capital needs

- The stress tests performed by Oliver Wyman in accordance with the MoU did not individually break down the possible capital shortfall of Banco Gallego, which was deemed to be subsumed within the capital shortfall calculated for the NCG Group.
- However, Banco Gallego's net worth position deteriorated over 2012, mainly due to its exposure to the real estate sector. Banco Gallego had negative equity, as stated at the audited accounting closed on 31 October 2012.
- On 27 November 2012, the Bank of Spain sent a letter to FROB informing it that Banco Gallego was subject to a resolution situation according to the provisions of Chapter 4 of Law 9/2012. As a result of this situation, the resolution plan for NCG Banco provided qualified treatment to the situation of Banco Gallego, imposing specific conditions on it.
- At 31 December 2012, Banco Gallego had negative equity of 134 million euros and estimated capital needs of 270 million euros, which was necessary to achieve the minimum capital required by the legislation in force.
- Prior to adopting any restructuring or resolution measure, the bank's economic value was determined at a negative amount of 150 million euros (on the basis of the report by three independent experts in accordance with Law 9/2012).

Conditions referring to Banco Gallego in the resolution plan of NCG Banco

The conditions initially set out in the NCG Banco resolution plan relating to Banco Gallego were as follows:

A

Inclusion in the legacy unit (activities to be divested)

NCG Banco's holding in Banco Gallego, which was equivalent to 49.85% of the capital, was included in the holdings to be divested, with the requirement to record a 100% provision. In addition, there was an exposure of NCG Banco in Banco Gallego, which consisted of an interbank deposit of 80 million euros for which a 100% provision also had to be recorded, which could not be increased.

B Sale of Banco Gallego	Banco Gallego had to be sold by 30 April 2013 and, failing that, any new business was to be stopped and an orderly winding up initiated, which was to be completed by 30 June 2015, which implied the cessation of all activity as from 1 May 2013. In this phase, the bank could not grant new loans (except in cases of customers with which this was pre-established contractually) or take deposits from new customers.
C Capital increase	NCG Banco would subscribe a capital increase of 80 million euros by means of the capitalisation of the interbank deposit that it held in Banco Gallego.
D Burden sharing	Banco Gallego was obliged to implement the principle of burden sharing for both shareholders and holders of the bank's hybrid instruments.
E Transfer to Sareb	On 31 December 2012, Banco Gallego transferred its assets in the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 1 billion euros and a transfer price of 610 million euros (average haircut of about 40%). In exchange,it received senior debt securities issued by Sareb with a State guarantee.

Subscription by NCG Banco of the capital increased

- On 29 January 2013, the General Meeting of Banco Gallego agreed a reduction in the share capital to zero in order to offset losses and a simultaneous capital increase (accordion operation) for an amount of 170 million euros with a pre-emptive subscription right. The bank's existing shareholders at that time therefore absorbed losses up to the limit of their total investment.
- In this capital increase, NCG Banco subscribed 80 million euros (the full amount of the shares that corresponded to it) through the recovery of the past-due interbank deposit and subsequent contribution of the amount of said deposit as capital. In addition, various minority shareholders subscribed 42,148 euros, with the rest remaining unsubscribed (incomplete subscription). This operation meant that NCG Banco became the holder of 99.95% of Banco Gallego's capital.

2. DIVESTMENT PROCESS

Development of the divestment process

- In early 2013, in compliance with the NCG Banco resolution plan, FROB began the process of selling off Banco Gallego. This procedure would cover the divestment of the holding corresponding to NCG Banco following the capital increase and also, if necessary in order to achieve the aims and objectives of the restructuring, the sale of the entity as a whole, including not only the shares of NCG Banco, but also those of other shareholders without the need to obtain their consent or that of third parties other than the buyer.
- The sale procedure was organised with the assistance of an investment bank engaged for this purpose by NCG Banco.
- Potential buyers submitted their initial interest and were given access to detailed information on the bank.

Awarding of Banco Gallego

- On 5 April 2013, FROB's Governing Committee awarded Banco Gallego to Banco Sabadell as this was the most efficient use of public resources. On 19 April 2013, a private agreement was signed to sell 100% of the shares of Banco Gallego subject to certain conditions:
  - Subscription by FROB of a capital increase in Banco Gallego for an amount of 245 million euros.
  - Transfer of all the shares of Banco Gallego to Banco Sabadell for the price of 1 euro.
  - Coverage by FROB of certain guarantees.

Provisional Administration of Banco Gallego by FROB

- As part of the process of awarding Banco Gallego, the Bank of Spain's Executive Committee decided on 17 May 2013 to replace the bank's Board of Directors and appoint FROB as its provisional administrator.

Conclusion of the sale agreement

- Once the conditions established in the sale agreement had been met, on 28 October 2013, the sale of Banco Gallego to Banco Sabadell was formalised in a public document.

Merger with Banco Sabadell

- Finally, on 14 March 2014, Banco Gallego was absorbed by Banco Sabadell.

Specific resolution plan for Banco Gallego

On 24 April 2013, FROB's Governing Committee approved the resolution plan for Banco Gallego, which was subsequently submitted to the Bank of Spain. This was already a specific plan for the bank which included all aspects that up to that time had been included in the resolution plan for NCG Banco relating to Banco Gallego, as well as new aspects resulting from the sale of the bank.

On 4 July, FROB submitted for approval by the Bank of Spain an amendment to the plan in order to introduce a change to the mandatory subordinated liabilities exercise with regard to that which was initially planned.

On 17 May, the Bank of Spain approved the resolution plan for Banco Gallego submitted by FROB and its amendment on 5 July. On 25 July 2013, it was approved by the European Commission by means of Decision 36500 (2013/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

This resolution plan addressed various aspects:

A

Divestment options

Analysis of the different options presented for the divestment of NCG Banco's holding in Banco Gallego. A first option raised a scenario of winding up the bank, while a second option analysed a possible sale. The second option was chosen due to the high cost involved in winding up the bank.

B

Breakdown of the sale process

Breakdown of the process followed to perform the divestment of Banco Gallego. It also included the result of the process, with the award of all of the shares to Banco Sabadell.

C

Transfer to Sareb

As had been executed in December 2012.

D

Burden sharing

On 20 June and 30 September 2013, FROB's Governing Committee decided to execute the subordinated liabilities exercise, which affected Banco Gallego issues with a nominal value of 192 million euros, of which a total of 86 million euros were held by retail investors. This exercise had a positive gross impact of 167 million euros on the net worth of Banco Gallego.

- 45 million euros as a result of the haircut on the nominal value of the instruments (average haircut of 23%).
- 122 million euros as a result of conversion of the securities into bonds mandatorily convertible into shares of Banco Sabadell.

With regard to this last point, in a context of the integration of Banco Gallego into Banco Sabadell, in accordance with the amendment to the plan made on 4 July 2013, the holders of hybrid instruments were offered an exchange of their securities for bonds mandatorily convertible into shares of Banco Sabadell. Consequently, the retail customers resulting from the subordinated liabilities exercise of Banco Gallego were able to recover most of their investment.

E

Reorganisation of the bank

The resolution plan also included commitments relating to European legislation on State aid, which involved reducing the workforce and the number of branches.

F

Financial support

The resolution plan for Banco Gallego contained a series of financial support measures for the sale process. Specifically, the plan established a capital contribution of 245 million euros through a monetary contribution and the granting of certain guarantees.

Compliance with the commitments was verified by an independent third party (monitoring trustee). At 31 December 2015, Banco Gallego had fulfilled all the requirements set out in the plan

3. GUARANTEES PROVIDED

In order to maximise efficient use of public funds, FROB provided a series of guarantees in the sale of Banco Gallego whose cost is estimated to be zero.

Guaranteed Items	Paid
Compensating the buyer for any adjustments to the transfer price or in the scope of the transfer to Sareb for the part that exceeds 1 million euros in each operation. Therefore, any individually considered adjustment of under 1 million euros would be covered by the buyer.	0
Compensating Banco Sabadell for any higher tax expense that it may incur for certain tax contingencies that may arise as a result of the merger.	0
Compensating Banco Sabadell for other contingencies essentially resulting from certain holdings and possible legal claims.	0

4. KEY MILESTONES

31/10/2012
Accounting close of Banco Gallego recording negative equity

27/11/2012
Notification by the Bank of Spain to FROB that Banco Gallego is in a resolution situation. Approval of the NCG Banco resolution plan, which included Banco Gallego

31/12/2012
Transfer of assets to Sareb

29/01/2013
Approval by the General Shareholders' Meeting of an accordion operation to reverse the negative equity position

19/04/2013
Awarding of 100% of the capital of Banco Gallego to Banco Sabadell for 1 euro

24/04/2013
Approval by FROB of the specific resolution plan for Banco Gallego, including the sale to Banco Sabadell

17/05/2013
Approval by the Bank of Spain of the resolution plan submitted by FROB

20/06/2013
First subordinated liabilities exercise

05/07/2013
Approval by the Bank of Spain of the amendment to the resolution plan for Banco Gallego with regard to the mandatory subordinated liabilities exercise submitted by FROB

25/07/2013
Decision 36500 (2013/N) of the European Commission on the resolution Plan for Banco Gallego

30/09/2013
Second subordinated liabilities exercise

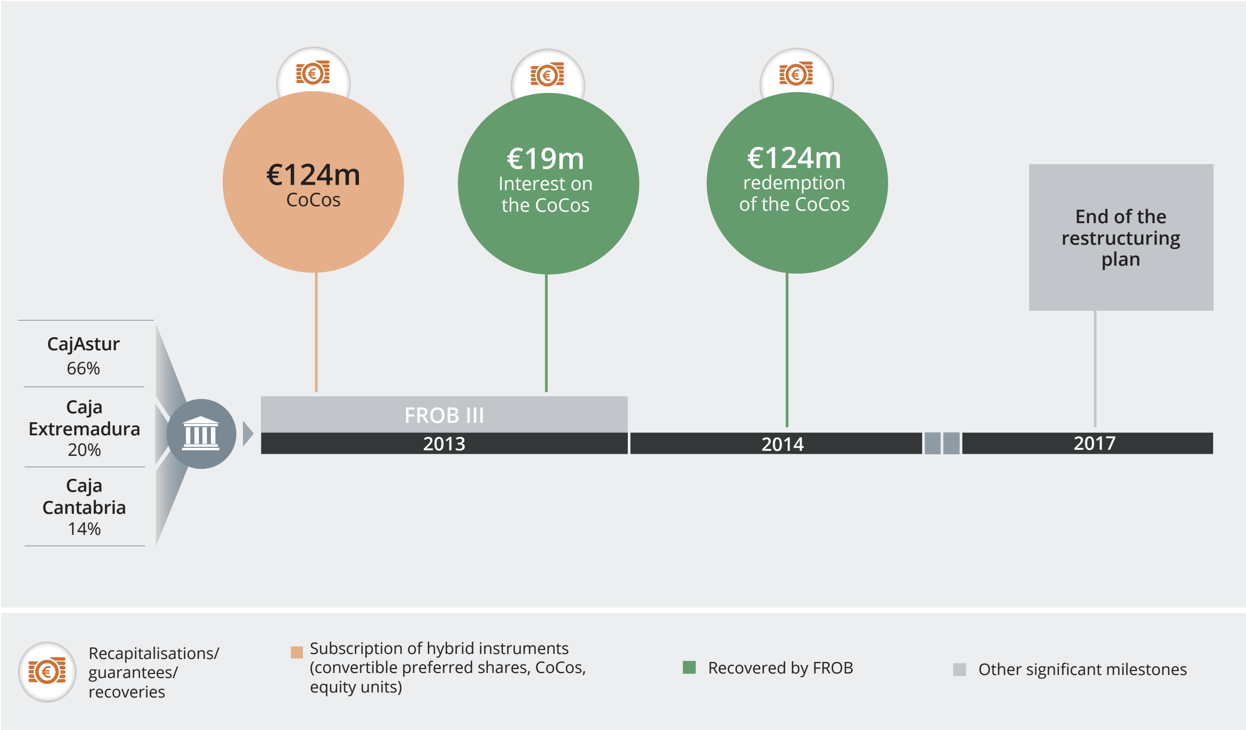
04/10/2013
Subscription of shares in an amount of 245 million euros (FROB III)

28/10/2013
Conclusion of the sale of 100% of Banco Gallego to Banco Sabadell for 1 euro

14/03/2014
Merger of Banco Sabadell and Banco Gallego

31/12/2015
End of the resolution plan having fully met all commitments

Liberbank



On 27 July 2010, Caja de Ahorros del Mediterráneo (CAM), Caja de Ahorros de Asturias (CajAstur) - in process of integration with Caja de Ahorros de Castilla-La Mancha (CCM) - Caja de Ahorros y Monte de Piedad de Extremadura (Caja Extremadura) and Caja de Ahorros de Santander y Cantabria (Caja Cantabria) signed an integration agreement to set up a contract-based economic group that would be configured as an IPS, the central vehicle of which would be Banco Base, S.A. (Banco Base).

On 30 March 2011, the General Assemblies of CajaAstur, Caja Extremadura and Caja Cantabria decided not to authorize the transfer of their respective financial businesses to Banco Base. Instead, on 13 April 2011, these entities entered into an integration agreement that set out their intention to integrate by setting up a new IPS in which Liberbank, S.A. (Liberbank) would be the central vehicle. In December 2011, the savings banks transferred to Liberbank their banking and banking-related assets and liabilities, with the savings banks maintaining the assets used for social welfare activities together with their shareholding in the new bank. On 16 May 2013, Liberbank began trading on the stock market.

POSITION OF THE BANK AT THE TIME OF ITS CREATION

- Balance sheet of 55 billion euros
- Network of 1,350 branches and 6,500 employees
- Market shares of between 25% and 35% in its original territories

The entity required financial support from FROB of **124 million euros,** which was granted in 2013

On 22 December 2014, FROB recovered the full amount of the 124 million euros subscribed in 2013 in the form of CoCos.

1. RESTRUCTURING PROCESSES

The aid received by the bank totalled 124 million euros, corresponding to FROB III (issuance of CoCos fully subscribed and paid in by FROB).

With regard to the amounts recovered, FROB received interest from the CoCos subscribed in 2013 for an amount of 19 million euros. In addition, with the early redemption of these instruments, the 124 million euros injected into the bank were recovered.

FROB I. Failed integration plan

Although on 29 June 2010, the Executive Committee of the Bank of Spain approved the integration plan submitted by CAM, CajAstur, Caja Extremadura and Caja Cantabria, whose central vehicle was to be Banco Base, and FROB's Governing Committee approved the financial aid provided for in the plan (convertible preferred shares for an amount of 1.49 billion euros), in the end these four savings banks did not integrate in Banco Base and the initially authorised aid was not paid out.

FROB II. Compliance with the new capital requirements without public aid

Increase in capital requirements

> In March 2011, following publication of Royal Decree Law 2/2011, which set the core capital requirement at 10% of RWAs or at 8% for listed institutions or institutions with a wholesale funding ratio lower than 20%, the requirement for the group regarding Banco Base amounted to 10% of RWAs, which implied a capital shortfall of 1.45 billion euros. As this integration process did not take place, but rather another process regarding another central vehicle named Liberbank (CajAstur, Caja Extremadura and Caja Cantabria), the capital needs to achieve the required 10% were reduced to 519 million euros. The entity submitted to the Bank of Spain its strategy and timetable for meeting the new core capital requirements, which were approved by the Bank of Spain on 14 April 2011 and which included, as an alternative option to generating capital by its own means, a request for financial support from FROB. Although the entity initially opted to raise private capital, in the end it generated the capital necessary to achieve the required minimum internally.

Transfer of the savings banks' assets and liabilities to Liberbank

> In June 2011, the General Shareholders' Assemblies and Meetings of the three savings banks and of Liberbank approved the terms of the transfer of banking and banking-related assets and liabilities to the bank, with the savings banks continuing to hold the assets used for the social welfare activities and their shareholding in Liberbank.

FROB III. CoCos: 124 million euros

Calculation of capital needs

- On 20 July 2012, the MoU established that Liberbank was classified in Group 2 as it was deemed to have a capital shortfall in an adverse scenario that it was unable to meet privately without having recourse to State aid. The stress tests performed by Oliver Wyman in accordance with the MoU diagnosed that there were no capital needs in the base scenario but needs of 1.2 billion euros in an adverse scenario.
- With regard to calculating the public aid, the estimated capital needs in the adverse scenario of the stress test were reduced to 124 million euros as a result of the estimated impact of the burden sharing resulting from exchanging hybrid instruments (preferred shares and subordinated debt) and the planned transfer of assets to Sareb and other measures.

Stress test – Oliver Wyman. Calculation of capital needs

€1.2bn (adverse scenario)	**- €714m** (burden sharing)	**- €145m** (transfer to Sareb)	**- €215m** (others)

€124m estimated final need for FROB funds

Approval of the restructuring plan

Liberbank prepared a restructuring plan which was passed on by FROB to the Bank of Spain for approval, which was granted on 19 December 2012. One day later, it was approved by the European Commission by means of Decision 35490 (2012/N) and the corresponding economic report was then submitted to the Ministry of Economic Affairs and Competitiveness and the Ministry of Finance and Public Administration.

Restructuring plan

The restructuring plan provided for several measures to be taken, which included the following:

A

Injection of public funds for a value of 124 million euros

After determining the bank's economic value at a negative amount of 1.11 billion euros (on the basis of the reports by three experts in accordance with Law 9/2012), on 8 March 2013, FROB's Governing Committee decided to implement the injection of public aid for an amount of 124 million euros by subscribing CoCos.

Liberbank undertook to repurchase the securities as soon as it met the conditions for doing so or, at any event, within five years. On 12 March 2013, the CoCos were subscribed and paid in.

B

Transfer to Sareb

On 28 February 2013, Liberbank transferred its assets related to the real estate sector to Sareb in accordance with Royal Decree 1559/2012 for a gross value of approximately 6 billion euros and a transfer price of 2.92 billion euros (average haircut of about 50%). In exchange, it received senior debt securities issued by Sareb with a State guarantee.

C

Burden sharing

Liberbank had outstanding hybrid instruments for a nominal amount of 866 million euros, of which 548 million euros corresponded to retail issues.

The restructuring plan established that the entity would carry out, firstly, an exchange offer to be voluntarily accepted by the investors of said securities. In the event that the voluntary offer made by Liberbank did not obtain at least 90% acceptance by the holders of the securities affected), FROB would adopt the necessary measures to perform a mandatory subordinated liabilities exercise.

On 26 March 2013, the offer of voluntary repurchase of subordinated bonds ended, with acceptance of 87.3%, lower than the 90% required.

For this reason, on 5 April 2013, FROB's Governing Committee decided to perform the mandatory subordinated liabilities exercise aimed at holders of hybrid instruments that had not accepted the voluntary exercise and which had an outstanding balance of 110 million euros.

These exercises (voluntary and mandatory) had a gross positive impact of 850 million euros on Liberbank's net worth.

- 63 million euros were the result of the haircut on the nominal amount of the instruments (average haircut of 7%).
- 787 million euros as a result of conversion of the securities into capital instruments of the bank.

As a result of the above, the percentage holdings in the bank were as follows: founding savings banks with 60.9% and shareholders from the subordinated liabilities exercise with 39.1%.

D

Resizing and reorganisation of the institution's structure

The restructuring plan also included specific commitments relating to European legislation on State aid, which involved significant measures to adapt the business:

- Reduction in the bank's size:
  - balance sheet
  - lending and LTD ratio
  - employees
  - branches
- Divestment of investees.
- Prohibitions and restrictions as regard activities relating to acquisitions, disclosure of aid, remuneration, distribution of results and coupon payments and aggressive commercial practices.

In addition, the bank should submit a flotation plan that would allow Liberbank to start trading by June 2013. This plan was presented and Liberbank was floated on 16 May 2013.

Compliance with the commitments was verified by an independent third party (monitoring trustee). This external adviser indicated that, at 31 December 2017, Liberbank had complied with all the plan's requirements.

2. DIVESTMENT PROCESS

- Liberbank undertook to repurchase the CoCos as soon as it was in a position to do so and, at any event, within a maximum of five years from their issue (2018 limit). However, the restructuring plan established that the entity would make an early repurchase of those securities from FROB at the end of 2014.
- Following authorisation by the supervisor, on 22 December 2014, Liberbank made early repayment of all of the issue of CoCos subscribed by FROB for an amount of 124 million euros.
- During the period in which the CoCos were outstanding, FROB received interest on these instruments for an amount of 19 million euros.

3. KEY MILESTONES

30/03/2011
Rejection by CajAstur, Caja Extremadura and Caja Cantabria of the segregation of their financial business to Banco Base

04/05/2011
Establishment of the IPS, the origin of the group

23/05/2011
Incorporation of Liberbank as the central vehicle of the IPS

29/08/2011
Registration with the Companies Registry of the instruments recording the segregation of assets and liabilities from the savings banks to Liberbank

19/12/2012
Approval by the Bank of Spain of the restructuring plan submitted by FROB

20/12/2012
Decision 35490 (2012/N) of the European Commission on the Liberbank restructuring plan

28/02/2013
Transfer of assets to Sareb

12/03/2013
Subscription of CoCos by FROB in an amount of 124 million euros (FROB III)

26/03/2013
End of the voluntary period for the subordinated liabilities exercise

05/04/2013
Mandatory subordinated liabilities exercise

16/05/2013
Flotation of Liberbank

22/12/2014
Repayment of the CoCos for an amount of 124 million euros

31/12/2017
End of the restructuring plan having fully complied with all commitments

Banco Popular

Banco Popular Español, S.A. (Banco Popular) was founded in 1926 and was the parent company of Grupo Popular, the sixth largest in Spain by capitalisation. The group's activity included the full range of the banking and insurance business, but focused on SMEs, businesses and families. The group consisted of Banco Popular as parent company and seven banks, four of which operated in Spain, one in Portugal, one in the U.S.A. and the other in Mexico.

POSITION OF THE BANK BEFORE ITS RESOLUTION

- **Balance sheet of 147.11 billion euros**
- **1,644 branches in Spain and 10,634 employees**
- **National market share of between 5% and 10%**

The resolution process was agreed by the SRB and did not involve public aid

On the morning of 7 June, the Single Resolution Board (SRB), in its Extended Executive Session, adopted the resolution scheme for Banco Popular in accordance with the corresponding European regulation. The scheme established as a resolution instrument the sale of the entity's business by means of the transfer of 100% of its shares to Banco Santander, with it necessary to previously write down and convert the pertinent capital instruments. The European Commission adopted Decision (UE) 2017/1246 approving the resolution scheme. FROB, as the national executive resolution authority, was responsible for implementing this scheme on 7 June 2017.

1. RESOLUTION PROCESS

Resolution scheme

> On 7 June 2017, the SRB [1] adopted the resolution scheme for Banco Popular after having verified that the conditions for declaring the bank in resolution were met:

- the failure of the entity, as a result of a severe liquidity problem. On 6 June 2017, after conducting the mandatory consultation, the ECB notified the SRB of the failure of Banco Popular, considering that the entity was unable to pay its debts or other liabilities as they fell due and that it was unlikely to be able to do so in the near future. That same day, Banco Popular's board of directors had already informed the ECB that it was failing as it fell significantly short of the liquidity coverage ratio.
- the absence of private alternatives or supervisory actions that would be capable of restoring the entity to a position of viability within a reasonable timeframe. The SRB found, in close cooperation with the ECB, that at the time the bank was declared to be failing, none of the participants in the private sale process had submitted an offer for the bank and that the bank was unable to carry out market operations that would allow it to generate liquidity within the given timeframe without, in addition, the Bank of Spain being able to provide it with more emergency liquidity assistance (ELA).

[1] The information published by the SRB is available at https://srb.europa.eu/en/content/banco-popular

- The bank's resolution was deemed necessary for reasons of public interest. The SRB concluded that the resolution was necessary and proportionate to guarantee the continuity of the critical functions performed by Banco Popular and to avoid adverse effects on financial stability, preventing the spread of its situation to the rest of the system. In addition, the winding up of the institution under normal insolvency proceedings would not meet those resolution objectives to the same extent.

> The resolution instrument set out in the resolution scheme adopted by the SRB consisted of the sale of the bank's business, which would be carried out by means of a transfer to the successful bidder in the sale process (Banco Santander) of 100% of the bank's shares, following the write-down of the existing ordinary shares and Additional Tier 1 instruments and the conversion of Tier 2 instruments into new shares. In the resolution scheme, the SRB instructed FROB to exercise its resolution powers as provided for in Spanish legislation in order to implement the resolution scheme in its strict terms.

> On that same 7 June, the European Commission adopted Decision (EU) 2017/1246 endorsing the resolution scheme for Banco Popular adopted by the SRB.

> On the same date, FROB's Governing Committee decided to adopt the necessary measures to strictly execute the terms of the resolution scheme.

> In 2018, the SRB launched the procedure for assessing the treatment that shareholders and creditors of Banco Popular would have received if it had been subject to ordinary banking procedures at the time the resolution decision was adopted. After receiving the report from the independent expert responsible for the assessment, the SRB, in August of the same year, opened a right to be heard process for shareholders and creditors deemed eligible to submit comments on the report.

2. CLAIMS

Legal claims in Spain

> At 30 June 2019, information shows that a total of 262 appeals for judicial review have been accepted by the National High Court against FROB's decision adopting the measures necessary to execute Banco Popular's resolution scheme approved by the SRB.

> At that date, all the aforementioned appeals for a judicial review had been suspended until the final ruling is issued by the General Court of the European Union in the processes brought before said court against the SRB's decision approving the bank's resolution scheme [(2)].

> In addition, the National High Court rejected suspension of the enforceability of FROB's Resolution adopting the necessary measures to execute the resolution scheme of Banco Popular approved by the SRB, requested as a precautionary measure in the aforementioned appeals for judicial review.

[(2)] For this purpose, it should be noted that the National High Court justified this suspension on the basis that FROB's resolution is based on the necessary and decisive precondition of the SRB's decision, which has been challenged before the General Court of the European Union.

International Arbitration

> A group of Banco Popular shareholders and bondholders of Mexican and Mexican-Spanish nationality initiated an international arbitration procedure against the Kingdom of Spain under the UNCITRAL Arbitration Rules of 2013, claiming damages caused by the Banco Popular resolution under the Agreement on the Promotion and Reciprocal Protection of Investments Between the United Mexican States and the Kingdom of Spain of 10 October 2006.

Caja Rural de Mota del Cuervo

Caja Rural de Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla La Mancha (Caja Rural de Mota del Cuervo) was founded on 24 July 1996.

POSITION OF THE ENTITY BEFORE ITS RESOLUTION

- Balance sheet of 82.6 million euros
- 11 employees and 1 branch
- Market shares of between 1% and 2% in the province of Cuenca

The resolution process did not involve the injection of public aid in the entity

On 14 January 2014, FROB sold the shares of Caja Rural de Mota del Cuervo to Globalcaja, for and on behalf of its shareholders.

1. RESOLUTION PROCESS

Opening of the resolution process

- On 14 January 2014, the Bank of Spain notified FROB that its Executive Committee had adopted the resolution to open the resolution process of Caja Rural de Mota del Cuervo, in accordance with the provisions of Law 9/2012, as the entity was deemed to be failing in accordance with the corresponding criteria set out in said law.
- In the aforementioned resolution, the Bank of Spain duly set out evidence substantiating the existence of the requirements or conditions required by law for declaring this situation, which were:
    - the failure of the entity as a result of systematic non-compliance with its solvency requirements without the possibility of overcoming this situation by its own means and
    - the resolution declaration was in line with Law 9/2012 and necessary or advisable for achieving its objectives, which could not be reasonably achieved in the same manner if the entity was wound up through insolvency proceedings. Among the aforementioned objectives, the Bank of Spain highlighted:
        - the protection of shareholders and their reimbursable funds as well as depositors; minimising the public cost, avoiding possible activation of the DGF and,
        - furthermore, the Bank of Spain indicated that it would make it possible to avoid any destabilising effect from it being wound up through insolvency proceedings.
- In addition, on the same date, the Bank of Spain informed FROB of the resolution ordering the replacement of the governing body of Caja Rural de Mota del Cuervo and the appointment of FROB as the bank's provisional administrator.

2. DIVESTMENT PROCESS

Milestones in the sale process

> Following the communication from the Bank of Spain, FROB's Governing Committee agreed that the instrument of sale of the business provided for in the law was the instrument that best respected the resolution principles and was better than the alternative of winding up the entity, the cost of which was estimated to be higher.

> Having assessed the entity's specific circumstances, FROB considered that the conditions were appropriate for selection of the buyer to be performed through the urgent procedure set out in Article 68 of Law 9/2012.

> The main milestones in the sale process were:

- Given the existence of pressing reasons, with the aim of guaranteeing the planned restructuring and resolution objectives, it was deemed appropriate to determine its economic value without collecting reports from independent experts. This resulted in negative economic values of between 0.7 and 3.6 million euros.
- FROB decided to initiate a competitive process for the sale of the entity, exploring potential candidates to buy the entity and providing them with the information available. In the same autonomous region, two credit cooperatives interested in the purchase were identified.
- On 14 January 2014, FROB's Governing Committee decided on the sale of the shares of Caja Rural de Mota del Cuervo, for and on behalf of its shareholders, and their purchase by Caja Rural de Albacete, Ciudad Real y Cuenca SCC (Globalcaja), with the latter becoming the sole shareholder of the cooperative.
- On the same day, a sale agreement was signed for a total price of 1,275,800 euros plus the sale costs incurred by FROB in the process.
- The total contributions of the entity before the sale had a nominal value of 383,000 euros and therefore each holder of a share with a nominal value of 60.11 euros received 200 euros in cash.
- With this sale, the position of the entity's depositors and creditors became significantly stronger as, with the integration of Caja Rural de Mota del Cuervo into a viable institution such as Globalcaja, the entity's future was guaranteed.
- This process did not require public financial support in accordance with the offer received from Globalcaja.

Resolution plan

Approval of the resolution plan and sale of the entity

- On 14 February 2014, FROB decided to submit Caja Rural de Mota del Cuervo's resolution plan to the Bank of Spain for approval, which was given on 28 March 2014. The terms of the plan included the sale of the entity to Globalcaja and its subsequent merger into the latter.
- The Executive Committee also approved the cessation of the provisional administration measure for Caja Rural de Mota del Cuervo. However, FROB continued to discharge its functions until the new governing body took office following the completion of the merger with Globalcaja.
- The integration process concluded on 18 June 2014 with the registration of the merger of Caja Rural de Mota del Cuervo into Globalcaja.

3. KEY MILESTONES

14/01/2014
Agreement by the Bank of Spain to open a resolution process, replacement of the governing body and appointment of FROB as provisional administrator

14/01/2014
Resolution of FROB to sell the shares of Mota del Cuervo to Globalcaja for 1.3 million euros and conclusion of the sale

18/06/2014
Registration of the merger of Caja Rural de Mota del Cuervo into Globalcaja

28/03/2014
Approval of the resolution plan by the Bank of Spain

14/02/2014
Resolution of FROB to submit the resolution plan to the Bank of Spain

Banco Madrid

In 2003, Banco de Madrid, S.A.U. (Banco Madrid), a subsidiary of Caja de Ahorros y Monte de Piedad de Gipuzcoa y San Sebastián (Kutxa), was set up as an entity specialising in private banking.

Subsequently, in 2010, Kutxa reached an agreement for sale of the 100% of the bank to Banca Privada d'Andorra (BPA), which took effect in 2011.

POSITION OF THE BANK AT YEAR-END 2014

- Balance sheet of 1 billion euros
- 281 employees and 23 branches
- 13 billion euros of assets managed off-balance sheet

In Banco Madrid there was no resolution process as there were no legally required reasons of public interest

On 16 March 2015, the provisional administrators of Banco Madrid appointed by the Bank of Spain filed for bankruptcy.

On 18 March, the Executive Committee of the Bank of Spain notified FROB that there were no grounds to open the orderly resolution process as there were no reasons of public interest. FROB's Governing Committee expressed the same opinion.

1. INTERVENTION

Communication from the United States authority about BPA

> On 10 March 2015, the Financial Crimes Enforcement Network (FinCEN) of the United States Department of the Treasury announced that it considered Banca Privada d'Andorra (BPA) a "foreign financial institution of primary money laundering concern" and issued a Notice of Proposed Rulemaking under which, among other measures, US banks would be prohibited from opening or maintaining accounts in the name of BPA or any entity in its group, which included Banco Madrid. This decision severely damaged the dollar operations of all group entities and affected their operations in European wholesale markets.

Intervention by the Bank of Spain and appointment of provisional administrators

- On that same day, the supervisory authority of Andorra (INAF - Andorra National Institute of Finance) decided on the intervention of BPA in order to ensure the continuity of its operations and compliance with legislation on money laundering.
- In turn, the Executive Committee of the Bank of Spain, after becoming aware of these facts, ordered the intervention of its branch in Spain, Banco Madrid, so as to have ongoing knowledge of its position and ensure the continuity of its operations.
- On 12 March 2015, the Bank of Spain, following a request from the institution's Board of Directors, decided to appoint provisional administrators to replace the bank's board of directors and thus ensure its normal functioning in its operations with its customers.

2. DECLARATION OF INSOLVENCY PROCEEDINGS

Request for voluntary insolvency proceedings and subsequent suspension

- On 16 March 2015, the provisional administrators of Banco Madrid filed a request with the competent court for voluntary insolvency proceedings in accordance with Law 22/2003 on the basis of its imminent state of insolvency.
- The following day, Commercial Court number 1 of Madrid informed FROB of the order ruling the suspension of the procedure and notification of the filing of the request for voluntary insolvency proceedings of Banco Madrid so that FROB might inform it within 14 days whether it would open a restructuring or resolution process as provided for under Law 9/2012.
- On 18 March, the Executive Committee of the Bank of Spain notified FROB but there were no grounds to open the orderly resolution process as there were no reasons of public interest required for this purpose by Article 19.1 of Law 9/2012.
- For its part, FROB analysed whether Banco Madrid was subject to the circumstances set out in said law as determining factors for the purposes of ordering the opening of a resolution process (failure of the bank and existence of reasons of public interest for adequate protection of the objectives provided for in Article 3 in said law) and that these would not be protected if the bank were to be wound up under ordinary insolvency proceedings. As a result of this analysis, FROB's Governing Committee reached the same conclusion as the Executive Committee of the Bank of Spain that there were no grounds for opening a resolution process for Banco Madrid and it informed the judge of this decision on 20 March.

Decree of insolvency proceedings

- On 25 March 2015, the judge of Commercial Court number 1 of Madrid decreed the voluntary insolvency proceedings of Banco Madrid, ordering the commencement of its winding up and dissolution as well as the cessation in their functions of the provisional administrators appointed by the Bank of Spain, which would be replaced by an insolvency practitioner.
- The declaration of insolvency proceedings triggered the guarantee of Banco Madrid deposits covered by the DGF. At 31 December 2018, the amounts of the covered deposits reported by the bank's insolvency practitioner to the DGF totalled 127 million euros. Of this amount, the DGF had paid 125.7 million euros. Therefore, a total of 1.3 million euros remained outstanding as payment could not be made as the depositor did not respond, could not be located, expressed disagreement with the communicated data or as a result of other incidents managed by the insolvency practitioner. For its part, up to 31 December 2018, Banco Madrid had paid the DGF the sum of 93.9 million euros, thus reducing its payment obligation for the covered deposits paid by the DGF to the bank's depositors, who were classified as ordinary creditors in the insolvency proceedings. Subsequently, in April 2019, Banco Madrid made a new payment of 9 million euros.
- At 30 June 2019, the bank is still in the process of being wound up.

Measures adopted by the CNMV

- The situation of Banco Madrid, which performed a large part of its activity in the stock market, led the CNMV to adopt the corresponding measures to protect the bank's customers and its supervised subsidiaries. On 16 March 2015, it decided to intervene Banco de Madrid Gestión de Activos (a management company subsidiary of Banco Madrid) and temporarily suspend redemptions of the investment funds managed by this entity. Subsequently, it would award the depository and management of said funds to other companies, thus restoring their ordinary operation. It also decided to intervene the group's broker-dealer, Interdin Bolsa, SV, SA, and then, on 11 May 2015, declare its insolvency and facilitate redemption of the outstanding balances with its investors through the Investment Guarantee Fund, up to a maximum of one hundred thousand euros in accordance the regulations in force.

4. KEY MILESTONES

10/03/2015
Classification by the FinCEN of the United States Department of the Treasury of Banca Privada d'Andorra as "financial institution of primary money laundering concern"

10/03/2015
Intervention of BPA by the Andorra National Institute of Finance. The Bank of Spain ordered the intervention of Banco Madrid

12/03/2015
Appointment of provisional administrators by the Bank of Spain

16/03/2015
Request by the provisional administrators of Banco Madrid for voluntary insolvency proceedings

18/03/2015
Conclusion by the Executive Committee of the Bank of Spain and FROB's Governing Committee that there were no grounds to open the resolution process

25/03/2015
Declaration by the Judge of Commercial Court No. 1 of Madrid of the voluntary insolvency proceedings of Banco Madrid

Sareb

1. ORIGIN

One of the main difficulties faced by the financial sector in 2012 was its high exposure to the real estate sector and its correct valuation. With the aim of limiting risks, an essential element of the process for assisting the financial sector set out in the MoU was the removal of the troubled assets of banks that were to receive aid under FROB III.

For this purpose, one of the most important restructuring and resolution instruments provided for in Law 9/2012 and which was an important new development in Spanish law, was the transfer of assets and liabilities to an asset management company.

Its essential task was to allow assets that were particularly damaged or which would harm the viability of the transferors were they to remain on their balance sheets to be concentrated in one company in order to allow them to be subject to specialised management and to allow the risks associated with such assets to be effectively transferred with them.

Sareb was created to facilitate the management of especially damaged real estate assets

Creation

- The seventh additional provision of Law 9/2012 laid down the obligation for FROB to bring about the incorporation of a company that would allow it to implement its power to require credit institutions that were to receive public aid to transfer a certain category of assets to an asset management company.
- As a result of this obligation, on 28 November 2012 a single-member public limited company was incorporated under the name Sociedad Promotora de la Sociedad de Gestión de Activos Provenentes de la Reestructuración Bancaria, S.A., with the aim of performing all the preliminary activities necessary to start up the Sociedad de Gestión de Activos Provenentes de la Reestructuración Bancaria, S.A. (Sareb).

Corporate purpose

- Sareb emerged as a key part of the process of restructuring the banking sector, with the primary aim of reducing uncertainties about the viability of credit institutions and to facilitate centralised management of troubled assets in order to carry out their orderly divestment over the set lifespan (15 years).
- Given the special circumstances under which Sareb was created, it was set an exclusive and limited purpose focused on the ownership, management and direct or indirect administration, acquisition and disposal of the assets transferred to it by credit institutions whose majority shareholder was FROB or which, in the opinion of the Bank of Spain, required the opening of a restructuring or resolution process.
- In other words, Sareb's corporate purpose limited its activities and capacity for growth, turning it into a company focused on divesting the assets received in the transfers performed as part of the aid granted under FROB III.

Corporate purpose

- In addition, Sareb was required to contribute to the proper performance of the restructuring or resolution processes of credit institutions, facilitating compliance with the objectives laid down in Article 3 of Royal Decree 1559, in accordance with the general principles of transparency and professional management. For this purpose, it was required:
  - To contribute to the clean-up of the financial system by acquiring the related assets in such a manner that the risks associated with these assets are effectively transferred from the time of their transfer.
  - To minimise public financial support, limiting the cost to the taxpayer.
  - To settle any debts and liabilities which it may incur in the course of its operations.
  - To minimise the impact on the economy and possible market distortions that might arise from its activities (mainly in the real estate and banking markets).
  - To dispose of the assets received, preserving their value within the term for which it was incorporated and optimising recovery levels.

2. OWN FUNDS OF THE COMPANY

Sareb's own funds structure was designed such that the own funds should represent approximately 8% of the volume of total assets (with regard to the transfer price) that it was to receive, with the understanding that part of these own funds could be in the form of subordinated bonds.

At any event, the capital structure would result in a significant, but not majority, holding for FROB, with most of the capital remaining in the hands of private investors, essentially financial institutions (credit institutions or insurance companies).

Holdings in the capital

- Sareb was initially incorporated with a share capital of 60,000 euros, which was fully subscribed by FROB as founding shareholder.
- Given the formalities required to incorporate a company of this size, it was not possible for all the committed capital to be subscribed on a single occasion. The capitalisation of the company was therefore carried out in two stages, one linked to the transfer of assets by Group 1 banks in December 2012 and a second stage in 2013 in parallel with the transfer by Group 2 banks.
- The capital increases were carried out through the issuance of ordinary shares each with a par value of 1 euro and issued with a share premium of 3 euros per share, which granted their holders the same rights and obligations.

Box 1. Contributions to Sareb's share capital

Increases	Amount	Subscriber	Means of subscription
December 2012	**956**		
12/12/2012	397	FROB	ESM securities
	430	Private entities	Cash contribution
17/12/2012	94	Private entities	Cash contribution
	35	FROB	ESM securities
February 2013	**244**		
13/02/2013	108	FROB	Cash contribution
	136	Private entities	Cash contribution
Total	**1,200**		

Issues of subordina-ted debt

> On 31 December 2012, Sareb issued contingently convertible unsecured subordinated debt (the subordinated debt) for an amount of 2.86 billion euros, of which FROB subscribed 1.27 billion euros by providing ESM securities, while the private entities which had a holding in the company's capital at that time subscribed securities in cash for an amount of 1.59 billion euros. In addition, on 27 February 2013, Sareb completed a new issue of subordinated securities with a residual term to maturity equivalent to that of the subordinated debt issued in 2012, which was subscribed in cash for an amount of 737.8 million euros, of which 380.8 million euros was subscribed by FROB.

Composition of own funds

> After these capitalisation operations, the composition of shareholders and holders of subordinated debt showed that private investors had a majority holding of 55%, while FROB held the remaining 45% (see Box 2). Overall, and following completion of the different increases, Sareb was incorporated with own funds (capital plus share premium) of 1.2 billion euros and contingently convertible subordinated debt of 3.6 billion euros.

Conversion of the subordinated debt in 2016 and new shareholder structure

> In October 2015, the Bank of Spain approved Circular 5/2015 of 30 September, laying down the accounting specifications of the Sociedad de Gestión de Activos Provenentes de la Reestructuración Bancaria, S.A., which include, among other aspects, the criteria for developing an asset valuation methodology.

> The first application of the circular's criteria, at the close of the 2015 financial year, triggered an individual valuation of all Sareb's assets, which were assigned a value according to the requirements included in the circular. This resulted in a significant impairment of the financial assets, with the possibility of offsetting gains and losses for certain asset categories. In accordance with the legislation in force at the time, this impairment had to be recorded against profit or loss, which generated losses that consumed the full amount of the initial own funds, making it necessary to convert the subordinated debt into capital.

Conversion of the subordinated debt in 2016 and new shareholder structure

- For that reason, the General Shareholders' Meeting of 5 May 2016 approved the conversion of 2.17 billion euros of subordinated debt into share capital. Following completion of the conversion process, which required the prior reduction of the capital, Sareb's own funds totalled 2.38 billion euros, of which the share capital accounted for 300 million euros, the restricted reserves accounted for 650 million euros and the outstanding balance of the subordinated debt accounted for 1.43 billion euros.
- Box 2 shows the shareholder structure following the recapitalisation process resulting from partial conversion of the subordinated debt, which remains valid today.
- Subsequently, publication of Royal Decree Law 4/2016, of 2 December, on urgent financial measures changed the system for recording losses resulting from application of the Bank of Spain's accounting circular. This modification established that valuation adjustments would be recognised against the company's equity. As this is a change in accounting criteria, its application was carried out with retroactive effect, which meant increasing the reserves account, with a charge to adjustments in equity, for the cumulative amount of the impairments net of tax.

Box 2. Evolution of Share Capital and Subordinated Debt

Million euros

	Original					2019			
	TOTAL	Capital	% capital	Subord.	% subord.	TOTAL	Capital (*)	Subord.	% Holding
FROB	**2,192**	**540**	**45,0%**	**1,652**	**45.9%**	**796**	**139**	**656**	**45.9%**
Banco Santander	806	207	17,3%	598	16.6%	387	68	319	22.3%
Caixabank	581	149	12,4%	432	12.0%	208	36	172	12.0%
Banco Sabadell	321	83	6,9%	238	6.6%	115	20	95	6.6%
Banco Popular	276	72	6,0%	205	5.7%				
Kutxabank	123	32	2,6%	91	2.5%	44	8	36	2.5%
Other	501	117	12,4%	384	13.2%	185	32	152	13.2%
Weight of private entities	54.3%	55.0%		54.1%		54.1%	54.1%	54.1%	
Weight of public entities	45.7%	45.0%		45.9%		45.9%	45.9%	45.9%	
TOTAL	**4,800**	**1,200**		**3,600**		**1,733**	**304**	**1,430**	

(*) Considering only the amount of the outstanding share capital, without considering reserves

Characteristics of the subordinated debt issued by Sareb

- The securities confer identical rights on their holders. They are freely transferable and are represented by book entries.
- Remuneration: they bear an 8% annual coupon payable if there is sufficient distributable profit or reserves.
- Maturity: full mandatory redemption is planned for 27 November 2027. Partial redemption is possible at Sareb's discretion from the fifth year after issuance, subject to compliance with certain capital adequacy and gearing ratios.
- Conversion: the subordinated debt will be convertible into capital if the Company has insufficient capital as a result of: i) the existence of accumulated losses equal to or greater than its share capital plus reserves; or ii) Sareb being in a situation of dissolution as a result of losses reducing its equity to below one-half of share capital. If the conversion takes place, the shares will have the same par value, be of the same class and series and have the same rights as the ordinary shares outstanding. Their amount will be such that the Company's share capital will represent 2% of the value of the assets following the conversion.
- Seniority: the convertible subordinated debentures are ranked in order of priority as follows: (i) junior to all of Sareb's general (senior) creditors; (ii) "*pari passu*" with any of Sareb's non-convertible or convertible subordinated debt already issued or that may be issued in the future, or any debt already incurred or that may be incurred in the future under any other security, and (iii) senior to the Company's preferred or ordinary shares.

3. IMPLEMENTATION OF THE TRANSFER

Transfer of assets

The transfer of the assets to Sareb, which was performed without the need to obtain the consent of third parties, required the Bank of Spain to determine their value beforehand.

Participating entities

The initial transfer of the assets, carried out in December 2012, was performed by the Group 1 institutions. In a second stage, undertaken in February 2013, Group 2 institutions transferred their assets (*).

Group 1	Group 2
BFA-Bankia	España-Duero
Catalunya Banc	BMN
NCG Banco	Liberbank
Banco Gallego	Caja3
Banco de Valencia	

(*) Institutions falling into Group 3 that were going to receive public aid were expected to carry out their transfers in February 2013, but in the end this was not necessary.

Perimeter Definition

> The categories of assets to be transferred would have to meet specific selection criteria, with all assets transferred subject to several common criteria. Accordingly, Royal Decree 1559/2012 set the categories of assets to be transferred:

- Properties foreclosed or acquired as payment of debts with a carrying amount of over 100,000 euros.
- The following credit rights whose carrying amount, following application of the valuation adjustments, was greater than 250,000 euros.
  - Loans or credit facilities to finance land for property development in Spain, or to finance construction or property developments in Spain, either in progress or completed, irrespective of their age or accounting classification, except those classified as loans written-off.
  - Participating loans granted to companies in the real estate sector or to companies related to them, irrespective of the age or accounting classification of the loans.
  - Other loans or credit facilities granted to holders of loans or credit facilities included in the first point.
- Properties and credit rights originating from companies in the real estate sector or from companies related to them.
- Instruments representing the capital of companies in the real estate sector or companies related to them when FROB deems the transfer advisable.

Price and payment method

> The Bank of Spain determined the value of the assets defined in the scope to be transferred, which is the transfer price.

> It did this on the basis of the real economic value (in the long term) of the assets taking the valuation made by Oliver Wyman in the stress tests under the MoU, depending on the estimated expected loss in the base scenario and applying certain additional valuation adjustments. These haircuts would take into account criteria such as unfavourable price trends, forecast expenses (management, administration, maintenance, finance cost, etc.) associated with holding the assets to be transferred, as well as the prospects for their divestment.

> The high volume of affected assets justified valuation by aggregate groups (portfolios that were grouped together by asset type), with individual asset valuations not being viable.

> By means of a resolution of its Executive Committee, the Bank of Spain determined the transfer prices for Group 1 banks on 27 November 2012 and for Group 2 banks on 13 February 2013. The transfer was carried out bank-by-bank as a whole and at a single price, without requiring any consent from third parties.

Implementation of the transfer

- Once the asset categories had been set by regulation and the price determined by the Bank of Spain, FROB issued the resolutions setting the deadline for the transfer and the conditions under which the assets included in each category were to be transferred to Sareb.
- For banks classified in Group 1, FROB resolutions were issued on 14 December 2012. On the basis of this resolution, Group 1 banks signed their respective asset transfer agreements with Sareb on 21 December. For Group 2 banks, FROB issued resolutions on 15 February 2013, with the corresponding transfer agreements signed on 25 February. The effective dates for the transfers were set as 31 December 2012 for Group 1 banks and 28 February 2013 for Group 2 banks.
- In aggregate terms, the transfer price totalled 50.78 billion euros, as broken down in Box 3.

Box 3. Transfer of assets to Sareb

	No. of assets	Gross amount (€m)	Transfer price (€m)
GROUP 1	**145,125**	**79,359**	**36,695**
BFA-Bankia	89,814	46,392	22,318
Catalunya Banc	29,425	16,496	6,708
NCG Banco (includes Banco Gallego)	17,887	10,408	5,707
Banco de Valencia	6,723	5,019	1,962
GROUP 2	**52,425**	**27,762**	**14,086**
España-Duero	18,115	6,510	3,137
BMN	16,214	10,953	5,819
Liberbank	14,120	5,981	2,917
Caja3	3,976	4,318	2,212
TOTAL	**197,550**	**107,121**	**50,781**

Data obtained from the 2012 annual accounts of the respective banks.

Rectification of the deeds

- Given the complexity and unique nature of the transfer process, a transitional period of 36 months following the transfer was established in order to identify and remedy previously regulated incidents, essentially errors or variations both in the scope and in the price of the assets. For this purpose, a thorough analysis was made of the assets transferred by means of a wide-ranging review and valuation of all of the assets in three stages: legal review, value review and transfer price review (the due diligence).
- To complete the due diligence procedure, Sareb selected, in line with free competition principles, a consortium of leading companies (legal firms, valuation firms, an audit firm and a technology provider), each of them a specialist in the areas being reviewed.
- After this review process was completed, the corresponding rectifications were made, resulting in the return of senior bonds, which were subsequently redeemed, representing a nominal value of 1.03 billion euros, with cash adjustments also made for 4.1 million euros.

Senior debt issues

A

Senior bonds were given in exchange, for the transferred assets

Payment for the assets was made with six debt issues at a nominal unit value of 100,000 euros, with terms of one, two and three years and the possibility of full or partial redemption through the issuance of new bonds. One of the essential features of these issues is the discretionary power of the issuer (Sareb) to renew the issues at each maturity date.

B

The issues are guaranteed by the government

In order for the transfer to be effective with regard to the objective of reducing any uncertainty about the viability of the transferors, it was vital for the asset transfer to entail the effective transfer of the risks associated with those assets. For this purpose, the bonds were issued with an unconditional and irrevocable guarantee from the central government, waiving the benefit of excussion, such that if Sareb were unable to generate sufficient liquidity to redeem the issues, said guarantee would be activated.

C

Las emisiones devengan un tipo de interés variable

The remuneration on said bonds is indexed to 3M Euribor plus a spread, which would be set at each issue date and would be the same throughout the life of the issue. This spread was set as the sum of the asset swap of equivalent term issues by the Spanish Treasury (market spread of the Spanish Treasury) plus the 3-6 month basis swap, with a maximum of 200 basis points.

Box 4. Senior bond issues

ISIN	Issue	First maturity	Nominal (€m)
ES0352506002	SAREB BONOS SÉNIOR 2012-1	31/12/2013	11,008
ES0352506010	SAREB BONOS SÉNIOR 2012-2	31/12/2014	16,513
ES0352506028	SAREB BONOS SÉNIOR 2012-3	31/12/2015	9,174
ES0352506036	SAREB BONOS SÉNIOR 2013-1	28/02/2014	4,226
ES0352506044	SAREB BONOS SÉNIOR 2013-2	28/02/2015	6,339
ES0352506051	SAREB BONOS SÉNIOR 2013-3	28/02/2016	3,522
TOTAL			50,781

4. LEGAL REGIME AND GOVERNANCE STRUCTURE

Sareb, as an asset management company, has a very specific regulation which is aimed at meeting the objectives laid down by law. Pursuant to this law, Sareb is set up as a public limited company that has certain specific features resulting from its unique corporate purpose and the public interest arising out of its activity, with the establishment of different governing bodies in addition to those provided for all public limited companies.

In accordance with Sareb's legal regime, the Bank of Spain is responsible for its supervision and the Monitoring Committee for analysing compliance with its general objectives.

In addition, the company itself has imposed certain corporate governance standards that are more demanding than those provided for in ordinary corporate legislation

Governing bodies

- General Meeting: may only include FROB, credit institutions, financial institutions and entities determined by regulation.
- Board of Directors: comprised of 15 members, nine of which are proprietary, five are independent and one is an executive director.
- Executive Committee: set up in March 2017 in order to give greater operational flexibility to the company's recurring issues (non-related business issues and issues that do not have a material accounting impact and establishment of plans aimed at achieving the budget, providing they are not strategic). The composition of this committee replicates the representation of the Board.
- Audit Committee and Remuneration and Appointments Committee: made up exclusively of external directors with a minimum number of three and a maximum of nine, with a majority of independent directors.
- Support Committees: Management Committee, Risk Committee, Investment Committee, and Assets and Liabilities Committee.

Supervision and monitoring regime

- Supervision: Sareb is subject to supervision by the Bank of Spain, which is responsible for monitoring compliance with:
  - The exclusive corporate purpose of Sareb, identifying any deviations that may endanger the achievement of the legally provided aims.
  - Compliance with the requirements of the transferred assets.
  - Compliance with rules relating to transparency and the establishment and composition of governing and control bodies.
- Monitoring Committee: monitors compliance with Sareb's general objectives. Its more specific functions include analysing the company's business plan and any possible deviations, as well as monitoring plans for divestment and repayment of the guaranteed debt. The Monitoring Committee comprises four members appointed by the Ministry of Economic Affairs and Competitiveness (1), by the Ministry of Finance and Public Administration (1), by the Bank of Spain (1) and by the CNMV (1). The Committee may agree to representatives from other public institutions or national or international bodies attending its meetings as observers.

Other forms of accountability: activity report and compliance report

- On a half-yearly basis, the company prepares an activity report detailing the essential data on its activity during the corresponding period, the level of compliance with the objectives set out in this business plan and the reasons that explain any deviations from said objectives. This report is submitted to the Bank of Spain and the Monitoring Committee.
- On an annual basis, an independent expert draws up an independent compliance report, which aims to assess the extent to which Sareb's activities and strategies are aligned with the general objectives for which it was incorporated. One of the most significant aspects of the compliance report relates to the expert's review of the business plan and its assumptions and whether it is consistent with and appropriate to Sareb's general objectives.

5. RECORD TO DATE

Activity

As has been indicated, the transfer process essentially focused on two types of assets - real estate assets and credit rights linked to the real estate sector. At the time of the transfer, the portfolio received amounting to 50.78 billion euros was made up of 22% real estate assets and 78% financial assets.

Asset management

- Given the need for Sareb to start managing its assets as soon as they were received and the temporary difficulty of giving the company a strong operating structure, in addition to the transfer agreements, asset management agreements were signed with the nine transferor banks.
- Over time, several of the banks that provided the management service to Sareb sold their real estate platforms to third parties. This led to the appearance in the Spanish market of new managers specialised in real estate management with the capacity to handle large portfolios.
- Accordingly, on expiry of the initial management agreements in December 2014, Sareb organised a tender process to select the specialised entities which would manage its assets by means of a professional and efficient service. Following a competitive process, in November and December 2014, Sareb awarded the service of administration, management and sale of its assets to four servicers: Haya Real Estate, Altamira Asset Management, Servihabitat and Solvia.
- The agreements, with terms of between five and seven years, focused on asset management that would strengthen the retail market, an area which Sareb deemed to be strategic to maximise sale prices.

Balance sheet transformation process

- Given its particular composition, Sareb's portfolio undergoes constant transformation as a result of the evolution of the financial assets (loans) into real estate assets, which is the result of dations in payment or foreclosures, which allow a less liquid asset to be transformed into a real estate asset, which is easier to sell on the market.
- The balance of the real estate assets in gross terms has undergone periods of growth from one year to another. This is a result of the transformation process of the balance sheet, which consists of converting financial assets into real estate assets as it is easier to divest such assets.

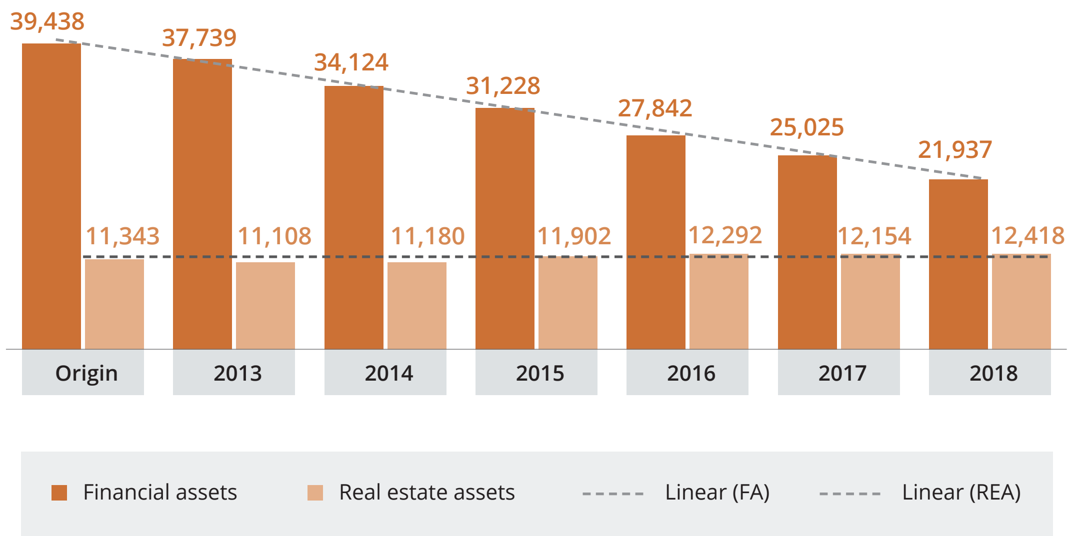
Business plan

- Sareb updates its business plan on an annual basis, adapting the company's strategy towards maintaining the economic value of its assets.
- The current strategic lines of the business plan are based on:
    - Implementation of a new relationship model with its servicers, specialising in the value chain, centralisation of information in Sareb and territorial organisation for management.
    - Specialised management of the real estate development activity.
    - Intensification of the transformation of the balance sheet, accelerating the process of converting loans into real estate, given the conditions of the loan and real estate markets. This involves a reduction in income from financial assets in a transitional period in exchange for greater value protection and recovery through more profitable collateral in the long term.

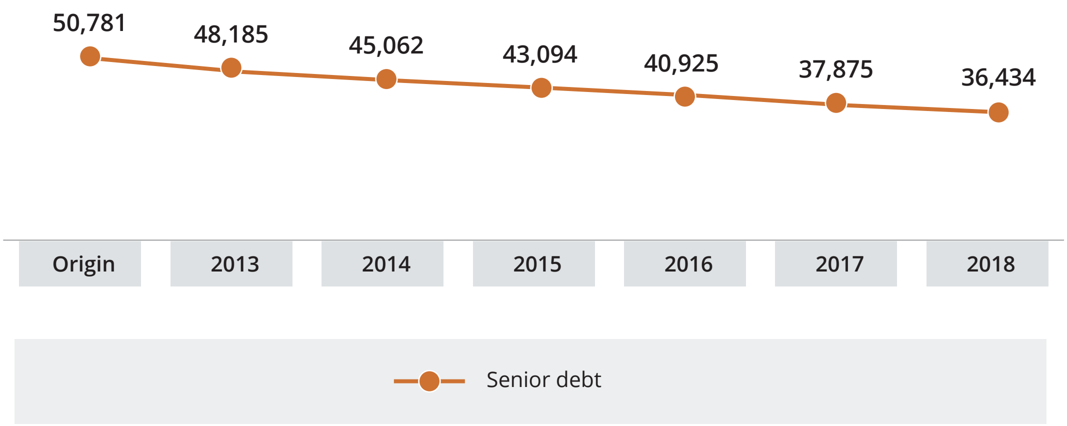
Key highlights since its incorporation

From its incorporation up to year-end 2018, the key highlights of Sareb were as follows:

- It reduced its portfolio by more than 16.4 billion euros (on the transfer price of 50.78 billion euros), almost 30% of the total amount received:



- It has generated through its ordinary divestment activity close to 24.35 billion euros of income, notably:
  - Sale of over 89,400 properties in the retail market
  - 7,552 properties for rent, of which 87% are residential and the rest are in the tertiary sector.
  - A total of 63,437 proposals for agreements with debtors have been processed.
  - It has approved the building of 6,958 properties by means of land development projects or through completion of building work that was unfinished.
- It has repaid senior debt issued for payment of the assets for around 14.35 billion euros, 28% of the total (without considering the almost 700 million euros repaid in 2019). It has also settled the interest on said senior debt, paying close to 2.8 billion euros in interest. Evolution of the senior debt:



Social commitment

Social responsibility

- Sareb's social responsibility revolves around the following objectives:
  - Alleviating the situation of groups at risk of exclusion, by granting aid to social housing and to groups in a situation of social emergency, implemented by means of agreements with regional governments and local councils.
  - Providing alternative affordable rents, with the aim of offering alternatives to the processes for regaining possession of the assets to particularly weak groups.
  - Granting aid to entrepreneurs, in collaboration with local councils, with the aim of combating unemployment.
- Sareb has provided different institutions with a pool of 4,000 properties intended for social purposes, after signing the corresponding agreement. In this regard, Sareb has concluded different agreements for the assignment of properties, benefiting around 6,000 people through social housing programmes.

SECTION III

10 years of FROB in figures

Public support granted

The main figures of the public financial support resulting from FROB's interventions over its ten years of activity are detailed below. In order to understand the volume and nature of these figures, they are presented in an aggregated, disaggregated and comparative manner according to different parameters. Information is also included on the amounts that have already been recovered. However, the recovery process is still ongoing and will depend on the evolution of the holdings and guarantees that are still outstanding, with regard to which an accounting estimate is presented.

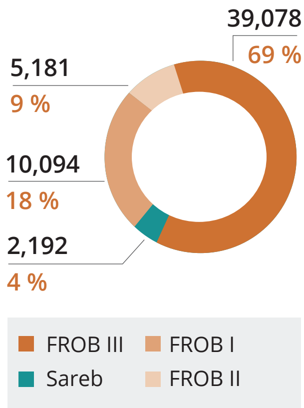
Unless otherwise indicated, the figures are expressed in million euros (€m).

Overview

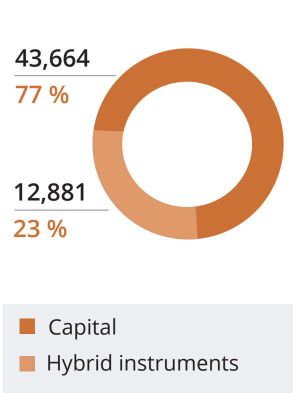
Since its creation, FROB...

...has granted
€56.55bn
in aid for
RECAPITALISATION

By type of intervention



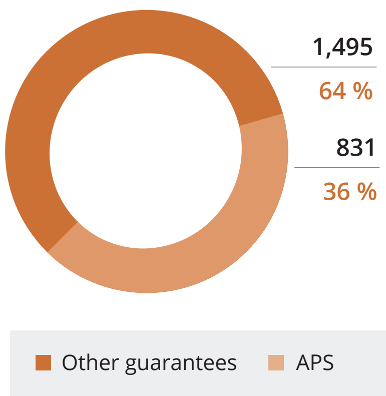
By type of aid



Recapitalisation

This includes the aid effectively provided to the banks for their recapitalisation either through contributions to capital or through subscription of hybrid instruments (preferred shares, contingently convertible instruments – CoCos – or equity units in Spanish savings banks).

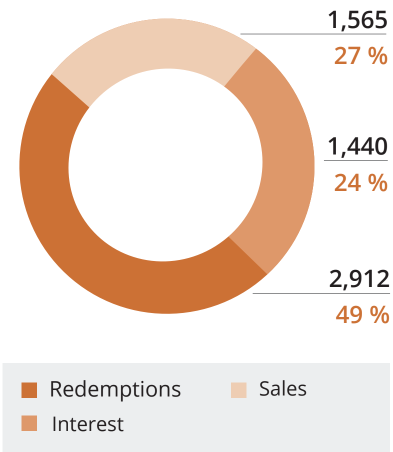
...has committed
€2.33bn
as GUARANTEES



Guarantees

FROB provided guarantees with the aim of maximising the sale price in sale and integration processes. The guarantees covered very different contingencies. Some were aimed at limiting the volume of losses with regard to certain loan portfolios; others had the aim either of eliminating certain risks for the buyer or sharing the cost of certain disputes or contingencies with the buyer. The breakdown differentiates between the current estimated cost of the asset protection schemes (APS) and the other guarantees.

...has so far recovered
€5.92bn
from these processes



Recoveries

The figure breaks down: i) the amounts recovered from the processes through redemption of preferred shares, equity units and CoCos; (ii) the amounts obtained from sales of investees, iii) the remuneration from interest on the subscribed debt instruments and from fees. The aid ultimately recovered will depend on the evolution and final divestment of the investees (BFA-Bankia and Sareb). This chart does not include the amounts obtained from the sale of 7.5% of Bankia in February 2014 and 7% in December 2017 (€2.12b), or the dividends for 2014 to 2018 (€961m), since they remain with BFA, the bank's parent company.

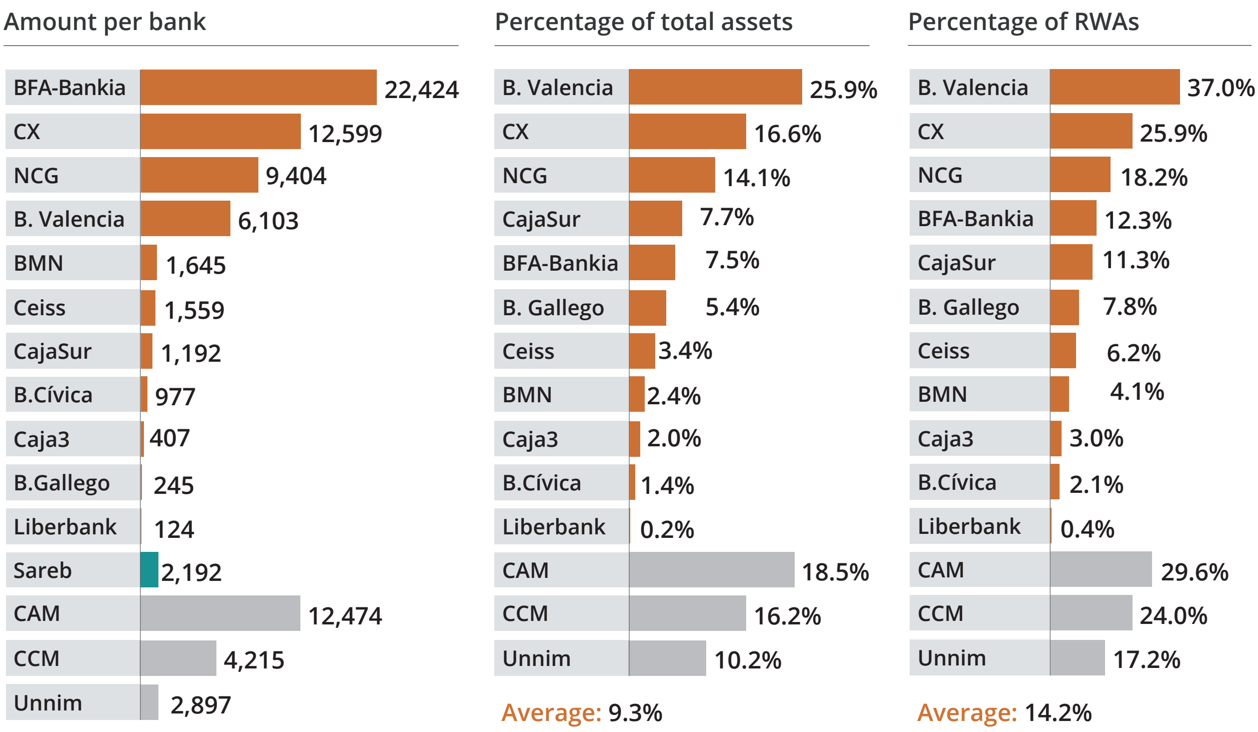
Breakdown of the aid provided and recovered by item and bank

€m	Aid Support provided							Amount Recovered			
	RECAPITALISATION			GUARANTEES			TOTAL	Redemptions of hybrid instruments	Sale of Shares	Interest and Fees	TOTAL
	Capital	Hybrid Inst.	Total	APS	Other guarantees	Total					
BFA-Bankia	17,959	4,465	22,424	-	-	-	22,424	-	-	346	346
CX	10,802	1,250	12,052	-	547	547	12,599	-	782	99	881
CAM*	-	-	-	-	-	-	-	-	-	34	34
NCG	7,890	1,162	9,052	-	352	352	9,404	-	783	90	873
B. Valencia	5,498	-	5,498	439	166	605	6,103	-	-	42	42
Unnim*	-	-	-	-	-	-	-	-	-	34	34
BMN	730	915	1,645	-	-	-	1,645	-	-	143	143
Ceiss	-	1,129	1,129	-	430	430	1,559	604	-	322	926
CajaSur	-	800	800	392	-	392	1,192	800	-	3	803
B. Cívica	-	977	977	-	-	-	977	977	-	165	1,142
Caja3	-	407	407	-	-	-	407	407	-	143	550
B. Gallego	245	-	245	-	-	-	245	-	-	-	-
Liberbank	-	124	124	-	-	-	124	124	-	19	143
Sareb	540	1,652	2,192	-	-	-	2,192	-	-	-	-
TOTAL	43,664	12,881	56,545	831	1,495	2,326	58,871	2,912	1,565	1,440	5,917

* The cost of these processes was fully covered by the Deposit Guarantee Fund (DGF)

Financial support in perspective

Total aid granted



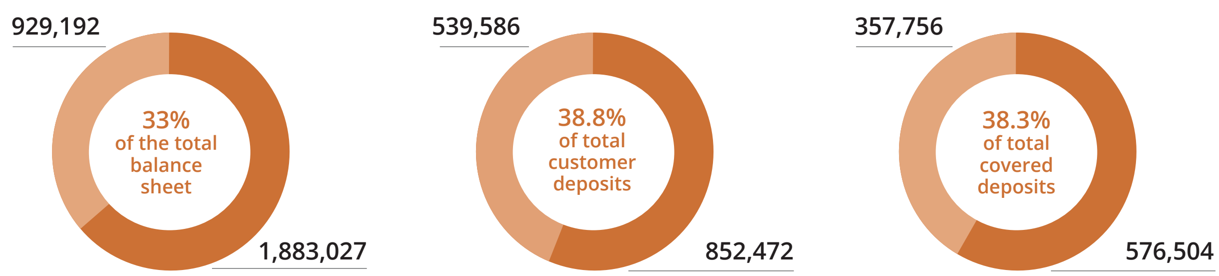
FROB Aid
DGF Aid
Support to Sareb

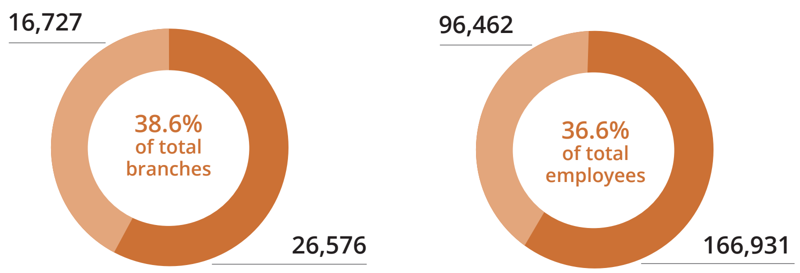
The information on total assets and risk-weighted assets (RWAs) refers to 31 December 2010, with the exception of the data of Banco CAM and of Liberbank, which uses information from 31 December 2011.

Source: Bank of Spain and author.

Total processes managed by FROB in relation to the total Spanish banking system

FROB has managed processes of institutions in the banking system that represented...





Amounts of the restructured credit institutions

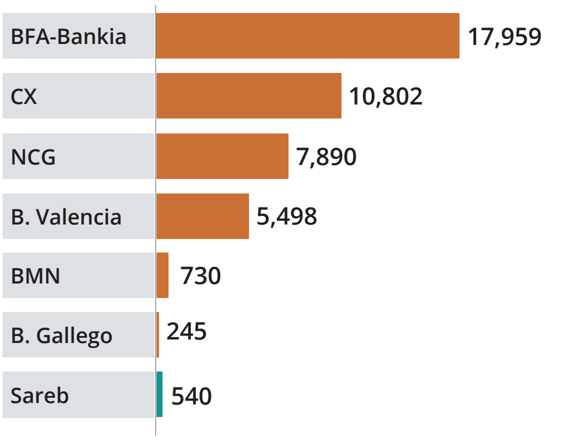
Amounts of the credit institutions of the sector excluding the restructured institutions

Information relating to 31 December 2010.
Source: Bank of Spain and author.

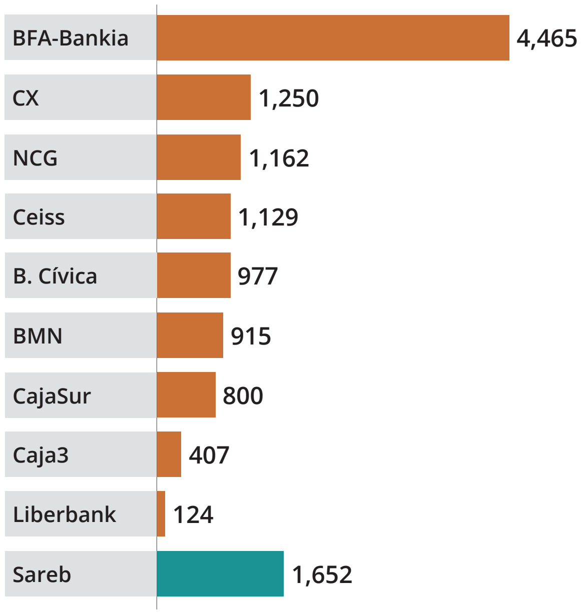
By instrument and type of guarantee

Distribution of aid granted by FROB by type of instrument

Capital injections

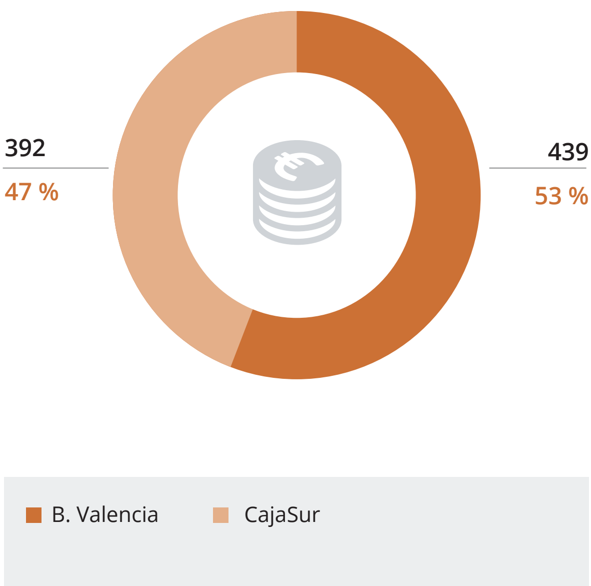


Subscriptions of hybrid instruments

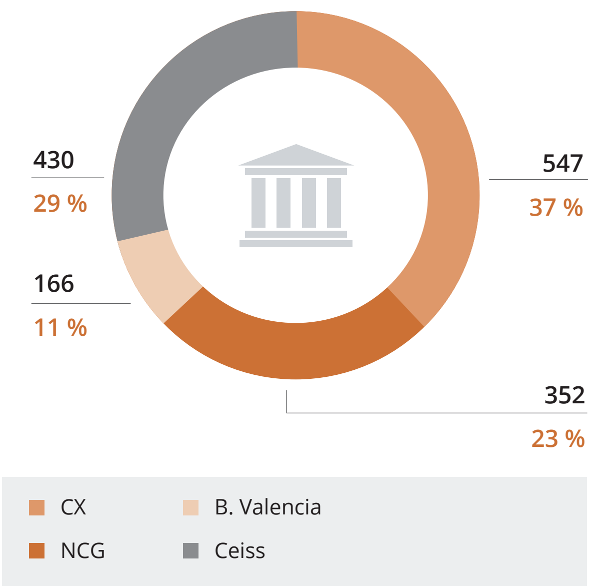


Distribution of aid granted by FROB by type of guarantee (*)

APS



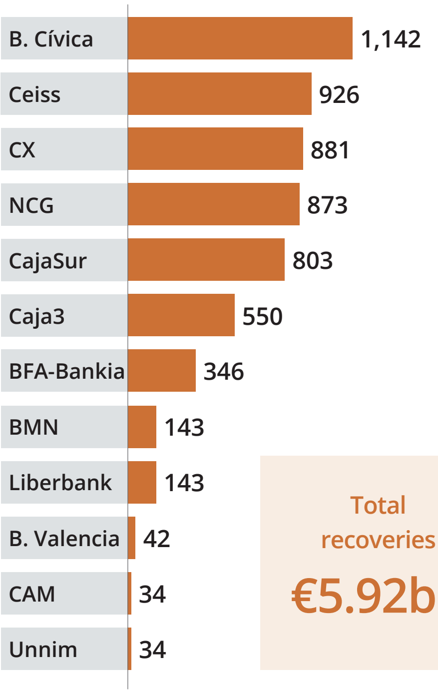
Other guarantees



(*) Includes the current estimated cost of the guarantees. At the date of this report, some guarantees remain in force. Therefore, the total definitive cost will not be known until all the guarantees have expired.

Amount recovered

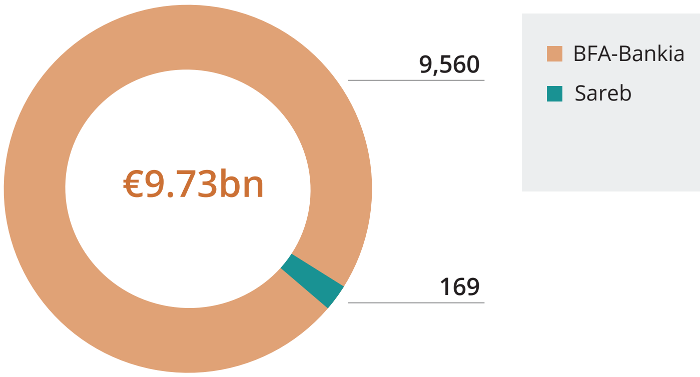
Amount recovered by bank



Total recoveries

€5.92bn

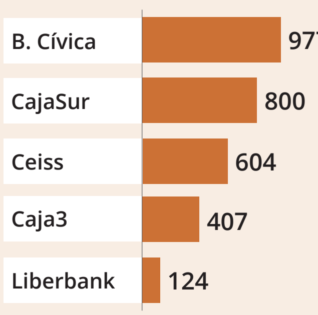
Accounting estimate of recoverable aid (*)



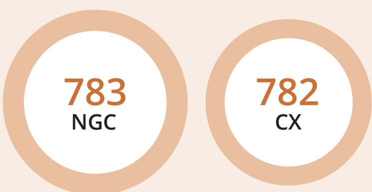
At year-end 2018, the valuation of the two FROB investees according to accounting criteria, BFA-Bankia and Sareb, was 9.73 billion euros.

(*) The aid ultimately recovered will depend on the evolution and final divestment of the FROB investees (BFA-Bankia and Sareb).

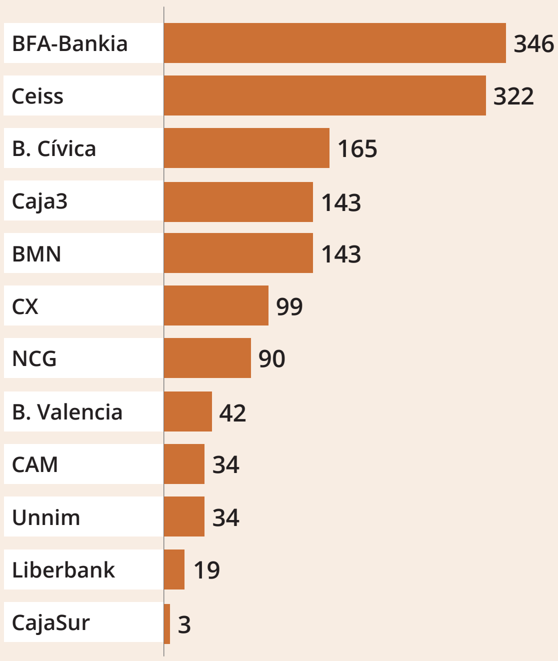
Recoveries due to redemption of hybrid instruments



Recoveries due to sale of shares



Recoveries due to interest and fees received



Support granted by the Deposit Guarantee Fund

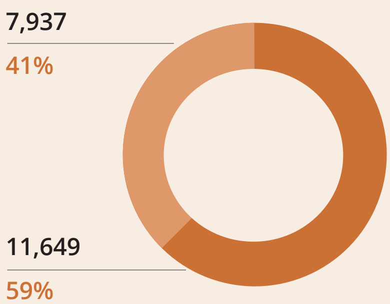
The DGF contributed to FROB, in its creation, €2.25bn in the form of capital.

In addition, it has financially supported three restructuring processes...

...granting **€7.94bn** in aid to **RECAPITALISATION**

...committing resources estimated at **€11.65bn** as **GUARANTEES**

By type of aid



APS   Recapitalisation

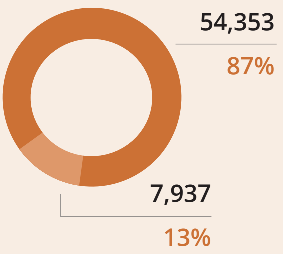
By bank

	Unnim	CCM	CAM
Recapitalisation	948	1,740	5,249
Guarantees (APS)	1,949	2,475	7,225
Total	2,897	4,215	12,474

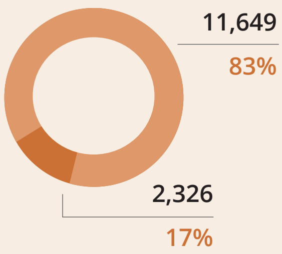
CAM   CCM   Unnim

Comparison of FROB-DGF aid to credit institutions

Recapitalisation



Guarante



FROB (*)
DGF

(*) Excluding amounts contributed to Sareb.

In addition, the DGF purchased shares from retail customers of NCG Banco and Catalunya Banc to provide them with liquidity following the exchange for their hybrid instruments:

- NCG Banco: In 2013, the DGF purchased shares accounting for 25.58% of the capital for €802m. This holding was sold in 2014 for €290m. The estimated cost of the guarantees provided in the sale corresponding to the holding of the DGF amounts to €144m.
- Catalunya Banc: In 2013, the DGF purchased shares accounting for 32.39% of the capital for €1,001m. This holding was sold in 2015 for €383m. The estimated cost of the guarantees provided in the sale corresponding to the holding of the DGF amounts to €269m.

In addition, the DGF has recovered around €219m as a result of income from fees and interest of the APS and sales of assets received by the supported banks.

Liquidity support

Guarantees granted by the State for issuing debt and other support for liquidity

The State, in line with similar measures at an international level, adopted general programmes to boost the liquidity of financial institutions **for a total of €181.01bn.**

- Royal Decree Law 6/2008 of 10 October, created the Financial Asset Acquisition Fund (FAAF), used to acquire high quality instruments issued by credit institutions secured by new loans to individuals, companies and non-financial entities, with the aim of using said liquidity to finance companies and individuals.
- In addition, Royal Decree Law 7/2008, of 13 October, and Royal Decree-Law 20/2011, of 30 December, allowed the establishment of three programmes granting guarantees to debt issues made by credit institutions (2008, 2009 and 2012 programmes).

	Total	Repaid	Outstanding balance
Guarantees to credit institutions (1)	110,895	110,895	-
Use of the FAAF (2)	19,335	19,335	-
Guarantee to Sareb	50,781	15,020	35,761 (3)
Total	**181,011**	**145,250**	**35,761**

(1) The guarantees granted were never enforced.
(2) Initially endowed with €30bn (extendable to €50bn) charged to the General State Budget.
(3) Outstanding balance at 30 June 2019.

Lines of liquidity granted by FROB

As part of the restructuring processes which included financial support, FROB approved measures aimed at temporarily supporting the liquidity position of certain institutions by granting credit lines for a total amount of **€6.9bn.**

	Total available	Currently drawn down (4)	Date of granting	Situation
CajaSur	1,500	-	May-10	Cancelled
CAM	3,000	-	Jul-11	Cancelled
B. Valencia	2,000	-	Nov-11	Cancelled
CX - FTA	400	8	Apr-15	In force
Total	**6,900**	**8**		

(4) Balance at 30 June 2019.

Resources used

The main figures associated with the procurement of funds and the costs of FROB's actions are described below. The financial support for recapitalisations was financed through financial contributions from the General State Budget and, to a lesser extent, from the Deposit Guarantee Fund. There were also debt issuances and financing through a loan granted by the Treasury under the European financial assistance programme, with conditions that mirrored the loan granted by the ESM to the Kingdom of Spain. The funds were mainly distributed through capital injections and subscriptions of convertible instruments as described in the section above.

Obtaining funds

FROB was initially endowed with public resources from the General State Budget and with resources from the DGF. In addition over the years it has been financed through debt issuances with State guarantee (currently all redeemed) as well as a State loan in 2012 to execute the European assistance programme recapitalising Spanish credit institutions.

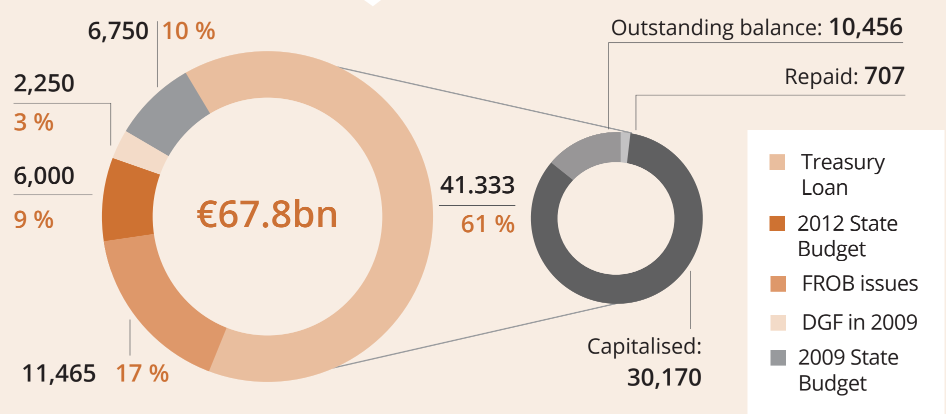
EVOLUTION OF CASH FLOWS

Funds raised
€67.8bn

Repayment Issues
€(11.47)bn

Repayment Treasury Loan
€(707)bn

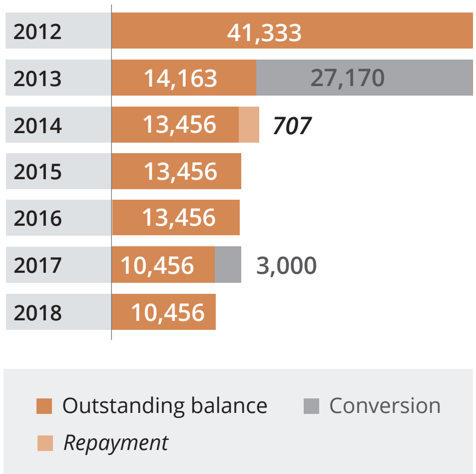
Net funds
€55.63bn



Of the funds received, **€45.17bn was allocated to FROB's equity.**

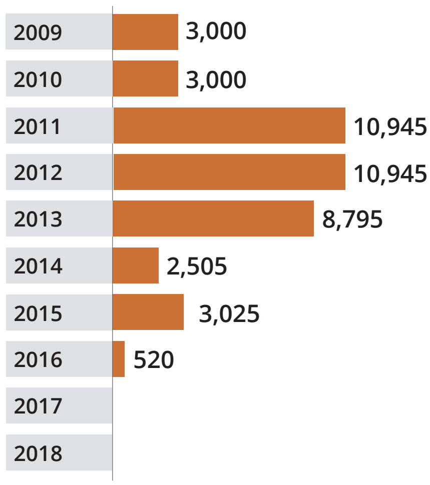
- **€42.92bn** charged to public funds: (i) contributions to the creation of FROB for €6.75bn; (ii) complementary contribution in 2012 for €6bn; and (iii) partial conversions of the Treasury loan for €30.17bn.
- **€2.25bn** contributed by the DGF for the creation of FROB (share liquidated in 2012 due to the net worth position of FROB at year-end 2011).

Treasury Loan



In December 2012, FROB and the Kingdom of Spain signed a loan agreement to channel the funds from the ESM loan. In 2013 and 2017, there were two partial capitalisations of the loan for an aggregate amount of €30.17bn, with the outstanding balance currently amounting to €10.46bn.

Issues (*)



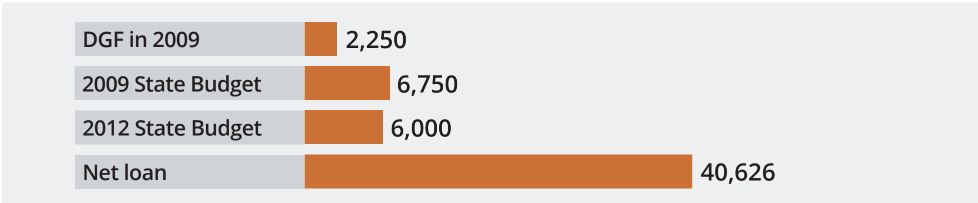
(*) The amounts refer to the outstanding balance of the issues at the end of each year.

FROB has issued bonds to finance itself for close to €11.5bn with the last ones redeemed in 2017.

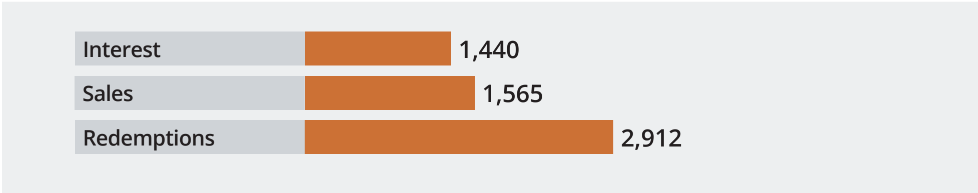
Use of funds

In addition to the funds raised, FROB has obtained revenues from its restructuring activity. This income includes the flows resulting from the divestment of the investees, the redemption of hybrid instruments and the interest and fees received.

Net funds
€55.63bn



Recoveries
+€5.92bn



Restructuring Activity
€(58.28)bn

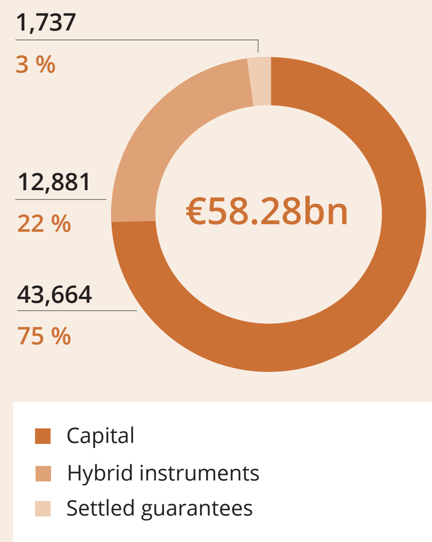
The contributions of FROB to the banking system were deployed in three successive actions over time (FROB I, II, and III) and by means of different instruments. In addition, in the bank sale or integration processes, other financial support measures were granted in the form of guarantees or asset protection schemes. In order to perform this activity, FROB had to meet the cost resulting from its negative interest margin, as well as current structure expenses and other costs.

Ordinary Activity
€(2.07)bn

CASH available at year-end 2018
€1.19bn

Restructuring activity

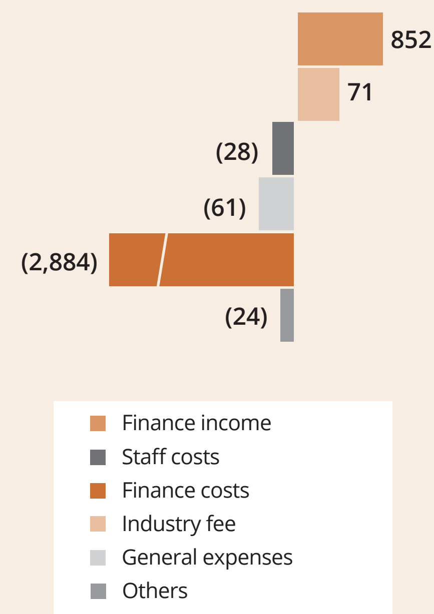
Recapitalisation and settled guarantees €58.28bn



At 31/12/18, there are unsettled guarantees with an estimated cost of €589m.

Ordinary activity

Negative ordinary margin €2.07bn



Equity impact of FROB's activity

The funds received generated equity of €45.17bn to perform the restructuring activity and the ordinary activity.

Both activities resulted in a negative impact on equity of €45.64bn, with book equity at 31 December 2018 standing at a negative amount of €470m.

EVOLUTION OF EQUITY

Equity prior to application of losses

€45.17bn

Accumulated profit (loss) 2009-2018

€(45.64)bn

Equity at 31/12/2018

€(470)m

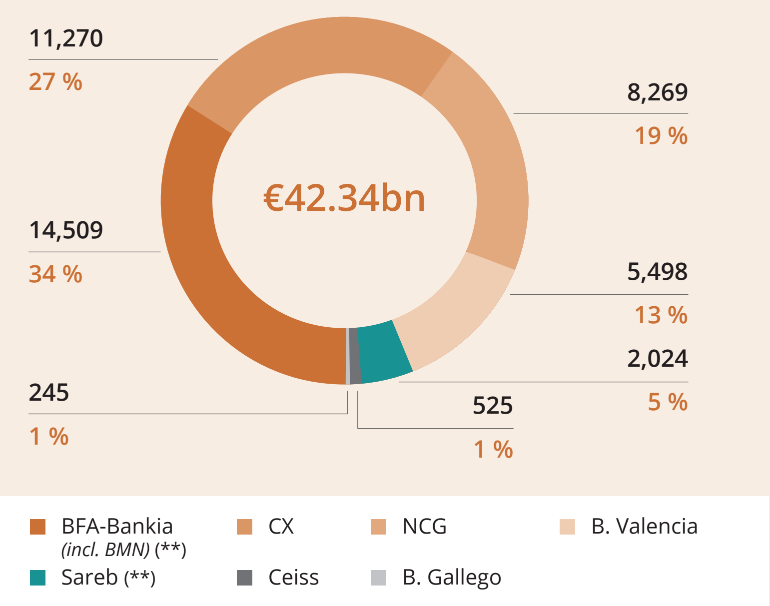
Summarised aggregate income statement

	Period 2009-2018
Revenue from Industry fee	71
Operating expenses	(89)
Impairment of holdings	(42,340)
Provision for guarantees	(2,326)
Finance income (*)	2,292
Finance costs	(2,884)
Other items	(268)
Other impairment	(96)
PROFIT (LOSS) FOR THE YEAR	**(45,640)**

(*) Includes interest on hybrid instruments amounting to €1.44bn.

FROB's aggregate income statement yields a negative amount of €45.64bn, of which €42.34bn corresponds to accounting impairment recognised in the valuation of the investees and the hybrid instruments resulting from the restructuring activity performed by FROB.

Impairment of investees and hybrid instruments

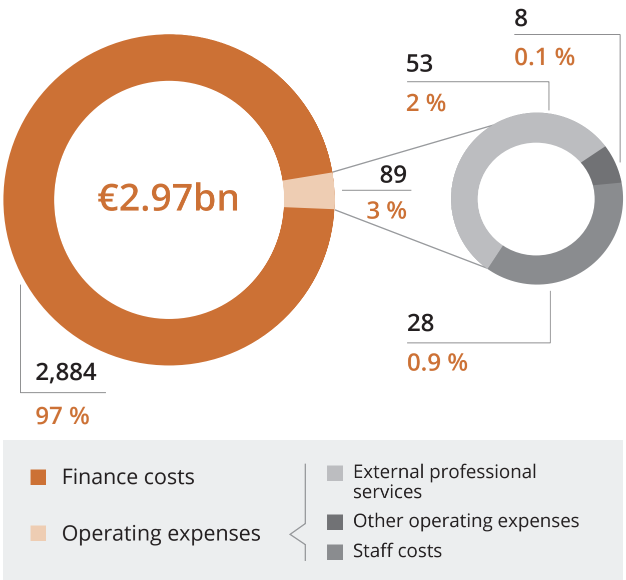


(**) Non-definitive

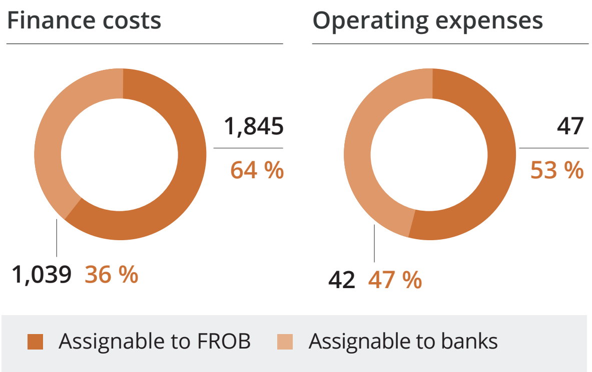
Expenses incurred

Since its creation, FROB has incurred expenses of around €3 billion, divided between costs incurred for its funding and operating costs.

Finance and operating costs



The total costs incurred may be classified between those directly associated with each bank and the costs necessary for the running of FROB and which cannot therefore be allocated to a specific process.



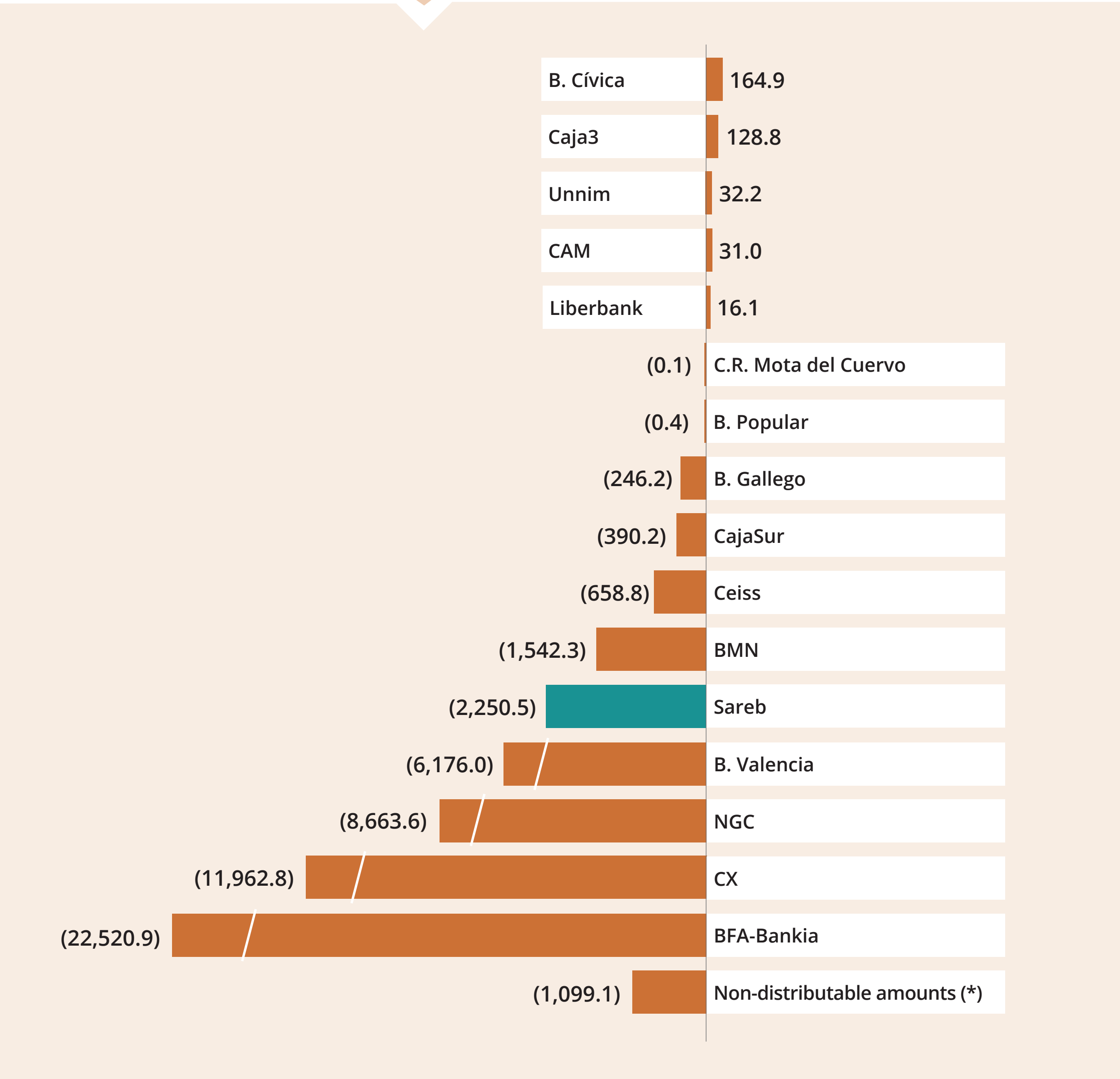
Approximate distribution of costs associated directly with each bank

Million euros	TOTAL	FINANCE COSTS	OPERATING EXPENSES			
			Legal	Bank representatives	Advisers	Other
BFA-Bankia	442.96	439.98	0.57	0.05	2.36	-
CX	231.86	224.87	0.26	2.40	3.39	0.95
CAM	2.57	-	0.10	1.37	1.10	-
NCG	139.56	132.91	1.13	2.25	3.26	0.01
B. Valencia	116.39	110.25	1.46	1.38	3.25	0.05
Unnim	2.50	-	0.10	0.90	1.50	-
BMN	40.73	37.86	0.25	1.17	1.46	-
Ceiss	25.72	22.29	0.08	-	3.35	-
CajaSur	1.73	-	0.07	1.05	0.60	-
B. Cívica	0.02	-	0.02	-	-	-
Caja3	14.39	13.20	0.01	-	1.17	-
B. Gallego	1.22	-	0.04	0.13	1.05	-
Liberbank	2.93	1.32	-	-	1.60	-
Sareb	58.35	56.52	-	-	1.75	0.08
C.R. Mota del Cuervo	0.11	-	-	0.09	0.02	-
Banco Popular	0.38	-	0.07	-	0.30	0.01
TOTAL	**1,081.43**	**1,039.19**	**4.19**	**10.78**	**26.16**	**1.10**

In addition, in the framework of the mechanism by which the DGF acquired shares in NCG Banco and Catalunya Banc from retail customers in order to provide them with liquidity after the subordinated liabilities exercise, for an amount of €802m and €1,001m, FROB agreed to compensate the DGF for the loss that its investment may suffer as a consequence of the negative impact on the banks resulting from the mis-selling of such instruments. The cost associated with this agreement totals 72 million euros for NCG Banco and 73 million euros for Catalunya Banc.

Distribution of costs

The restructuring processes have led to a cost for FROB, in net terms, associated with each bank that amounts to a total of €55.14bn, of which €54.04bn are directly attributable to the banks and €1.1bn, being inherent to the processes of the banks, are not distributable.



(*) Costs not attributable to specific banks.

These amounts mainly comprise the following items:

- The total amounts of the aid (recapitalisations and cost of guarantees) net of recoveries.
- The amounts of finance income and costs that are directly attributable to the banks.
- The amounts of operating revenue and expenses that are directly attributable to the banks.

They do not include the operating costs associated with the running of FROB (staff, leases, utilities, etc.), or the accounting estimate of the aid recoverable from FROB's outstanding holdings (BFA and Sareb).

FROB

Spanish Executive Resolution Authority