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Spain – Fondo de Reestructuración Ordenada Bancaria (FROB) Capital Injections[1]

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Yale Program on Financial Stability Case Study
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Abstract

The Spanish government created the Fondo de Reestructuración Ordenada Bancaria (FROB), known in English as the Fund for Orderly Bank Restructuring (FROB) in 2009 to perform temporary capital injections that facilitated the restructuring and mergers and acquisitions of struggling institutions. The FROB used preferred shares, ordinary shares, and contingent convertible bonds to recapitalize struggling Spanish credit institutions. The FROB injected a total of €54.4 billion of capital in three rounds. FROB I in 2010 injected capital to support the mergers of 25 insolvent regional savings banks, or cajas, into seven larger, more solvent banks through the subscription of convertible preferred shares. FROB II in 2011–12 recapitalized struggling banks, including three of those seven merged banks, using ordinary shares. FROB III in 2012–13 recapitalized banks that had failed a stress test by subscribing shares and purchasing contingent convertible bonds. In 2012, the government gave FROB resolution powers and created an asset management company, Sareb, of which FROB owns 45%. As of December 2018, the FROB still was holding shares of a number of institutions. The FROB's timely capital injections helped capitalize Spanish banks and prevent a systemically damaging insolvency, but it had incurred losses as of the end of 2018.

Keywords: capital injections, FROB, Global Financial Crisis, Sareb, Spain, recapitalizations, resolution

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[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to broad-based capital injection programs. Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Spain – Fondo de Reestructuración Ordenada Bancaria (FROB) Capital Injections

At a Glance

Spanish banks experienced substantial losses on real estate loans during the global financial crisis in 2009. Concerns about regional savings banks, or *cajas*, and their exposure to real estate were realized in the failure of Caja Castilla-La Mancha. This spurred the Spanish government to create the Fondo de Reestructuración Ordenada Bancaria (FROB), known in English as the Fund for Orderly Bank Restructuring.

In 2010, the FROB subscribed preferred shares in many cajas, facilitating their mergers and sales, which resulted in larger, more stable, and more solvent institutions. This set of injections is known as FROB I. The passage of Royal Decree-law 2/2011 allowed the FROB to recapitalize insolvent institutions through the purchase of ordinary shares. The FROB could also require them to submit plans to maintain compliance with capital requirements. Injections made in 2011–12 adhered to this law and Spain's new capital requirements, and constituted FROB II. In 2012, the Spanish government gave the FROB powers to restructure banks via the purchase of contingent convertible securities (CoCos) as well as preferred and ordinary shares. Spain also made FROB a resolution authority and established Sareb, an asset management company or "bad bank." These policies were pursuant to a Memorandum of Understanding (MoU) between Spain and the European Commission, which recommended plans for resolution and troubled asset purchases in Spain's financial stability framework. The MoU required an independent consultant to perform a stress test on major Spanish banks and group them into categories of solvency. The FROB made a series of capital injections into banks that failed this stress test in 2012–13 (FROB III), using shares and CoCos.

Summary of Key Terms	
Purpose: FROB made capital injections to restructure credit institutions that could not independently address their weaknesses and reinforce the resources of credit institutions participating in mergers and acquisitions. It later executed the resolution processes of failing credit institutions and investment firms.	
Announcement Date	June 27, 2009
Operational Date	June 27, 2009
End of Issuance Window	No explicit window
Legal Authority	Initial: Royal Decree-law 9/2009 Current: Law 11/2015
Peak Utilization	€ 54.4 billion (BdE 2017a, 237)
Participants	Several
Administrators	Bank of Spain; deposit guarantee funds; Ministry of Economy and Finance

Summary Evaluation

The FROB ultimately made €54.4 billion in capital injections, on which it posted losses of €42.6 billion as of the end of 2018 (Appendices 8 and 9). It also holds a 45% stake in Sareb. The FROB's capital injections were generally successful in capitalizing and stabilizing the banking sector and preventing a destabilizing insolvency in the banking sector. The FROB now has the power to resolve institutions, in line with Europe's Single Resolution Mechanism.

Spain Context 2012–2013	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$1.326 trillion in 2012 $1.355 trillion in 2013
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$28,324 in 2012 $29,060 in 2013
Sovereign credit rating (five-year senior debt)	Data for 2012: Moody's: Baa3 S&P: BBB– Fitch: BBB Data for 2013: Moody's: Baa3 S&P: BBB– Fitch: BBB
Size of banking system	$2.577 trillion in 2012 $2.518 trillion in 2013
Size of banking system as a percentage of GDP	194.34% in 2012 185.80% in 2013
Size of banking system as a percentage of financial system	Data not available for 2012 Data not available for 2013
Five-bank concentration of banking system	70% in 2012 77% in 2013
Foreign involvement in banking system	2% in 2012 0% in 2013
Government ownership of banking system	Data not available for 2012 Data not available for 2013
Existence of deposit insurance	100% insurance on deposits up to $133,333 in 2010 100% insurance on deposits up to $137,830 in 2013
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

I. Overview

Background

Prior to the Global Financial Crisis, the Spanish economy was dealing with rapidly growing private sector debt, weak competitiveness, and other imbalances (IMF 2012b). In early 2009, Spanish banks began to face liquidity shortages and falling real estate values during the Global Financial Crisis (Official State Bulletin 2009). The resulting credit tightening was especially difficult for small businesses and households, which were already suffering from the deterioration of the international crisis in October 2008. Spanish financial institutions had made it through the early stages of the crisis in late 2007 and early 2008 without encountering serious problems (BdE 2017a). As the crisis worsened and bank liquidity problems became more severe, leading to a shortage of credit, Spain established emergency programs, including a temporary state guarantee scheme of up to €100 billion that guaranteed bank liabilities and a Financial Asset Acquisition Fund (FAAF) of up to €50 billion to purchase high-quality financial assets to support medium-term bank funding (Mayer Brown 2009).

In 2009, the Spanish real estate sector was hit and the domestic economy entered a severe recession (IMF 2012b). Regional savings banks, or *cajas*, did not have enough capital to deal with their growing nonperforming loan books (Mayer Brown 2009). In March 2009, Caja Castilla-La Mancha, which had €24 billion in assets, failed to meet its capital requirements. The Bank of Spain replaced its directors, and the Deposit Guarantee Fund provided €7 billion of liquidity before selling the bank to Banco Liberta (at the end of the merger process, Caja Castilla-La Mancha was integrated in Liberbank, the entity resulting from the merger of several Cajasur savings banks) and granting an asset protection scheme (EC 2010). But the central bank argued that the government's existing tools for supporting troubled banks were sufficient only for idiosyncratic crises, not the impending systemic crisis (Ponce Huerta 2019).

Program Description

In June 2009, the Spanish government created the Fondo de Reestructuración Ordenada Bancaria (FROB), in English known as the Fund for Orderly Bank Restructuring. The FROB was created in an effort to maintain Spanish economic confidence by supporting financial institutions (Official State Bulletin 2009). The FROB had two objectives: to restructure credit institutions that could not independently address their weaknesses and to reinforce the resources of credit institutions participating in mergers and acquisitions (BdE 2017a).

The FROB typically followed the same three steps in each capital injection: (1) searching for a private sector solution, (2) using government funds to strengthen the troubled credit institution, and (3) restructuring the institution with FROB capital (Official State Bulletin 2009, 53194). The FROB acquired preferred convertible shares to facilitate mergers and acquisitions. The FROB encouraged recapitalized credit institutions to repurchase the shares as soon as possible. Most participating institutions were unable to do so, and their preferred shares converted into common capital (BdE 2017a).

FROB I, in 2010 focused on facilitating mergers and acquisitions from mostly savings banks. During this period, the FROB acquired €9.7 billion in convertible preferred shares in savings banks, consolidating 25 institutions into seven. These measures accelerated the consolidation of the savings bank sector overall from 46 entities in 2007 to 15 entities in 2011 (BdE 2017a). It merged savings banks to clean up their balance sheets and reduce the oversized sector while achieving efficiency gains by reducing the number of branch offices and employees (de Juan 2019).

In 2011, Spain sought to strengthen the solvency of its financial institutions, in line with the Basel III international capital accords. Royal Decree-law 2/2011 established new capital requirements that conformed to Basel III and established the second set of FROB injections. FROB II allowed FROB to acquire shares and exercise shareholder rights. During this period, the FROB acquired common shares of entities to help them meet the new capital requirements. The FROB subscribed these shares at market value. FROB II required banks to have core capital equal to 8% of their risk-weighted assets, or 10% if the entity faced funding constraints (defined as excessive reliance on wholesale funding or limited third-party shareholders). The Spanish definition of core capital at the time was close to the Basel III definition of common equity Tier 1 capital, and it was later aligned with European regulations (OECD 2012). The Spanish law required banks to meet this requirement by March 2011, one month after the law was published. Banks could extend the deadline to September 30 if they submitted a capital plan that the Bank of Spain approved. During that time, credit institutions could attempt to reach minimum capital requirements by attracting private investors, going public, or seeking a FROB capital injection. For institutions that took FROB capital, the Bank of Spain could restrict dividend distribution, share issuance, and management bonuses if they had a shortfall of an amount equivalent to 20% of their required capital ratio. Banks could find buyers for the shares that the FROB held, or the banks themselves could repurchase the shares from the FROB within five years (Official State Bulletin 2011). Further legal decrees gave the FROB and Bank of Spain supervisory oversight of recapitalized banks, unified the three sectoral deposit guarantee funds, and established transparency requirements on real estate exposures (Appendix B; BdE 2017a).

FROB III was launched in 2012 under Law 9/2012 and as a requirement of the Memorandum of Understanding (MoU) signed with the European Commission. Under FROB III, the FROB had new resolution powers. It also created an early action program that allowed the FROB to monitor institutions that were struggling but not yet insolvent enough to require intervention (Official State Bulletin 2012). FROB III allowed the FROB to recapitalize institutions not only through ordinary shares but also through contingent convertible securities (CoCos) (FROB III). It also established Sareb, the asset management company for banking restructuring. More detailed discussion of Sareb can be found in Tam 2021.

Law 11/2015, the Spanish transposition of the European Commission's bank recovery and resolution directive (BRRD), built upon FROB III and formalized the resolution processes while broadening the institutions eligible for assistance. It established competent supervisors (Bank of Spain, European Central Bank, or National Securities Market

Commission) that were able help institutions that fail to meet capital requirements through early action (Official State Bulletin 2015).

Outcomes

The total amount of FROB aid injected in credit institutions was €54.4 billion in a variety of capital instruments (BdE 2017a). In FROB I, the FROB integrated 25 cajas into seven new banks and injected €9.7 billion via convertible preferred shares (Appendix C; IMF 2017).

For FROB II, in March 2011, the Bank of Spain identified 13 institutions that did not meet their capital requirements and required them to present their recapitalization strategies (BdE 2017a). Four of those banks were able to raise funds through share sales or injections by their parent companies. The FROB agreed to provide €15.9 billion to recapitalize nine banks, but several of these banks were again able to raise private funds. Ultimately, the FROB subscribed €5.7 billion of common shares to recapitalize four banking groups—Novacaixagalicia, Catalunya Caixa, Unnim, and Banco de Valencia. A fifth, Caja de Ahorros del Mediterráneo (CAM), requested FROB II support but received aid instead from the Deposit Guarantee Fund (Appendix E). The FROB's equity stakes in the four banks ranged from 90% to 100% (FROB 2019). The four banks included three of the seven banking groups merged via FROB I (Ponce Huerta 2019). The Deposit Guarantee Fund compensated the FROB €953 million for its investment and losses in Unnim: €380 million for preferred share subscriptions in FROB I, €5 million for capitalization of accrued interest, and €568 for capital increase in FROB II.

For FROB III, the Kingdom of Spain borrowed[3] €41.3 billion under the European Stability Mechanism (ESM), which was then channeled to FROB through a loan from the Spanish Treasury (Strauch; IMF 2017). A Memorandum of Understanding between the European Commission and Spain made this aid contingent on a stress test of the Spanish banking system conducted by independent consultants (EC 2012). Oliver Wyman conducted independent assessments of Spanish banks to determine their capital shortfalls and the level of the FROB's participation (Fontevecchia 2012). The stress test identified 10 institutions that needed a total of €55.9 billion in capital. The FROB ultimately injected €38.8 billion to recapitalize eight credit institutions for restructuring or resolution; two banks were able to raise capital privately. The FROB helped make some failing institutions more attractive for potential buyers through asset protection schemes and protections against contingent liabilities. It also invested €2.1 billion in Sareb (Spain's "bad bank") in 2012, which amounted to 45% of Sareb's equity and subordinated debt.

The FROB's losses as of 2018 were €42.6 billion not including the interest and fees received or paid, or the expenses incurred. As FROB wrote off early investments in banks and experienced losses, the government agreed to convert the loan that it issued to FROB (using the loan the ESM gave to Spain) into equity, to make FROB's equity positive. In 2012,

[3] According to a commenter, the amount of this loan was up to €100 billion, of which only €41 billion was used.

the government converted €27 billion of its original €41.3 billion in state loans to FROB into equity (Strauch; IMF 2017). In June 2017, the government converted an additional €3 billion of state loans to FROB into equity. The FROB owed the government €10.5 billion at the end of 2018 (FROB 2019).

About €38 billion of the FROB's losses resulted from four banks: Abanca (formerly NCG), Bankia, Catalunya Caixa, and Banco de Valencia. NCG and Catalunya Caixa participated in FROB I, II, and III; Bankia participated in FROB I and III; and Banco de Valencia participated in FROB II and III (IMF 2017). The FROB still owns approximately 16.12% of CaixaBank, which has absorbed Bankia.

As seen in Figure 1, by the end of 2016, FROB still held about €11 billion in investments (IMF 2017), mostly representing its remaining 66% stake in Bankia.

Figure 1: Legacy Assets and State Contingencies, end-2016 (in billions of euros, unless indicated otherwise)

Item	Bank Assets	Sareb Assets[1]	FROB	
			Investments	Contingencies
NPLs (Gross, Spain only)	112.3	58.1		
Foreclosed assets (Gross, Spain only)	79.2	24.6		
Sareb bonds	41.6			
Deferred taxes	70.0			
Asset Protection Programs				1.4
Bankia - 66% FROB control			9.2	
BMN - 65% FROB control			0.5	
Sareb-shares and subordinated debt			1.5	
	303.0	**82.7**	**11.2**	**1.4**

[1] Sareb's net NPLs and foreclosed assets account for € 28.1 and 11.9 billion, respectively.
Source: BdE, Sareb, FROB and staff estimates.

Source: IMF 2017.

Between 2008 and 2011, the savings bank sector in Spain changed radically; 42 of the 45 institutions existing at the end of 2007 eventually received capital injections from the Bank of Spain in 2010 and 2011 and were merged to 15 entities (BdE 2017a). The FROB gave financial support for seven of these mergers during FROB I. In some of these cases, the three sectoral deposit guarantee funds also contributed financial support. Figures 2 and 3 show an overview of some of FROB's injections and interventions in major banks.

The Kingdom of Spain accepted €38.8 billion in European assistance for recapitalization in 2012; the outstanding amount was €23.7 billion, or 57%, as of early 2019 (EC 2019).

The FROB had recovered €5.9 billion of aid it disbursed as of 2019, of which €4.5 billion came from bank sales and capital instrument repayments and €1.4 billion came from interest repayments (Ponce Huerta 2019). This does not include €2.8 billion received from Bankia in dividends or the proceeds from selling shares of Bankia for €2.1 billion.

Figure 2: Historical Table of FROB Aid as of 2017

HISTORICAL TABLE OF FROB AID **TABLE 3**

Bank	APSs and guarantees	Shares, preference shares or CoCos	Recoveries (FROB) (a)
CATALUNYA BANC Catalunya, Tarragona, Manresa	526	12,052	782
CEISS Caja España-Caja Duero	430	1,129	604
NOVACAIXAGALICIA Caixa Galicia, CaixaNova	382	9,052	783
Banco Gallego (separated from NCG) (a)	95	245	–
BFA-BANKIA Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	–	22,424	–
BANCO MARE NOSTRUM Murcia, Penedès, Sa Nostra, Granada	–	1,645	–
BANCA CÍVICA Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	–	977	977
BANCO DE VALENCIA	666	5,498	–
LIBERBANK G. Cajastur, Caja Extremadura, Caja Cantabria	–	124	124
CAJA3 CAI, Caja Círculo, Caja Badajoz	–	407	407
CAJASUR	392	800	800
Interest received on coupons and other	**–**	**–**	**1,434**
Aid provided by FROB	**2,491**	**54,353**	**–**
Sareb	**–**	**2,192**	**–**
Total	**2,491**	**56,545**	**5,911**

SOURCE: Devised by the author.

a The aid finally recovered will depend on the performance and final divestment of the investees of the FROB (BFA/Bankia with BMN and Sareb). This column does not include €1,304 million resulting from the sale of 7.5% of Bankia in January 2014, or €818.3 million from a recent divestment of 7% of Bankia in December 2017, or €742 million of dividends distributed by Bankia out of profits for 2014, 2015, 2016 and 2017 (in April 2019 an additional €219 million were received out of 2018 profit), since in all cases the amounts received remain at BFA.

Source: Ponce Huerta 2019.

Figure 3: Summary of Integration and Restructuring Processes in FROB I

Bank	Structure	Date approved by FROB	Type of aid	Status	Amount of aid (€m)	Date disbursed
Integration Processes						
UNIÓ DE CAIXES (UNNIM) Caixes d'Estalvis Comarcal de Manlleu, Sabadell and Terrassa	Merger	25.03.2010	Preference shares	Suscribed and paid in	380	28.07.2010
CATALUNYA CAIXA (CX) Caixes d'Estalvis de Catalunya, Tarragona and Manresa	Merger	25.03.2010	Preference shares	Suscribed and paid in	1,250	28.07.2010
CAJA ESPAÑA DE INVERSIONES, SALAMANCA Y SORIA (CEISS) Cajas de Ahorros Caja España and Caja Duero	Merger	25.03.2010	Preference shares	Suscribed and paid in	525	29.10.2010
NOVACAIXAGALICIA Caixa Galicia and CaixaNova	Merger	29.06.2010	Preference shares	Suscribed and paid in	1,162	30.12.2010
BANCO FINANCIERO Y DE AHORROS Cajas de Ahorros de Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Insular de Canarias, Caixa Laietana and Caja Rioja	IPS	29.06.2010	Preference shares	Suscribed and paid in	4,465	28.12.2010
BANCO MARE NOSTRUM Cajas de Ahorros de Murcia, Caja Granada, Caixa Penedès and SaNostra	IPS	29.06.2010	Preference shares	Suscribed and paid in	915	31.12.2010
BANCA BASE Cajas de Ahorros del Mediterráneo (CAM), CajaAstur, Caja Cantabria and Extremadura	IPS	29.06.2010	Preference shares	Subscribed but NOT paid	–	Suspended
BANCA CÍVICA Cajas de Ahorros de Navarra, CajaSol (including Guadalajara), General de Canarias and Municipal de Burgos	IPS	22.12.2010	Preference shares	Suscribed and paid in	977	11.02.2011
Total integration processes					**9,674**	
Restructuring processes CAJASUR	Assigment of business	15.07.2010	Equity units	Subscribed and paid in	800	17.06.2010
Total restructuring processes					**800**	

SOURCE: Devised by the author.

Source: Ponce Huerta 2019.

II. Key Design Decisions

1. **Part of a Package: The capital injections power of the Fund for the Orderly Restructuring of the Banking Sector was not initially part of a package, but it was updated to include resolution powers, including the transfer of assets to an asset management company (Sareb) as well as a resolution fund (National Resolution Fund).**

The financial safety net infrastructure that existed in Spain in 2009 included FROB as well as three sector-focused deposit guarantee funds and the Bank of Spain (IMF 2012b; Official State Bulletin 2009). Though these organizations worked in tandem, they were not a package, as the government created the deposit guarantee funds in 1977 under the administration of the Bank of Spain (Official State Bulletin 1977). In November 2011, the government merged the three deposit guarantee funds into the Fondo de Garantía de Depósitos (FGD) or Deposit Guarantee Fund in English (BdE 2017a). Law 9/2012 expanded the FROB's powers and established Sareb, Spain's government-owned asset management company (Official State Bulletin 2012). Sareb was responsible for managing assets transferred to it by Spanish institutions recapitalized by the FROB. Law 9/2012 also established the FROB as a resolution authority.

2. **Legal Authority: Initially, Royal Decree-law 9/2009 (Official State Bulletin 2009) gave FROB the power to carry out temporary capital injections, though later laws added to its authority.**

The FROB was created in June 2009 by Royal Decree-law 9/2009 to manage the restructuring of credit institutions and contribute to the strengthening of their resources (Official State Bulletin 2009). Royal Decree-law 2/2011 allowed FROB to help entities achieve capital targets of 8% or 10% of risk-weighted assets (Official State Bulletin 2011).

Law 9/2012 established the possibility of the resolution, not just the restructuring, of a credit institution that was not viable and established FROB's role in such processes, as well as early action to prevent the failure of a financial institution.[4] FROB could value

[4] Definitions of actions from Law 9/2012, Article 2:

Early action: The procedure applicable to a credit institution when, in accordance with the provisions of Chapter II, it fails or there are objective elements that are reasonably foreseeable that cannot meet the solvency, liquidity, or organizational structure or internal control requirements, but is in a position to return to compliance by its own means, without prejudice to the exceptional and limited public financial support provided for in article 9.f of this Law.

Restructuring: The procedure applicable to a credit institution when, in accordance with the provisions of Chapter III, it requires public financial support to ensure its viability and it is foreseeable that such support will be reimbursed or recovered in accordance with the provisions of Chapter V, or when its resolution could not be carried out without seriously damaging effects on the stability of the financial system.

Resolution: The procedure applicable to a credit institution when, in accordance with the provisions of Chapter IV, it is unviable, or foreseeable that it will be in the near future, and for reasons of public interest and financial stability it is necessary to avoid bankruptcy.

institutions and restructure institutions that required public financial support to maintain viability while minimizing the use of public resources (Official State Bulletin 2012). According to a commenter close to the program, this law also included the possibility to impose losses to subordinated creditors in these processes.

After FROB III, Law 11/2015 established a more formal and comprehensive regime of systemic risk policy. It clarified the FROB's resolution powers and transposed the BRRD into Spanish regulation, including bail-in power for both subordinated and senior debt. This allowed a troubled entity to remain in business while separating its unviable parts, the latter of which was already possible under Law 9/2012. It also gave the FROB early action and preventative powers to reduce the risk of insolvency and to facilitate the resolution of the entity or specific assets if needed. The 2015 law also provided tools that the FROB used to shift the financial burden of resolution to an entity's shareholders and creditors rather than public resources (a "bail in"). The law allowed the preventative resolution authority (the Bank of Spain) to create resolution plans for less significant entities like those not under European Central Bank supervision, which it required to include a scenario in which no public support was available. This law also empowered the FROB to perform capital increase or reduction operations, amortize capital instruments, or perform internal recapitalization actions (Official State Bulletin 2015).

3. **Communications: The first law creating the FROB was advertised as an effort to prevent systemic risk from failing small and medium-sized enterprises (SMEs) in an otherwise strong banking sector, but communications about the later law showed more urgency in dealing with the financial crisis.**

Royal Decree-law 9/2009 paints the Spanish banking sector in 2009 as resilient and relatively strong (Official State Bulletin 2009). However, it states that smaller struggling institutions could, en masse, constitute a systemic risk.

The Congress of Deputies (lower house of the legislature) in Spain approved Royal Decree-law 2/2011, allowing the recapitalization of Spanish entities by a vote of 177 to eight, with 157 abstentions from the Popular Party and Basque nationalist party (Europa Press 2011). Elena Salgado, the Spanish deputy prime minister and former minister of economy and finance, described the law as being extremely urgent and necessary to give the green light to the most recent package of financial reforms articulated in this decree and to minimize the impact of the global financial crisis on the Spanish financial system. She said it would help to complete the reorganization of the financial sector, clear doubts in the markets, and guarantee a sufficient flow of credit to encourage maximum recovery and job creation.

4. **Governance/Administration: The Ministry of Economy and Finance decided on the composition of FROB's Governing Commission, composed of representatives from the Bank of Spain and the three deposit guarantee funds.**

An eight-member Governing Commission appointed by the Ministry of Economy and Finance operated the FROB beginning in 2009 (Official State Bulletin 2009). The Bank of Spain proposed five of the eight members. The three deposit guarantee funds—for savings banks, banks, and credit cooperatives—were represented by one member each. The minister of economy and finance also appointed a member from the General Intervention Board of the State Administration, proposed by the general auditor, as an additional representative on the Governing Commission with a voice but not a vote. The chair of FROB was the deputy governor of the Bank of Spain at the time.

The Governing Commission was empowered to make its own rules and delegate power as it saw fit (Official State Bulletin 2009). It had the power to approve external financing operations, like bond issuance, to finance FROB's activities. At least half the voting members of the Governing Commission had to be present to hold a session and adopt agreements, which had to be supported by a majority of members. The secretary of state for the economy appeared quarterly before the Congress of Deputies Finance and Economy Committee to report the activities of FROB and the situation of the Spanish banking sector. The Governing Commission subsequently had to approve this report. The president of the Governing Commission also reported to this congressional committee within 30 days after each injection by the fund. The Governing Commission was also obligated to keep the activities of the fund secret.

In 2011, the legislature changed the composition of the Governing Commission to have nine members, of which one each represented the Ministry of Finance and Budgets and the Ministry of Economy (Official State Bulletin 2011). Four members were proposed by the Bank of Spain, and three members were proposed by the deposit guarantee funds.

In 2012, the legislature changed the composition of the Governing Commission to include four members nominated by the Bank of Spain, of which one was the president of the Governing Commission; the secretary general of the Treasury, who was also the vice president; the undersecretary of economy and competitiveness; the president of the Accounting and Audit Institute; the director general of economic policy; and the general director of budget. A director general of the FROB was appointed by royal decree of the Council of Ministers, and he supervised and managed the FROB (Official State Bulletin 2012). According to a commenter close to the program, as the deposit guarantee funds had stepped out of FROB's equity, they no longer had representatives on the Governing Commission as of this law.

In 2015, the legislature again changed the composition of the Governing Commission to have 11 members: the president of the FROB (chair); four members nominated by the Bank of Spain, one of whom was the deputy governor (vice-chair); three members nominated by the Ministry of Economy and Competitiveness; the vice president of the National Securities Market Commission (Comisión Nacional del Mercado de Valores, or CNMV); and two representatives from the Ministry of Finance and Public Administration (Official State Bulletin 2015). This law indicated that the chair of FROB was independent form the Bank of Spain; he or she was proposed by the government and confirmed by the legislature.

Figure 4 below shows the summary of member changes for the Governing Commission of FROB.

Figure 4: Development of the Governing Committee of the FROB (2009–Present)

		2009-2011	2011-2012	2012-2015	2015-PRESENT
Legislation		Royal Decree-Law 9/2009, of 26 June 2009 on bank reestructuring and the strengthening of credit institutions' own funds.	Royal Decree-Law 9/2009, of 26 June 2009 on bank reestructuring and the strengthening of credit institutions' own funds*.	Royal Decreeo-Law 24/2012 of 31 August 2012 on credit institution restructuring and resolution and, subsequently, Law 9/2012 of 14 November 2012 on credit institution restructuring and resolution.	Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment firms.
Governing Committee					
Composition	Number of members	8	9	9	11
	Origin	Five at the proposal of the Banco de España. Three representing the respective Deposit Guarantee Schemes.	Four at the proposal of the Banco de España. Three representing the respective Deposit Guarantee Schemes. Two representing the Ministry of Economic Affairs and Finance.	Four appointed by the Banco de España. Secretary 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.	Chair of the FROB. Four appointed by the Banco de España. 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.
Chair		Deputy Governor of the Banco de España.	Deputy Governor of the Banco de España.	Deputy Governor of the Banco de España.	Chair of the FROB.
Vice-Chair		No express rule. In practice the vice-chair was selected from the members appointed at the proposal of the Banco de España.		Secretary of the Treasury and Financial Policy.	Deputy Governor of the Banco de España.
Attending (with right to speak but not vote)		A representative of the National Audit Office designated by the Minister for Economic Affairs and Finance at the proposal of the Auditor General.		A representative designated by the Auditor General. A representative designated by the Attorney General-Director of the Spanish State Legal Service.	
Ordinary management					
		Not addressed. However the Governing Committee appointed a Director General.		Director General, appointed by royal decree of the Council of ministers, at the proposal of the Minister for Economic Affairs and Competitiveness.	Chair of the 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.

SOURCE: Devised by the author.

Source: Ponce Huerta 2019.

5. Funding Sources: The FROB had initial funding of €9 billion from the General State Budget and deposit guarantee funds, which it supplemented through borrowing.

Of the FROB's initial €9 billion, €3 billion was to be disbursed when its constitution was formalized, defined by the time the members of the Governing Commission were all appointed (Official State Bulletin 2009). The General State Budget allocated €6.75 billion to the initial financing of the FROB. The deposit guarantee funds contributed €2.25 billion, and FROB had authority to obtain additional financing by issuing fixed-income securities, taking loans, or participating in any other debt operations, provided that those borrowings did not exceed three times the permanent financing at any time. After January 1, 2010, with the authorization of the Ministry of Economy and Finance, the FROB could obtain additional funding of up to 10 times its permanent financing.

The law required the FROB to hold uncommitted funds in public debt or other highly liquid, low-risk assets (Official State Bulletin 2009). Any returns from these assets were added to the FROB's permanent financing, which paid any fees incurred in the management of these assets.

The law empowered the General State Administration to guarantee the FROB's debt, subject to the approval of the Ministry of Economy and Finance (Official State Bulletin 2009). Until December 31, 2009, the guarantee was limited to €27 billion; the legislature set the limit in subsequent years in the annual budget. If the FROB defaulted on an obligation, the state paid compensation to the owners of guaranteed securities within five days of the expiration of the obligation. The Ministry of Economy and Finance established the terms of guaranteed compensations, and the General Directorate of the Treasury and Financial Policy would make payments if the guarantee were exercised, though it never was.

In 2012, the Spanish government requested financial assistance from the European Union (EU) and International Monetary Fund (IMF). This aid was approved subject to stress tests conducted by external consultants in order to identify the capital needs of various institutions (EC 2012). The stress tests carried out by consultant Oliver Wyman concluded that 10 banks required €55.9 billion of additional capital (BdE 2017a). Two banks found private solutions. The European Stability Mechanism ultimately provided €39 billion to recapitalize the other eight banks; the FROB covered the remaining needs by enforcing losses on shareholders and subordinated debt holders and facilitating asset transfers to Sareb (IMF 2017).

In 2017, the Ministry of Economy capitalized €3 billion more of its loans to the FROB to strengthen its balance sheet. This capitalization was done to return FROB's equity to positive numbers, but no new money was involved, just an effect of accounting. To keep FROB afloat, the Treasury converted some of its debt holdings in FROB to equity, allowing FROB to maintain positive equity and potentially attract creditors, though FROB has not funded itself through debt issuance since 2011 (Segovia 2017).

6. Eligible Institutions: Institutions eligible for FROB were savings banks (FROB I), commercial banks (FROB II), and various credit institutions (FROB III).

The government created FROB I primarily to recapitalize and merge savings banks and FROB II primarily to recapitalize commercial banks. Most of the savings banks that received FROB I injections were transformed into banks due to changes in regulation. All recipients of FROB II funds were previously savings banks prior to FROB I.

After the stress tests, Law 11/2015 permitted the FROB to be a resolution authority for a broader set of companies, including investment services companies and financial entities (other than insurance and reinsurance entities) established in Spain that were subsidiaries of credit institutions or investment services companies (Official State Bulletin 2015). It also included financial holding companies based in Spain or other European Union member states, provided they were supervised by a competent supervisor.[5] Spanish branches of European Union entities were also eligible. Investment services companies whose legally required minimum share capital was less than €730,000 or that conducted specific activities enumerated in the law were not eligible.

7. Restructuring Procedures: In all three phases, restructuring authorities including the FROB could overtake the management of a failing credit institution and facilitate a merger or acquisition with a solvent entity.

FROB I and II

The Bank of Spain expected struggling credit institutions to inform the central bank within one month and provide an action plan for strengthening their equity (Official State Bulletin 2009). The plan could involve a merger or acquisition with a solvent entity, which had to be actualized within three months. The Bank of Spain evaluated the organization and management of the credit institution to determine whether it was viable as a stand-alone entity going forward.

If the Bank of Spain determined that a credit institution that had not submitted a plan had financial weaknesses, it required such an institution to submit a plan within one month. The Bank of Spain needed to approve these plans and could modify or add necessary measures to ensure that the plan was sufficient to overcome any financial weaknesses. If a month passed after the submission of a plan without explicit approval, the plan was approved automatically.

The FROB intervened to restructure any credit institution that did not present a required plan, presented an infeasible plan, rejected Bank of Spain additions to a proposed plan, declared to the Bank of Spain that there was no viable solution, deviated greatly from the

[5] A competent supervisor was the Bank of Spain, European Central Bank, within the Single Supervisory Mechanism, responsible for the supervision of credit institutions, and the National Securities Market Commission as the authority responsible for the supervision of investment services companies (Official State Bulletin 2015).

plan, or had a plan that its Deposit Guarantee Fund objected to. In these cases, the Bank of Spain replaced the management of the credit institution and appointed the FROB as the administrator of the institution. The FROB had one month to create a detailed report on the institution's viability and to submit a restructuring plan to the Bank of Spain. The FROB also submitted an economic impact report of the restructuring to the Ministry of Economy and Finance. The ministry could oppose the restructuring within 10 days of submission. As long as a restructuring plan was prepared, the FROB could provide financial support to the credit institution on a temporary basis by way of measures such as favorable loans or asset acquisition, or facilitations of mergers and acquisitions. Investments made by the FROB were not subject to legal limitations applied to the deposit guarantee fund in credit institutions (Official State Bulletin 2009). In addition, the boards of entities requesting aid under FROB II had between five and 15 members, of which at least one-third were independent directors (Official State Bulletin 2011).

For FROB II, in March 2011, the Bank of Spain identified 13 institutions that did not meet their capital requirements and required them to present their recapitalization strategies (BdE 2017a). Four of those banks were able to raise funds through share sales or injections by their parent companies. The FROB agreed to provide €15.9 billion to recapitalize nine banks (Appendix E), but several of these banks were again able to raise private funds. Ultimately, the FROB purchased €5.7 billion of common shares to recapitalize four banking groups—Novacaixagalicia, Catalunya Caixa, Unnim, and Banco de Valencia. A fifth, Caja de Ahorros del Mediterráneo, requested FROB II support but received aid instead from the Deposit Guarantee Fund (Appendix F). The FROB's equity stakes in the four banks ranged from 90% to 100% (FROB 2019). The four banks included three of the seven banking groups merged via FROB I (Ponce Huerta 2019). The Deposit Guarantee Fund compensated the FROB €953 million for its investment and losses in Unnim: €380 million for preferred share subscriptions in FROB I, €5 million for capitalization of accrued interest, and €568 for capital increase in FROB II.

FROB III

The law provided three possible actions for credit institutions: early intervention, restructuring, and resolution.

Institutions that did not, but could potentially, maintain viability and meet capital requirements through their own means were eligible for early action (Official State Bulletin 2012). This entailed submitting an action plan to the Bank of Spain, which, with FROB's input, modified and approved it, as appropriate. This process helped capitalize entities without public support, to prevent them from becoming insolvent.

Institutions that required public support to maintain their viability, and whose resolution would likely cause detrimental effects to Spanish financial stability, were considered for restructuring. These institutions had to inform the FROB and the Bank of Spain of their status and, within 15 days, submit a plan of restructuring, with a planned execution date of no more than three months after its approval by the FROB (Official State Bulletin 2012). The FROB could modify the plan before it was sent to the Bank of Spain for approval, which had to approve it within one month of receiving it.

The Memorandum of Understanding between Spain and the European Commission signed in 2012 established a framework that categorized banks into different levels of eligibility for aid (EC 2012). Based on the results of a stress test conducted by an external consultant and the restructuring plans of banks, banks were grouped into four categories.

> Group 0 will constitute those banks for which no capital shortfall is identified and no further action is required. Group 1 has been pre-defined as banks already owned by the Fund for Orderly Bank Restructuring (FROB) (BFA/Bankia, Catalunya Caixa, NCG Banco and Banco de Valencia). Group 2 will constitute banks with capital shortfalls identified by the Stress Test and unable to meet those capital shortfalls privately without having recourse to State aid. Finally, Group 3 will constitute banks with capital shortfall identified by the stress test with credible recapitalisation plans and able to meet those capital shortfalls privately without recourse to State aid (EC 2012).[6]

The Bank of Spain and the European Central Bank closely monitored the liquidity situation of banks that had capital shortfalls in the stress test (EC 2012). The Bank of Spain regularly reported this information to the European Commission, European Central Bank, and International Monetary Fund.

The stress test assessed 14 banking groups, which represented 90% of the assets of the Spanish banking system over a three-year period (BdE 2017a).

The stress test identified 10 banks that needed €55.9 billion of additional capital (BdE 2017a). Two banks found private solutions. The FROB invested €39 billion to recapitalize the other eight banks, using funds provided by the European Stability Mechanism. The banks raised their capital ratios through loss absorption by investors holding subordinated debt and other hybrid instruments, asset transfers to Sareb, burden sharing, and asset sales (IMF 2012a).

The stress test concluded that 90% of capital needs were in the four entities in Group 1, in which FROB already held a majority equity stake, and that the core of the Spanish banking system was relatively healthy (BdE 2017a).

8. FROB issued three major rounds of support, first through convertible preferred shares (FROB I), then ordinary shares (FROB II), and finally both ordinary shares and contingent convertible securities (FROB III).

FROB I

The FROB was allowed to make capital injections to certain institutions that did not satisfy set conditions (See “Key Design Decision No. 6”) but still needed capital with which to integrate themselves with each other. As a condition of the capital injection, these participating institutions had to improve their efficiency, administration, and management,

[6] See Oliver Wyman 2012.

as well as resize their productive capacity, preparing a merger or acquisition plan detailing these processes that were approved by the Bank of Spain. These FROB capital injections were performed through acquisitions of preferred convertible shares in participatory quotas or portions of share capital (Official State Bulletin 2009).

The first round was in March 2010, when the FROB issued €9.7 billion of convertible preference shares in the integration processes of Unnim, Catalunya Caixa, CEISS, Novacaixagalicia, Banco Financiero y de Ahorros, Banco Mare Nostrum, Banca Base, and Banca Cívica, and the restructuring of Cajasur. The restructuring of Cajasur consisted of purchasing €800 million of equity units and providing a €1.5 billion line of credit. This set of interventions was not sufficient to address the problems in the saving bank sector, likely due to an incomplete write-off of capital, the limited efficacy of convertible preference shares, and a general downturn in the economy (Ponce Huerta 2019). In 2010 and 2011, the restructuring of the banking sector, and especially the savings bank sector, resulted in the merging of 42 of 45 banks into 15 institutions, although three of the mergers occurred without FROB or Deposit Guarantee Fund aid (Caixa-Girona, Unicaja-Jaén, and Caja 3) (BdE 2017a).

FROB II

Royal Decree-law 2/2011 authorized FROB II, raised capital requirements, and allowed FROB to recapitalize banks using ordinary shares. This law allowed FROB to subscribe ordinary shares under distressed market conditions to help entities that could not capture capital through traditional markets (Official State Bulletin 2011). FROB II injected €5.7 billion in 2011 and 2012 to Catalunya Caixa, Novacaixagalicia, Unnim, and Banco de Valencia (Appendix E; IMF 2017; Ponce Huerta 2019).

FROB II required entities to hold core capital equal to 8% risk-weighted assets (Official State Bulletin 2011). The standard was 10% for those entities that had more than 20% of their capital from wholesale financing and had less 20% of their capital in the possession of third parties. This allowed the FROB to participate directly in recapitalized institutions' boards of directors in proportion to its percentage of capital (BdE 2017a). Entities recapitalized under FROB II that were noncompliant by more than 20% of the core capital requirement had to present recapitalization and business plans that committed to reducing structural costs, improving corporate governance and limiting bonuses, and modifying credit activity.

The FROB's acquisition of ordinary shares was conditional on the beneficiary's preparation of a recapitalization plan that included a business plan and commitments to reduce structural costs, improve corporate governance, and have better credit activity. The FROB reported to the Ministry of Economy and Finance, detailing the financial impact of its acquisition of common stock. The FROB could become part of the boards of directors of recapitalized entities in proportion to its share percentage. It could also still convert convertible preferred shares, as allowed in Royal Decree-law 9/2009. FROB contributions were made through cash injections or the delivery of securities representing public debt (i.e., treasuries) or securities issued by FROB itself (Official State Bulletin 2011).

Conditions for recapitalization under FROB II included submitting a business plan and committing to reduce structural costs, improving corporate governance, and increasing financing to small and medium-sized companies. If a FROB II applicant had issued convertible preferred shares to FROB I, it could request an immediate conversion of those shares into ordinary shares or contributions to the share capital. Preferred shares subscribed before Royal Decree-law 2/2011 were to be governed by the law in effect when they were purchased. Independent directors were not allowed to remain in their positions for more than 12 continuous years. The board had to create an internal commission or two separate committees of appointments and remuneration. The former assessed the competencies and experiences of the board and its members and evaluated candidates to fill vacancies, while the latter ensured compliance with the remuneration policy established by the company for directors, executives, and other managers. When a company acquired an entity with the help of FROB or deposit guarantee funds, it did not need to make a public tender offer, as was normally required according to Spanish law (Official State Bulletin 2011).

FROB III

FROB III occurred after the passage of Law 9/2012, which established FROB's powers as a resolution authority and allowed it to perform capital injections not only through ordinary shares but also through contingent convertible securities. About €41.3 billion was injected, of which €39 billion was used to recapitalize eight credit institutions for restructuring or resolution and €2.2 billion was used to purchase FROB's stake and subordinated debt in Sareb, the asset management company for bank restructuring. FROB III was financed through European Stability Mechanism funding (IMF 2017). Sareb acquired troubled real estate assets, which reduced financial sector recapitalization requirements by €1.3 billion and restored confidence in financial institutions (Ponce Huerta 2019). Shareholders and subordinated creditors incurred losses of about €14 billion, 70% of whom were retail investors who had acquired preference shares in somewhat opaque transactions.[7]

The Memorandum of Understanding between the European Commission and Spain signed in 2012 formed a strategy to strengthen the Spanish banking sector. The MoU specified that a stress test conducted by independent consultants would determine capital shortfalls of individual banks and the system overall. This stress test categorized banks accordingly: *Group 0* banks had no capital shortfall and required no intervention, *Group 1* banks were already owned by the FROB (these were BFA/Bankia, Catalunya Caixa, NCG Banco, and Banco de Valencia), *Group 2* banks had capital shortfalls that required public support, and *Group 3* banks had capital shortfalls that could be met privately (EC 2012).

Spanish authorities prepared restructuring plans for Group 1 banks in conjunction with the European Commission. These included BFA/Bankia, NCG Bank, Catalunya Bank, and Banco

[7] According to a commenter close to the program, most of the retail investors eventually recouped their investments through a specifically created deposit guarantee fund liquidity facility, arbitration procedures, and court rulings related to the sale of hybrid instruments.

de Valencia, which were recapitalized on December 26, 2012, for a total of €36.9 billion. They also presented plans for Group 2 by October 2012 to the European Commission. Both involved moving impaired assets to an external asset management company (Sareb). Group 2 banks included Banco Mare Nostrum, Caja 3, España-Duero, and Liberbank, and they were injected with €1.865 billion on March 12, 2013. Caja 3 (which received €407 million), España-Duero (which received €604 million), and Liberbank (which received €124 million) were recapitalized using contingent convertible securities, while Banco Mare Nostrum was recapitalized with €730 million worth of shares. Banco CEISS was also a Group 2 bank but was resolved after an injection of €407 million of CoCos. Group 3 banks that were planning a significant equity raise (of more than 2% risk-weighted assets) could issue contingent convertible securities to FROB to meet their capital needs by December 2012, though this was not used; Group 3 banks performed either private capital increases or asset reductions. They were redeemable until June 2013, if the bank succeeded in finding the necessary capital from private sources; if not, the FROB would convert them into equity and recapitalize the struggling bank. Group 3 banks planning a smaller equity raise were able to do so until June 2013. If they failed, they were recapitalized. Group 3 banks that benefited from FROB support were required to transfer bad assets to Sareb (EC 2012). Banco Popular and Ibercaja were Group 3 banks (BdE 2017a). According to a commenter close to the program, the choice between ordinary shares and CoCos depended on the viability of the entity after a capital injection. Banco CEISS was under resolution and would normally have received an injection of ordinary shares; however, as it had already agreed to integrate in Unicaja, the FROB subscribed CoCos instead of shares.

Restructuring was done through financial support, the transfer of assets or liabilities to an asset management company (Sareb), or a combination of both strategies. Convertible share instruments were issued with conditions that included repurchase of the shares within five years and the exercise of conversion upon FROB's discretion of the entity's solvency. This acquisition was priced relative to the economic value of the entity minus a discount in accordance with EU State Aid regulation. FROB purchased them with bonds issued by the European Stability Mechanism. The FROB's voting rights and board participation were determined by the proportion of shares it acquired in an entity. The FROB also imposed losses on private shareholders of hybrid capital and subordinated debt to support the recapitalization plans of credit institutions, including offers to exchange it for capital instruments, offers to repurchase issued securities, reduction of the nominal value of debt, and early amortization of debt at a value other than the nominal value. FROB III also created and asset management company to which to transfer bad assets (Sareb) (Official State Bulletin 2012).[8]

The FROB could sell shares, as well as assets and liabilities, to third parties through a transparent, speedy, and impartial process that avoided conflicts of interest while maximizing sale price and minimizing the use of public resources (Official State Bulletin

[8] See Tam 2021.

2012). However, commenters from the program said that while FROB could have sold its CoCos, it held them until the issuers repurchased them.

After FROB III

Law 11/2015 added to FROB's recapitalization arsenal the ability to orchestrate internal recapitalization of an insolvent entity (Official State Bulletin 2015). In response to the European Single Resolution Mechanism (SRM) of 2014, the law also created the Single Resolution Board and National Resolution Fund, which helped synchronize Spanish resolution policies with those of Europe as a whole. This allowed FROB to require that losses be borne internally through the write-down or conversion of capital instruments, or via bail-in by other eligible liability (BdE 2015). To make sure the first was sufficient to absorb losses, resolution authorities set a minimum requirement for own funds and eligible liabilities for each institution.

9. There were no explicit individual participation limits.

Research did not reveal any limits on individual participation.

10. The acquisition of shares or quotas by the FROB required the cancellation of preemptive subscription rights of existing shareholders or quota participants.

When the FROB acquired participatory quotas of a bank, it had the right to representation at shareholders' meetings equivalent to the percentage of equity they owned (Official State Bulletin 2009). This right was maintained throughout the FROB's possession of these securities and was not transferred to any subsequent acquirers. Similarly, the FROB's voting rights in the assembly of a credit union to which it had contributed were proportional to its contributions with respect to the total capital stock of the credit union.

The cancellation of voting rights for existing shareholders happened at the time of the adoption of the capital increase or quota issuance agreement (Official State Bulletin 2009). The status of different parties and how they bore losses was established in Law 9/2012, Chapter I, Article 4. They were as follows:

(a) The shareholders or partners of the entities were the first to bear losses.

(b) The providers of subordinated debt bore losses arising from restructuring or resolution after shareholders, according to the order of priority established in bankruptcy legislation, though the exceptions established in this law took precedence.

(c) Creditors of the same rank were treated the same unless this act indicated an exception.

(d) A creditor did not bear a loss greater than the loss s/he would have borne if the entity were liquidated in a bankruptcy proceeding.

(e) If an entity was resolved, its administrators were replaced.

(f) The administrators of the credit institutions were liable for damages caused, in proportion to their participation and the severity of the damages.

FROB was not included as a shareholder in allocations of losses or protections for shareholders or partners.

If a credit institution was resolved, FROB was permitted to transfer shares or capital instruments to a third party without obtaining the consent of the shareholders (Official State Bulletin 2012). The sale price deducted the administrative and other expenses incurred by FROB including the costs of financial support instruments that were previously reimbursed to FROB.

Law 11/2015 later modified this loss structure as follows (Article 4).

(a) The shareholders or partners, as appropriate, of the entities were the first to bear losses.

(b) The creditors of the entities bore, where appropriate, losses arising from the resolution after the shareholders or partners and in accordance with the order of priority established in the bankruptcy legislation, with the exceptions established in this law.

(c) Creditors of the same rank were treated in an equivalent manner unless otherwise provided in this act.

(d) No shareholder or creditor bore losses greater than what they would have borne if the entity were liquidated in the context of a bankruptcy proceeding.

(e) The directors and general or similar directors of the entity were replaced, unless, on an exceptional basis, its maintenance was considered strictly necessary to achieve the objectives of the resolution.

(f) The directors and general or similar directors of the entity had to provide all necessary assistance to achieve the objectives of the resolution.

(g) In accordance with the provisions of bankruptcy, commercial, and criminal legislation, the administrators of the entities and any other natural or legal person were liable for the damages caused in proportion to their participation and the seriousness of those.

(h) Guaranteed deposits were fully protected.

(i) The resolution measures adopted were accompanied by the corresponding guarantees and safeguards provided for in this law and its development regulations.

Since Law 11/2015 also formalized the write-down of capital and bail-in mechanisms, it delineates the treatment of shareholders in the case of internal recapitalization. The FROB could amortize existing or transfer to creditors capital instruments and eligible liabilities of the entity at a reduced nominal value. The sequence to which capital or liabilities were amortized was as follows (Official State Bulletin 2015):

(a) The elements of Level 1 ordinary capital proportional to the losses and as far as possible,

(b) The principal amount of the Level 1 additional capital instruments to the extent necessary and to the extent possible,

(c) The principal amount of Level 2 capital instruments to the extent necessary and to the extent possible,

(d) The principal amount of the subordinated debt that was not additional capital of Level 1 or 2, then

(e) The principal amount or the outstanding amount of the admissible liabilities, in accordance with the priority of the credit rights provided in the applicable bankruptcy regulations.

Capital or eligible liabilities of the same rank had losses equitably distributed amongst them. The FROB was also was able to reorganize the activity of the entity. Only after these methods had been exercised could the National Resolution Fund contribute to the entity to cover any loss that remains or acquire shares or other capital instruments in order to recapitalize it (Official State Bulletin 2015).

Institutions that were recapitalized had to go through a hybrid instrument loss-sharing exercise for shareholders and preferred shareholders. Most of these arrangements were compulsory and generally required a recapitalized institution to repurchase preferred shares and subordinated debt at a haircut of 26%, on average. Shareholders received shares or mandatorily convertible bonds, while subordinated debt holders received senior debt instruments with a haircut. To limit the burden on retail investors and give them liquidity, the Deposit Guarantee Fund was empowered to acquire the shares those investors received and did so to the tune of €1.8 billion. A committee was created to determine the compensation that banks owned by FROB could dispense in response to disputes from customers suing for damages (BdE 2017a).

11. Exit Strategy: FROB exited from some of its capital injections through repurchase of shares and sale of shares to a third party.

Under FROB I, in the cases where the Bank of Spain allowed the FROB to replace the management of the credit institution, FROB was responsible for declaring bankruptcy (Official State Bulletin 2009).

The FROB divested from these participations by either repurchase of shares by the issuing entity or transference of shares to third parties. This divestiture was designed in a way to minimize competition and had be completed within five years of the date of compliance of the integration plan). The recapitalized entity had to issue quarterly reports on the merger or acquisition to the Bank of Spain; if it was unable fulfill said plan, the FROB modified its terms and extended its repurchase terms by up to two years. Credit institutions that fulfilled the requirements of eligible institutions above but failed to perform their merger plans were still eligible for FROB aid (Official State Bulletin 2009).

For ordinary shares associated with FROB II, divestment occurred within a maximum term of five years. The FROB was allowed to resell securities to the issuing entity or third parties proposed by the beneficiary entity within one year of the acquisition. The maximum term was two years, in which case it could require the beneficiary to adhere to additional terms. The conditions of resale had to ensure efficient use of public funds and be carried out under market conditions, while complying with Spanish and EU regulations, especially that concerning State Aid. However, the divestment of contributions to capital stock was not subject to any legal or statutory limitations (Official State Bulletin 2011).

These participating institutions had to commit to repurchasing the preferred shares held by the FROB as soon as they were able. If five years passed without a repurchase, the FROB could request conversion into common shares, participatory fees, or dividends within six months after the five-year mark. The FROB could also convert shares earlier if repurchase seemed unlikely, and the credit institution had to follow all other conditions in the merger or acquisition plan.

As of 2021, FROB still owns 16.12% of CaixaBank shares (previously approximately 61% of Bankia shares) (Ponce Huerta 2019).

12. In 2012, FROB gained authority to resolve unviable institutions and create an early action program to improve their health before they required government intervention.

In 2012, the FROB gained authority to resolve unviable institutions and create an early action program to improve their health prior to their requiring government intervention. This occurred under Law 9/2012 in response to the MOU signed with the European Commission to receive European Stability Mechanism funds. It gave the FROB powers to value institutions, as well as restructure those that required public financial support to maintain viability, but it was mandated to minimize the amount of public resources used to maintain financial stability (Official State Bulletin 2012). It also established an asset management company for bank restructuring, Sareb (see Tam 2021).

Under the law, the FROB used four tools individually or jointly to facilitate resolution of a credit entity: the sale of the entity's business, the transfer of assets and liabilities to a bridge bank, the transfer of assets and liabilities to an asset management company, or financial support to the purchasers to the business (including the bridge bank[9] or asset management company mentioned in the previous tools) (Official State Bulletin 2012).

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[9] A bridge bank for the purposes of this case study was a credit institution, including the entity itself in resolution in which the FROB participated (Official State Bulletin 2012). The bridge bank had to comply with regulations and supervision applicable to credit institutions. The total value of liabilities transmitted to the

The 2015 law transposing the European Commission's bank recovery and resolution directive to Spain built upon the 2012 law formalizing the processes of resolution. The FROB was now able to work toward an entity's survival while resolving the unviable parts of it. In accordance with the European Single Resolution Mechanism, the 2015 law also established the National Resolution Fund, which was responsible for financing the resolution processes of financial entities. The National Resolution Fund was administered by the FROB and was required to constitute at least 1% of guaranteed deposits of all entities (Official State Bulletin 2015). To fund it, the FROB collected annual ordinary contribution from entities and branches in Spain of EU entities proportional to their liabilities, relative to the total liabilities of all entities, and their specific risk profiles.

Law 11/2015 also provided for an early action mechanism that monitored banks in order to help internally recover institutions that were likely to fail capital requirements. The supervisors of this process were the Bank of Spain, European Central Bank, or National Securities Market Commission (Official State Bulletin 2015). This preventative action was intended to streamline the operations of an entity to reduce risk of insolvency and facilitate its resolution, if needed, while shifting the burden of financing from the government to the financial industry itself.

To ensure that bank failures wouldn't cause systemic issues, the 2015 law also required contingent resolution plans for entities that were not under the FROB in a scenario where no public support was available. This law also empowered the FROB to perform capital increase or reduction operations, amortize capital instruments, or perform internal recapitalization (Official State Bulletin 2015).

The resolution of a credit institution was pursued when two criteria existed: the credit institution was unviable or soon would be unviable, and it was in the public interest and convenience to resolve the institution to maintain financial stability, protect creditors, and limit external damage. A credit institution was unviable in the following circumstances: when it breached solvency requirements, its required liabilities exceeded its assets, or it was unable to fulfill its enforceable obligations in a timely manner—and it could not remedy these circumstances by use of its own means, private markets, or restructuring aid (Official State Bulletin 2012).

Resolution proceeded when the entity did not present a restructuring plan or demonstrated its own unviability, presented an inadequate plan, or did not execute aspects of the plan within the timeframe established by the Bank of Spain and the FROB. The Bank

bridge bank was not to exceed the value of assets transmitted from the entity or from any other source, including the financial support it received. The FROB was able to exercise this clause more than once in favor of more than one bridge bank, as well as transfer assets and liabilities to third parties. The FROB managed the bridge bank with the objective of selling it or its assets and liabilities within five years when conditions were appropriate. This sale was to be done under competitive market conditions. The bridge bank ceased to exist after one year from FROB's exit, or after all assets and liabilities were sold. This therefore occurred within six years of its founding, or the FROB liquidated it.

of Spain began resolution processes by reporting its decision to the FROB, Ministry of Economy and Competitiveness, and where appropriate, the European Union and European Banking Authority. The Bank of Spain then designated FROB as administrator of the entity. Within two months (the Bank of Spain could extend this deadline to six months), the FROB prepared a resolution scheme for the entity to be approved by the Bank of Spain; the scheme had to include the reason for resolution, the resolution instruments to be implemented, the commitments adopted to minimize the use of public resources and distortion of competition, the financial support measures to be implemented by the deposit guarantee fund for credit institutions, the economic valuation of the entity and its balance sheet, the management actions of the capital and subordinated debt instruments to be carried out, and the maximum execution period (Official State Bulletin 2012). The Bank of Spain had authority to impose additional requirements on entities under resolution processes.

The criteria for the resolution of an entity under Law 11/2015 were similar to those in Law 9/2012 with the addition that an entity that was unviable might also be defined as an entity that needed extraordinary public financial assistance (Official State Bulletin 2015).

Post-FROB III Resolution

After FROB III, the FROB also resolved Caja Rural Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla-La Mancha, a small rural credit cooperative that held less than one ten thousandth of the assets in the Spanish banking system (about €82.55 million). This was done in 2014 by selling it to Globalcaja in an emergency procedure, without any public funds, to maintain confidence in the sector. In 2015, due to concerns about money laundering in an Andorran institution, BPA, the FROB considered intervening in its subsidiary, Banco Madrid, which had a balance sheet of €1.3 billion. The FROB concluded that a resolution through restructuring was inappropriate, and this resulted in the only exercise of the Deposit Guarantee Fund in Spain during the recent financial crisis, and most payments were executed without any problems. However, the court that was intended to advise voluntary insolvency procedures for Banco Madrid still has not handed down a ruling (Ponce Huerta 2019).

III. Evaluation

The IMF assesses the FROB's activities post-2012 as largely positive, contributing to a stronger economy, a more stable financial sector, and reduced risk (IMF 2017). The IMF praises the additions of bail-in restructuring processes, banking reforms, corporate governance replacements, and overall economic reforms as successful. However, the FROB still faces losses on Sareb and the possibility of general economic issues.

The European Stability Mechanism, which disbursed a €41.3 billion loan to the FROB in 2012–13, sees the FROB's subsequent actions as well prepared to define the scope of necessary measures to repair the banking sector (Strauch 2019). This was done by including strategies such as improving bank governance, transparency, and supervision, as well as the creation of Sareb, in addition to capital and funding policies. The ESM and

European Commission also have supported other Spanish reforms in the labor market as well as fiscal and pensions reform. Immediate results of the FROB activity were visible in the quick stabilization of market access in the banking sector, the decrease in funding costs, and bank consolidations; the number of cajas fell from 45 to two. Banks stabilized profitability, reduced holdings of nonperforming loans, increased capital, and diminished exposure to the real estate sector by use of the asset management company, Sareb. Long-term success is seen in Spain's return to economic growth in 2014, an area in which it outperformed the euro area average. Employment increases, competitiveness gains, economic rebalancing, increased exports, and a current account surplus indicate an economic recovery reflected in rating upgrades and low borrowing costs for Spain.

The FROB created new merged banks that were more solvent and better managed than the insolvent cajas that preceded them (de Juan 2019). However, more than 10% of banks' loans were nonperforming as of 2019, and the post-crisis economy still contains lower volumes of credit. This number had lowered to 4.5% of loans being nonperforming as of January 2021. De Juan believes that low returns are compounded by the instability caused by easy monetary policy and deregulation. The restructuring activity was significant, as the banks that received public support accounted for 18% of total assets (Ponce Huerta 2019). In 2012, total deposits at Spanish banks amounted to €1.3 trillion, of which €700 billion was covered by the Deposit Guarantee Fund; of that amount, €250 billion was at banks that received recapitalization aid.

The EU has concluded that the FROB helped improve the resilience of the banking system and reduced the risks of financial instability. It notes that emergency recapitalization and burden sharing for losses are important aspects of FROB's powers. It also commends the FROB for adapting to changing international standards. These measures for stability are balanced with efficiency, as they reduce the potential burden on public finances and the negative impacts on restructured banks. The restructuring processes of Spanish banks were timely, occurring less than six months after EU State Aid rules were adopted. This was key to restoring confidence in the Spanish banking system, and maintaining macrofinancial stability, in conjunction with European and Spanish policies (EC 2016).

Former FROB Chairman Jaime Ponce Huerta reported in spring 2019 that the FROB's ability to repay the Spanish government depends on three factors. First is the pending divestment of an indirect 61% stake in Bankia, following its merger in BMN, by the legal deadline of December 2021. This merger has created a bank of about €230 billion in assets—the aim is to improve recovery value for FROB and private investors (which hold around 35% of total shares). Second is the performance of Sareb, which is subject to risk from the performance of the real estate market itself, as well as the rate of divestment and the ability to absorb assets, high financial costs, and high overheads. Third is the behavior of guarantees offered by FROB in the divestment process, which, if significantly different than the expected loss of €2.5 billion, may also affect FROB's ability to repay its debt. Though Spain did use a great deal of capital aid (between 5% and 6% of GDP) relative to other European countries, the profitability and efficiency of Spanish banks has improved greatly (Ponce Huerta 2019).

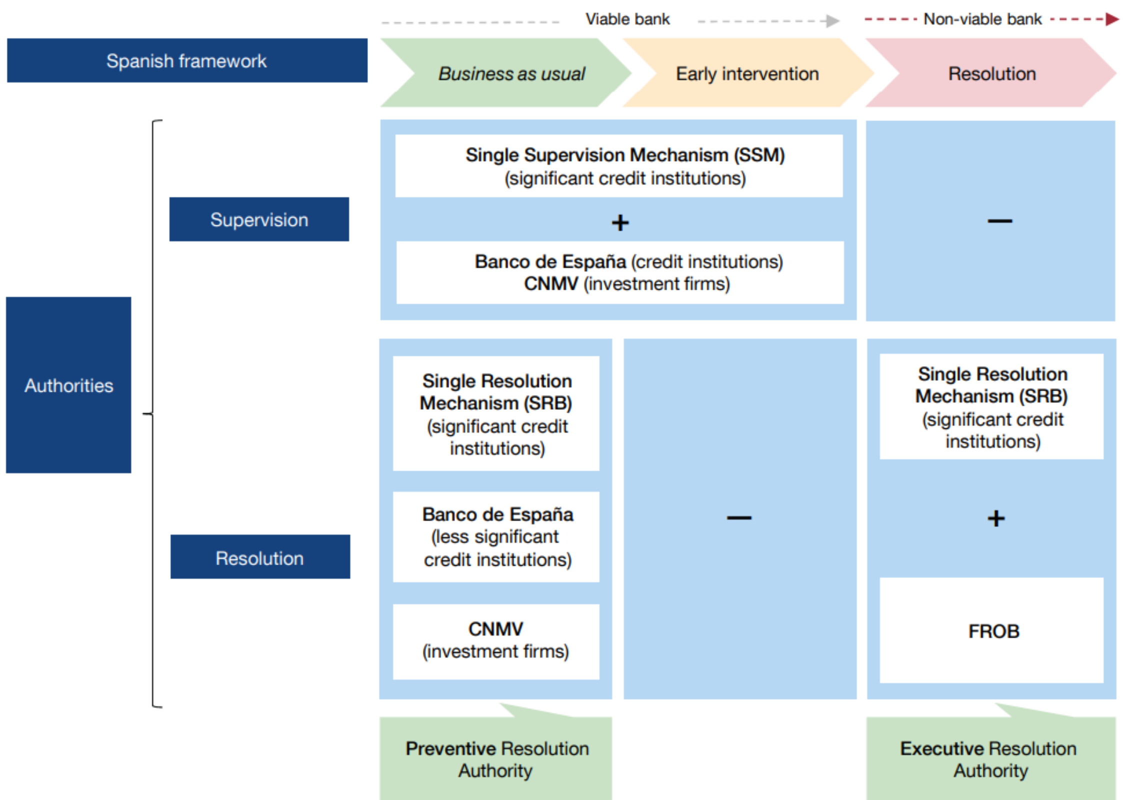
As of December 2016, uncertainty remained about the legal contingencies the FROB faced on guarantees it had granted to the acquiring institutions of resolved banks, including those against the ruling by the European Court on the floor clauses of bank mortgage interest rates, as these potential losses must be absorbed by FROB (IMF 2017).

However, Spain also faces the challenges of high public debt; unemployment that is higher than the that of the euro area, on average; low productivity; and significant net external liabilities. Losses from Sareb also have exceeded expectations, and the privatization of Bankia and cajas reform are still incomplete (EC 2019). Banks also face profitability pressure from price correction of assets and the low-interest-rate environment. However, Rolf Strauch, chief economist of the ESM, views Spain as a "European success story in overcoming the crisis" and is certain in its ability to overcome these challenges. The Spanish stability program was the first that was supported by the European Stability Mechanism, and Strauch believes that this intervention demonstrates the ESM's success in protecting the euro area (Strauch 2019).

The European Commission remains concerned about the quality of banks' loan portfolios, which reflect a nonperforming loan ratio above 10% of total loans, and increases in foreclosed assets (EC 2016).

On the other hand, Ponce Huerta states that by creating a resolution infrastructure that focuses on prevention and planning compatible with the European framework and that is financed by the banks themselves, Spain seeks to avoid the difficulties faced by European countries due to failing banks in the financial crisis (Ponce Huerta 2019). Spain separates the supervision authorities from the FROB's resolution authorities. As shown in Figure 5 below, there are three resolution authorities in Spain; the Bank of Spain and CNMV are preventative resolution authorities for banks and investment companies, respectively, while FROB is an executive resolution authority.

Figure 5: Institutional Architecture of Supervision and Resolution in Spain



Source: Ponce Huerta 2019.

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VI. Appendixes

Appendix A: FROB Programs between 2009–12 and Sareb's Asset Purchases

		In € billion				
		FROB 1	**FROB 2**	**FROB 3**	**SAREB (net)**	**Total**
Banks transferred to private investo	**Merged institutions**					
CatalunyaBank→ BBVA	Catalunya, Tarragona, Manresa	1.3	1.7	9.1	6.7	18.8
Nova CaixaGalicia→ Banesco group	Galicia, Caixanova	1.2	2.5	5.4	5.1	14.1
Banco de Valencia→ Caixa	Single entity	-	1.0	4.5	2.0	7.5
Liberbank→ Merger of Cajastur, Caja de Extremadura and Caja Cantabria	Single entity	-	-	0.1	2.9	3.0
CEISS→ Unicaja	Caja España-Duero	0.5	-	0.6	3.1	4.3
Grupo Cajatres → Ibercaja		-	-	0.4	2.2	2.6
Banca Cívica→ Caixa	Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	1.0	-	-	-	1.0
Unnim→ BBVA	Manlleu, Sabadell, Terrassa	0.4	0.6	-	-	0.9
Banco Gallego→ Sabadell	Single entity	-	-	-	0.7	0.7
		4.3	**5.7**	**20.1**	**22.7**	**52.9**
Banks under FROB's owneship						
BFA-Bankia	Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	4.5	-	18.0	22.3	44.7
Banco Mare Nostrum	Murcia, Penedés, Sa Nostra, Granada	0.9	-	0.7	5.8	7.5
		5.4	**-**	**18.7**	**28.1**	**52.2**
		9.7	**5.7**	**38.8**	**50.9**	**105.1**

Source: FROB, Sareb and staff calculations

Source: IMF 2017.

Appendix B: Chronological Summary of Spanish Interventions 2008–11

Chronological Summary of Spanish Interventions 2008–11

October 10, 2008: Royal Decree-law 6/2008, which created Fondo para la Adquisición de Activos Financieros (FAAF)

October 10, 2008: Royal Decree-law 1642/2008, which reformed the deposit guarantee funds

October 13, 2008: Royal Decree-law 7/2008, on urgent financial and economic measures

June 26, 2009: Royal Decree-law 9/2009, which created the Fondo de Reestructuración Ordenada Bancaria (FROB)

June 29, 2010: Bank of Spain Circular 3/2010, amending Circular 4/2004 (on December 22) on public and reserved financial information standards, and models of financial statements

July 9, 2010: Royal Decree-law 11/2010, on the reform of the savings bank sector

February 18, 2011: Royal Decree-law 2/2011, on strengthening the solvency requirements of credit institutions

June 3, 2011: Royal Decree-law 771/2011, modifying Royal Decree-law 216/2008 (on February 15), on the resources of financial institutions, and Royal Decree-law 2606/1996 (on December 20), about deposit guarantee funds of credit institutions

October 14, 2011: Royal Decree-law 16/2011, reuniting the three deposit guarantee funds.

November 30, 2011: Bank of Spain Circular 5/2011, modifying Circular 4/2004 (on December 22) about standards for public and reserved financial information and models of financial statements

Source: (BdE 2017a).

Appendix C: FROB I Involvements

€m

Financial institutions	Date	Amount	Observations	Assets (a)
Catalunya Caixa (merger of the Caixa Catalunya, Caixa Manresa and Caixa Tarragona savings banks)	March 2010	1,250	Preference shares subsequently capitalised.	76,600
CEISS (merger of Caja España and Caja Duero)	March 2010	525	Preference shares subsequently capitalised.	45,700
BMN group IPS (integration of the Caja Murcia, Caixa Penedès, Sa Nostra and Caja Granada savings banks)	June 2010	915	Preference shares subsequently capitalised.	73,000
Banco Financiero y de Ahorros IPS (integration of the Caja Madrid, Bancaja, Caja de Ávila, Caja de Segovia, Caja de Rioja, Caixa Laietana and Caja Insular de Canarias savings banks)	June 2010	4,465	Preference shares subsequently capitalised.	328,000
Nova Caixa Galicia Banco (merger of Caixa Galicia and Caixanova)	June 2010	1,162	Preference shares subsequently capitalised.	73,500
Unnim (merger of the Caixa Sabadell, Caixa Tarrasa and Caixa Manlleu savings banks)	July 2010	380	Preference shares capitalised and shares acquired by the Deposit Guarantee Scheme for Credit Institutions (DGSCI).	28,500
Banca Cívica IPS (integration of the Caja Navarra, Caja Canarias and Caja de Burgos savings banks in April 2010 and subsequent incorporation of Caja Sol and Caja Guadalajara in December 2010)	December 2010	977	Redeemed by CaixaBank in April 2013.	45,900
TOTAL		**9,674** (b)		**671,200**

SOURCE: FROB and Banco de España.

a Volume of assets resulting from each integration process.
b Independently from the aid to support the integration process by the subscription of preference shares, in May 2010 the FROB approved temporary financial assistance of €800 million for CajaSur, through the subscription of non-voting equity units. As this amount was not included in the institution's restructuring plan it was repaid to the FROB in December 2010 when CajaSur was sold to Bilbao Bizkaia Kutxa (BBK) in a competitive process.

Source: BdE 2017a.

Appendix D: Savings Bank Sector and FROB/FGD

€m

Original savings banks (45 groups)	New groups at 31.12.2011 (15 groups)	Model of integration	Aid			Total assets at 31.12.2011
			FROB I (a)	FROB II (b)	DGS (c)	
Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Rioja, Caixa Laietana, C.I. de Canarias	BFA-Bankia (2010)	IPS	4,465			312,343
Caja Murcia, Caixa Penedès, Sa Nostra, Caja Granada	BMN (2010)	IPS	915			67,201
Caja Navarra, Caja Canarias, Caja Burgos, CajaSol, Caja Guadalajara	Banca Cívica (2010)	IPS	977			71,827
Caja Inmaculada, Caja C. de Burgos, Caja Badajoz	Caja 3 (2010)	IPS				20,725
Caixa Catalunya, Caixa Manresa, Caixa Tarragona	Catalunyacaixa (2010)	Merger	1,250	1,718		77,049
Caixa Sabadell, Caixa Terrasa, Caixa Manlleu	Unnim (2010)	Merger	380	568		29,288
Caja España, Caja Duero	CEISS (2010)	Merger	525			42,337
Caixa Galicia, Caixanova	Novacaixagalicia (2010)	Merger	1,162	2,465		72,236
Unicaja, Caja Jaén	Unicaja (2010)	Merger				38,155
La Caixa, Caixa Girona	La Caixa (2010)	Merger				376,701
Caja Asturias + CCM, Caja Cantabria, Caja Extremadura	Liberbank (2011)	IPS			1,740 + APS 1,715	50,847
BBK + CajaSur, Caja Vital, Kutxa	Kutxabank (2011)	IPS	800 + APS 392			70,951
Ibercaja		—				45,144
Ontinyent		—				914
Pollença		—				353
CAM	Sold to Banco de Sabadell (2011)				5,249 + APS 1,145	70,805
TOTAL			**10,474 + APS 392**	**4,751**	**6,989 + APS 2,860**	

SOURCES: FROB, DGF and Banco de España.

a Aid granted pursuant to Royal-Decree Law 9/2009 (FROB I) through subscription of preference shares.
b Aid granted pursuant to Royal-Decree Law 2/2011 (FROB II) through subscription of ordinary shares.
c Expected value of asset protection schemes (APSs) at 31.12.11 is given.

Source: BdE 2017a.

Appendix E: FROB II Support Initially Committed

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.

Source: FROB 2019.

Appendix F: FROB II Support Injected

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.

Source: FROB 2019.

Appendix G: FROB Losses

SUMMARY OF ASSISTANCE AS AT 31.12.18 IN FINANCIAL SYSTEM RESTRUCTURING (a)

	Institution	Assistance			Amount recovered	Estimated amount recoverable (d)	Net assistance
		Capital and hybrid instruments (b)	APSs (c)	Guarantees (c)			
FROB	BFA-Bankia+ BMN	24,069				9,560	-14,509
FROB	Catalunya Banc	12,052		547	782		-11,817
FROB	Novacaixagalicia	9,052		352	783		-8,621
FROB	Banco de Valencia	5,498	439	166			-6,103
FROB	CEISS	1,129 (e)		430	604		-955
FROB	CajaSur	800	392		800		-392
FROB	Banco Gallego	245		0			-245
FROB	Banca Cívica	977 (e)			977		0
FROB	Caja3	407 (e)			407		0
FROB	Liberbank	124 (e)			124		0
FROB	**TOTAL**	**54,353**	**831**	**1,495**	**4,477**	**9,560**	**-42,642**
FROB	Adjustment for initial investment of DGSCI in FROB (f)						2,250
FROB	Adjustment for guarantee provided by FROB to DGSCI for hybrid instruments (g)						-145
FROB	Adjustments for FROB's holding in Sareb (investment of €2,192 million) (h)						-2,024
FROB	**TOTAL ADJUSTMENTS**						**81**
FROB	**NET TOTAL**						**-42,561**
DGSCI	CAM	5,249	7,225		16		-12,458
DGSCI	CCM	1,740	2,475		59		-4,156
DGSCI	Unnim	953	1,949				-2,902
DGSCI	Catalunya Banc (i)	1,001		269	383		-887
DGSCI	Novacaixagalicia (i)	802		144	290		-656
DGSCI	**TOTAL**	**9,745**	**11,649**	**413**	**748**		**-21,059**
DGSCI	Adjustment for initial investment of DGSCI in FROB (f)						-2,250
DGSCI	Adjustment for guarantee provided by FROB to DGSCI for hybrid instruments (g)						145
DGSCI	**TOTAL ADJUSTMENTS**						**-2,105**
DGSCI	**NET TOTAL**						**-23,164**
TOTAL AMOUNT							**-65,725**

SOURCES: FROB and DGSCI

a) These amounts do not include the interest and fees received or paid, or the expenses incurred. Aside from the funds provided by the FROB and the DGSCI, it should be noted that the Spanish central government, as part of concerted action undertaken with the other euro area countries between 2009 and 2012, took two measures to improve the liquidity of credit institutions: *Fondo para la Adquisición de Activos Financieros* (Fund for the Acquisition of Financial Assets – FAAF by its Spanish abbreviation) and the granting of State guarantees to back certain issues. Regarding the first measure, the FAAF was liquidated in June 2012 with a €650 million gain for the State arising from interest received. Regarding the guarantees granted to back issues by credit institutions, more than €110,000 million of guarantees were granted giving rise to State revenue of €3,060 million from fees received. All the issues guaranteed have been redeemed.

b) Hybrid instruments: preference shares (*participaciones preferentes*), contingent convertible bonds (CoCos) and non-voting equity units (*cuotas participativas*).

c) Value of Asset Protection Schemes (APSs) and other guarantees: value estimated by independent experts at end-2018.

d) This figure is based on the amount estimated by the FROB and stated in its annual accounts.

e) CEISS: of the €1,129 million of assistance received in capital and hybrid instruments, €604 million are CoCos that were redeemed. CEISS currently forms part of Unicaja Banco.
Banca Cívica: €977 million in preference shares that were redeemed when it was merged into CaixaBank.
Caja 3: €407 million in CoCos, fully redeemed.
Liberbank: €124 million in CoCos that were redeemed.

f) The DGSCI had a holding of €2.25 billion in the FROB. That investment was lost when the FROB reduced its net assets to zero in 2012 (in view of the equity resulting from the FROB's 2011 accounts). Accordingly, part of the assistance provided by the FROB was financed by the DGSCI.

g) The DGS provided liquidity to retail holders of unlisted shares of institutions controlled by the FROB received as part of the hybrid instrument burden-sharing exercises. In this respect, the FROB issued a guarantee to the DGS valued at €145 million as at 31.12.18.

h) The FROB contributed €2,192.4 million to Sareb (part shares, part subordinated debt). That investment is recorded in the FROB's accounts at €168.5 million (value of the subordinated debt in the FROB's accounts), after recording losses of €2,024 million (in 2016 Sareb resolved to reduce its capital to zero and capitalise 60% of the subordinated debt).

i) The DGSCI's holding in the share capital of these institutions arose as a result of the liquidity arrangements it offered to retail investors who had purchased hybrid instruments in the institution.

Note: According to a commenter familiar with FROB, this table reflects a specific situation as of the end of 2018. The €9.560 billion recoverable amount stated for BFA-Bankia (footnoted), though the Bank of Spain states as the amount that FROB estimates in its annual accounts, is not such: €9.560 billion is the accounting value that FROB registered in its annual accounts, based on the book value of the entity as of December 2018.

Source: BdE 2019.

Appendix H: FROB Bailouts

ANNEX

Record of FROB bailouts

Entities involved	APS and guarantees	Shares, preference securities or CoCos	Recoveries (FROB)(*)
Catalunya Banc Catalunya, Tarragona, Manresa	547	12,052	782
CEISS Caja España-Duero	430	1,129	604
Nova CaixaGalicia Galicia, Caixanova	352	9,052	783
*Banco Gallego (spun off from NCG)	-	245	-
BFA-Bankia Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	-	22,424	-
Banco Mare Nostrum Murcia, Penedés, Sa Nostra, Granada	-	1,645	-
Banca Cívica Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	-	977	977
Banco de Valencia	605	5,498	-
Liberbank G. Cajastur, C. Extremadura, C. Cantabria	-	124	124
Caja3 CAI, C. Círculo, C. Badajoz	-	407	407
Caja Sur	392	800	800
Interest collected through coupons and others	-	-	**1,434**
FROB injection	**2,326**	**54,353**	**-**
Sareb	**-**	**2,192**	**-**
Total	**2,326**	**56,545**	**5,911**

(*)The bailouts that will ultimately be collected will depend on the performance and final divestment of FROB's investees (BFA/Bankia with BMN, and Sareb). This column does not include: EUR 1.304 billion from the sale of 7.5% of Bankia in January 2014; EUR 818.3 million divested through the sale of 7% of Bankia in December 2017; and EUR 962 million of dividends paid out by Bankia for 2014 to 2018, as the amounts received are retained in BFA.

Source: FROB 2018.

Appendix I: Functions of FROB

Table 11. Map of FROB's functions

Resolution process phases

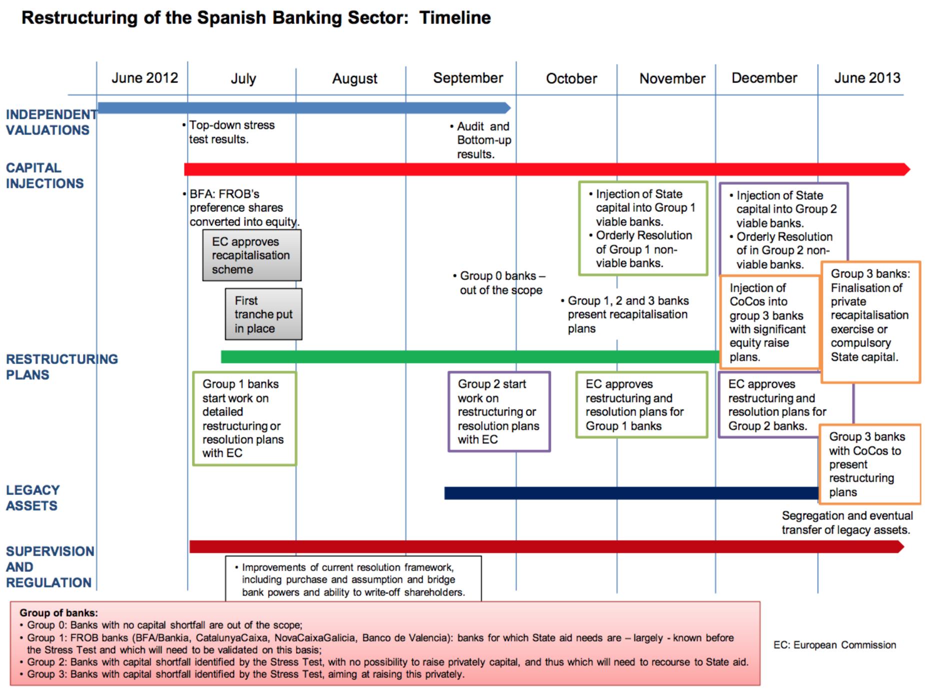
Resolution functions	I Preparation of resolution	II Resolution	III Supervision of resolution	IV Exit strategy
Resolution management	• In-house planning and preparation to optimise resolution measures • Preparation and updating of crisis management manuals and action protocols • Performance of simulations • Collaboration with preparing and updating resolution plans • Reporting on resolution plans and exercising Spanish vote on the SRB	• Launching resolution process (less significant institutions) after declaration that an institution is no longer viable: analysis of alignment with public interest and lack of private sector solutions • Evaluation of need to begin viability analysis • Collaboration with the SRB to launch resolution schemes for significant institutions • Design and approval of resolution scheme for less significant institutions • Execution of resolution powers and instruments	• Supervision of implementation and fulfilment of commitments of resolution schemes • Supervision and control of banks placed into resolution • Supervision and management of guarantees given in divestments • Handling of legal disputes related with institutions placed into resolution • Supervision of bridge institutions or asset management vehicles (AMV) and business restructuring plans • AMV oversight • Updating of manuals	• Design of sell-off or divestment of institutions, bridge institutions, portfolios or business lines • Execution and supervision of sell-offs • Monitoring of markets and economy • Investor relations
	Coordination of analytical capabilities and supervision of institutions			
	Design and implementation of *Resolution Policy*			

Support functions

Function					
Legal	Legal advice on action by the FROB and Governing Committee Secretary	Acting on behalf of the FROB in legal proceedings to defend its interests	Supervision of and participation in drafting rules related with the FROB's work		
Corporate resource management and control	Training	Training	Administration and general services	Regulatory compliance and internal control (risks,	Liaison with external control bodies
	Knowledge management	Contracting and outsource framework	ITC strategy and management	In-house procedures	
Financial	Budget and finance management	Cash management	Management of Resolution Fund		
Communications	Design and implementation of in-house and external communications strategy	Management of image and institutional culture	Institutional relations and events		
Reporting	Coordination of institutional reporting	Quarterly reports to Congress	Submission accounts to Gov. Committee	Appearances of Chairman before Parliament	Reporting to investors
Strategy	Monitoring of strategic plan	Design of corporate strategy	Market scanning of market agents		

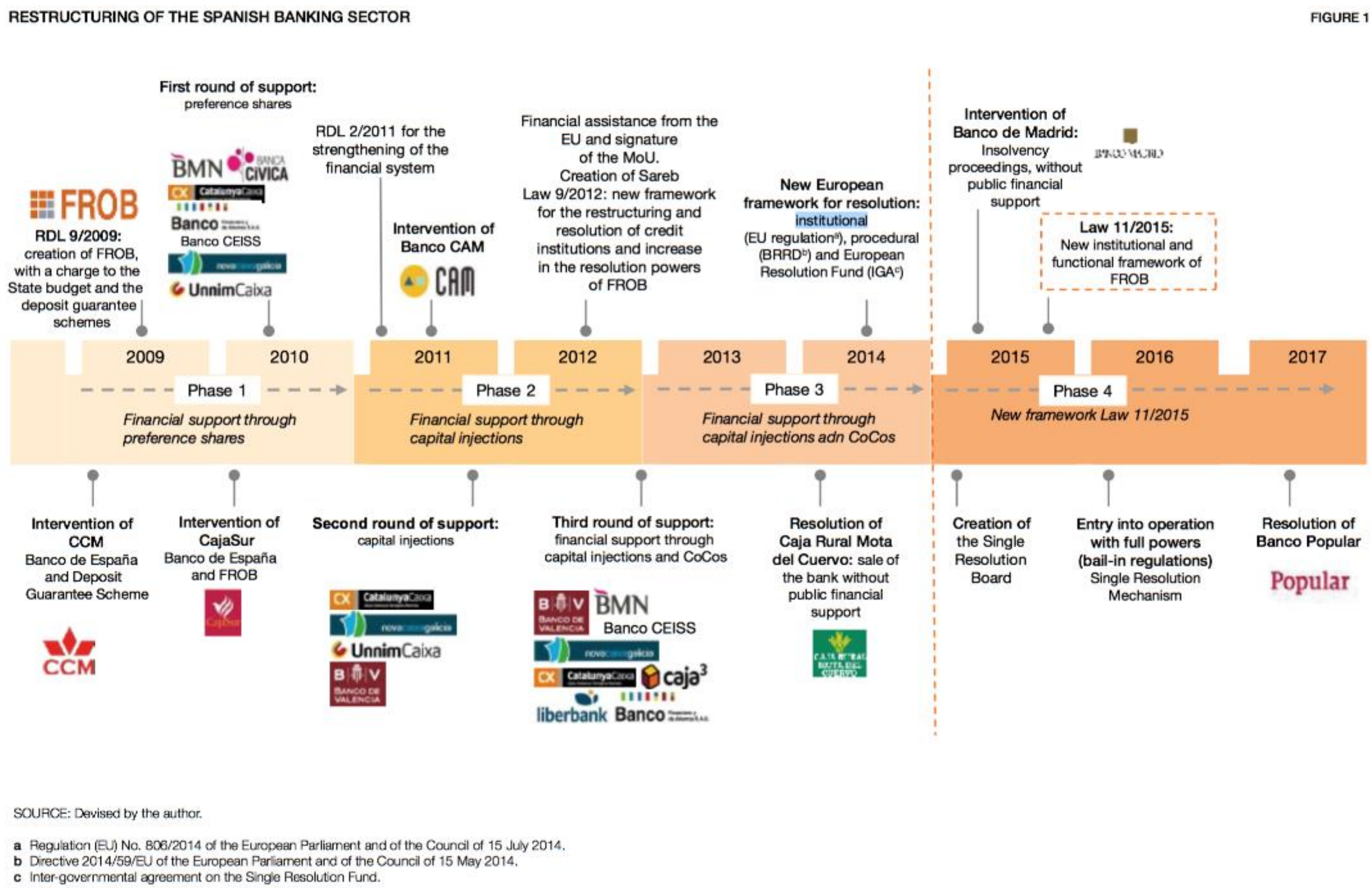
Source: FROB 2018.

Appendix J: Timeline of Spanish Banking Sector



Source: EC 2012.

Appendix K: Timeline of FROB Activities



Source: Ponce Huerta 2019.

Appendix L: FROB 2009–16 Finances

Table 4. FROB-Latest and Initial B/S & Equity Activities Between 2009-16 (in €billion)

	2016	2009		2016	2009
Cash & liquid assets	1.0	12.0	Bonds w/state guarantee	0.5	3.0
Investments	10.6	-	Owe to Treasury, due 2022-27	13.4	-
BAF-Bankia	9.2	-	Asset Protection & guarantees, provision	1.4	-
BMN	0.5	-	Repo and others	0.6	-
Sareb	0.8	-	**Equity Fund, net**	**(1.6)**	**9.0**
			Memo items. Equity activities between 2009-16 are largely comprised by:		
Other investments	2.7	-	***Capital injections***	**42.0**	**9.0**
CoCos in Ceiss	0.6	-	*State, cash*	12.7	6.7
Sareb,sub debt	0.7	-	*Deposit guarantee Fund (DGF), cash 1/*	2.3	2.3
Other	0.7	-	*Public debt conversion*	27.0	-
Public debt	0.7	-	***Losses (main sources)***	**(43.5)**	-
			Assets Impairment	(41.1)	-
			Asset protection programs	(1.3)	-
			Operational	(1.2)	-
Total assets	**14.3**	**12.0**	**Total liabilities and equity**	**14.3**	**12.0**

1/ As of today, DGF capital investment in FROB has been completely wiped out due to losses cummulated through 2012 .

Source: IMF 2017.

Appendix M: Stress Test Plans for FROB III

€m

Institution	Type of plan	Capital needs	Measures to cover the shortfall (a)					
			State aid	Capital increase	Hybrid instrument burden-sharing	Transfer to Sareb (b)	Sale of assets (b)	Other (b)
Group 1								
BFA-Bankia	Restructuring	24,743	17,959	0	6,669	191	0	0
Catalunya Banc	Resolution	10,825	9,084	0	1,676	188	0	0
Nova Caixa Galicia	Resolution	7,176	5,425	0	1,959	-276	0	0
Banco de Valencia	Resolution	3,462	4,500	0	416	208	0	63
Group 2								
Banco Mare Nostrum	Restructuring	2,208	730	0	425	382	851	0
Liberbank	Restructuring	1,197	124	0	850	145	215	0
CEISS	Resolution	2,062	604	0	1,433	263	0	0
Caja3	Restructuring	779	407	0	44	228	0	108
Group 3								
Banco Popular		3,223	0	2,500	0	0	328	417
Ibercaja		225	0	0	0	0	150	93
TOTAL		**55,900**	**38,833**	**2,500**	**13,472**	**1,329**	**1,544**	**681**

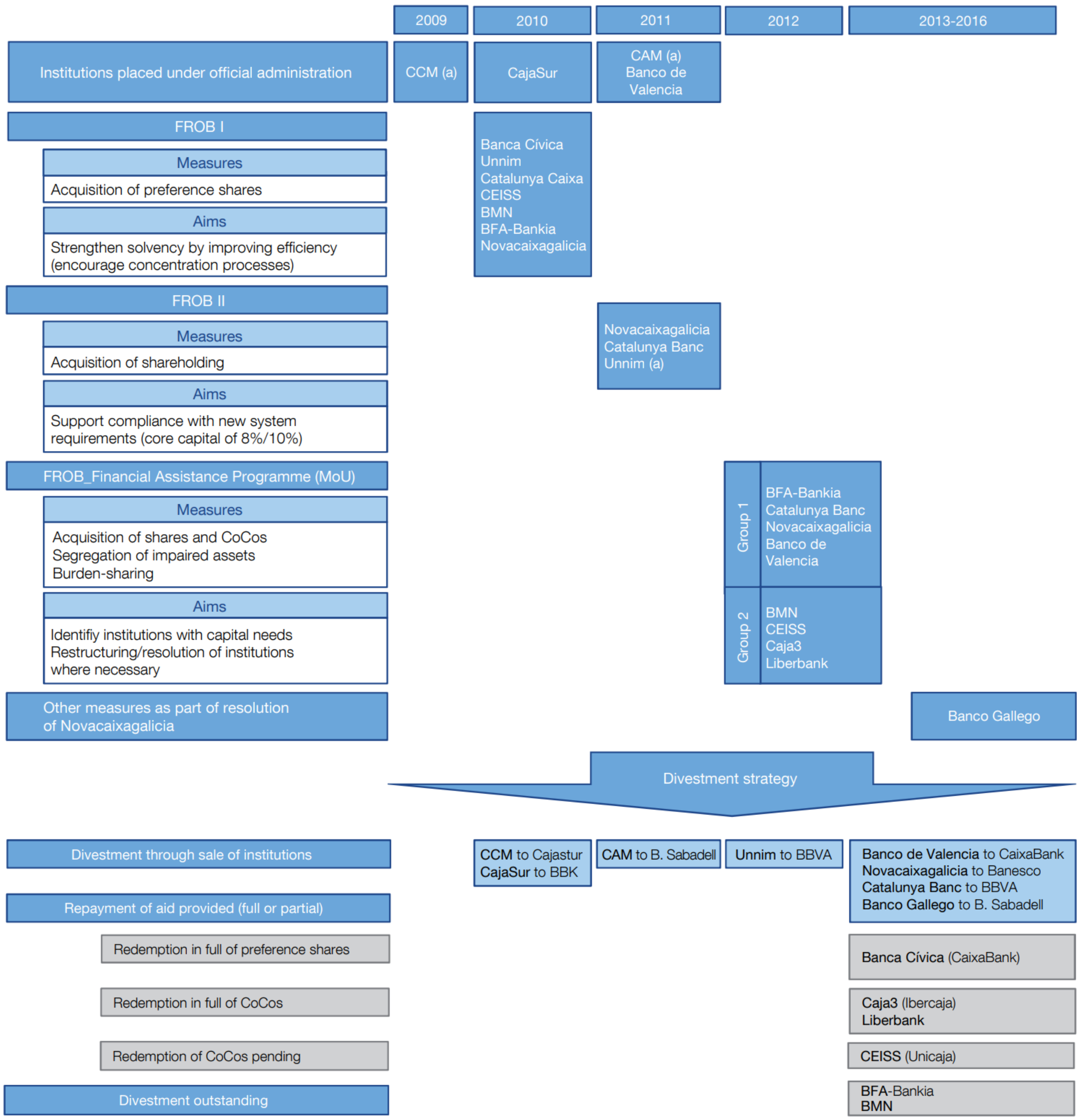
SOURCES: FROB and Banco de España.

a The sum of the measures indicated in the table does not give the amount of capital needs estimated in the aforementioned bottom-up analysis. Note that following said analysis, compliance or resolution plans were prepared which considered different measures to cover capital needs. Subsequently, when the plans were put into practice, as in the case of the hybrid instrument burden-sharing exercise or the sale of assets, the outcome of the specific measure in question was different from that envisaged initially, thus giving rise to the above-mentioned differences.

b Reduction of capital needs due to the transfer of assets to Sareb, the sale of assets and other measures, respectively.

Source: BdE 2017a.

Appendix N: Full Summary of FROB Purchases and Divestments



SOURCE: Banco de España.

a These institutions received assistance from the Deposit Guarantee Scheme (DGS).

Source: BdE 2017a.