

# Fondo de Reestructuración Ordenada Bancaria (FROB) Capital Injections (SP GFC)

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## Abstract

The Spanish government created the Fund for the Orderly Restructuring of the Banking Sector (FROB) in 2009 to perform temporary capital injections that facilitated mergers and acquisitions of struggling institutions and restructuring processes (BdE 2017 p. 117). The FROB used preferred shares, and later ordinary shares and contingent convertible bonds to recapitalize struggling Spanish credit institutions (See KDD 6). The FROB issued €54.353 billion of total capital injections in three rounds (BdE 2017 p. 247). FROB I in early 2010 merged insolvent regional savings banks or *Cajas* into larger, more solvent banks through the subscription of preferred shares. FROB II in 2011-2012 recapitalized struggling banks using ordinary shares, and FROB III in 2012-2013 recapitalized banks that had failed a stress test by subscribing shares and purchasing contingent convertible bonds. The FROB gained powers of resolution, and was supplemented with an asset management company, Sareb, of which it owns 45%, in 2012 (Ley 9/2012). As of December 2018, the FROB still has €50.634 billion outstanding in a variety of institutions (Appendix 9). The FROB's timely capital injections helped capitalize Spanish banks and prevent a systemically damaging insolvency, but it is expected to experience losses, especially from its stake in Sareb.

**Keywords:** Spain, Capital Injections, FROB, Sareb, Global Financial Crisis, Recapitalizations, Resolution

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# FROB (SP GFC)

## At a Glance

The global financial crisis hit Spain's economy and real estate sector in 2009. Concerns about the regional savings bank sector, or *cajas*, and their exposure to real estate were realized in the failure of Caja Castilla-La Mancha. This spurred the Spanish government to implement the Fondo de Reestructuración Ordenada Bancaria (FROB), known in English as the Fund for Orderly Bank Restructuring.

In 2010, the FROB purchased 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 Real Decreto-ley 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 and repurchase shares. Injections made in 2011-2012 adhered to this law and the new Basel III capital requirements, and constituted FROB II. In 2012, the Spanish government gave the FROB powers to restructure through the purchase of contingent convertible bonds (CoCos) as well as preferred and ordinary shares. Spain also made FROB a resolution authority, and established the asset management company, (also known as a "bad bank") Sareb. These policies were pursuant to a Memorandum of Understanding between Spain and the European Commission, which recommended plans for resolution and asset management in Spain's financial stability framework. It also required an independent consultant to perform stress test on major Spanish banks, and group them into categories of solvency. The FROB made a series of capital injections to banks that failed this stress test in 2012-2013 (FROB III) using shares and CoCos.

## Summary Evaluation

The FROB ultimately made approximately €54.353 billion in capital injections, of which relatively little has been recovered (Appendix 9). It also holds a 45% stake in Sareb, the Spanish bad bank. The FROB's capital injections were generally successful in capitalizing and stabilizing the banking sector and preventing a serious destabilizing insolvency in the banking sector (Ponce Huerta; Strauch). The FROB's current form, which includes the ability to resolve institutions in line with the Single Supervisory Mechanism, is part of what is viewed a robust systemic risk prevention infrastructure. However, the FROB faces challenges in recovering some of its injections, particularly those in Sareb. In addition, Spain faces economic challenges with unemployment and slow growth that may prove to be issues for the FROB.

### Summary of Key Terms

**Purpose:** FROB will execute 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: Real Decreto-ley 9/2009  
Current: Ley 11/2015

**Peak Utilization** € 54.353 billion (BdE 2017 p. 247)

**Participants** Several

**Administrators** Bank of Spain; Deposit Guarantee Funds ;  
Ministry of Economy and Finance

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## **I. Overview**

### **Background**

Prior to the global financial crisis, the Spanish economy was dealing with private sector debt, weak competitiveness and other imbalances that were slowly being resolved (IMF Technical Note p. 7). In early 2009, Spanish banks began to feel stress from the global financial crisis with liquidity shortages and real estate asset deterioration (Real Decreto-ley 9/2009 p. 53194). The resulting credit tightening was especially difficult on SMEs and households, which were already suffering from the deterioration of the international crisis in October 2008. Prior to this, financial institutions had assumed the first impact of the crisis in late 2007 and early 2008 without encountering serious problems (BdE 2017, p. 127). As the crisis worsened, Spain initially established a temporary state guarantee scheme and created 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). The FAAF guaranteed the financing of credit institutions and increased the amount guaranteed by Deposit Guarantee Funds to contain the costs of the financial crisis (Real Decreto-ley 9/2009 p. 53194). FAAF was discontinued in January 2009 (IMF Technical Note p. 8)

In 2009, the Spanish real estate sector was hit and the domestic economy entered a severe recession, with banks suffering greatly (IMF Technical Note p. 8). Specifically, there was a growing fear that the national network of regional savings banks or Cajas, were suffering from bad loans and did not have enough capital to deal with them (Mayer Brown p. 4). In March 2009, Caja Castilla-La Mancha (which had a balance sheet of €24 billion) failed to meet its capital requirements, and the Bank of Spain replaced its directors, while the Deposit Guarantee Scheme provided €7 billion of liquidity before selling the bank and granting an asset protection scheme (Ponce Huerta 28). Given the possibility of further bank failures, the Bank of Spain contacted 15 international investment banks (Gonzalo Alconada). It sought to accelerate the rate at which a recapitalized entity could be purchased. However, it was clear that this framework was sufficient only for idiosyncratic crises, not the impending systemic crisis (Ponce Huerta 28).

### **Program Description**

In June 2009, in the face of a more widespread crisis, 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 without disrupting previous crisis treatment mechanisms like Deposit Guarantee Funds for Credit Institutions (Real Decreto-ley 9/2009 p. 53194). The FROB had two objectives: to manage the restructuring processes of credit institutions that could not independently address their weaknesses, and to reinforce the resources of credit institutions participating in mergers and acquisitions (BdE 2017 p. 117).

Capital injections through the FROB happened in three phases: 1) searching for a private solution, 2) adopting measures to address weaknesses that affects the credit institution with

the participation of Deposit Guarantee Funds, who in turn got funding from the FROB, and finally 3) restructuring through FROB intervention (Real Decreto-ley 9/2009 p. 53194). The FROB's temporary acquisition of preferred convertible shares, was a stimulus to the process of a merger or acquisition and facilitated the streamlining of credit institutions to improve their efficiency (BdE 2017, p. 118). The recapitalized credit institution would repurchase the shares from the FROB as soon as possible and if they could not, the shares would be converted into common capital, as happened with the majority of FROB capital injections (p. 118-119).

FROB I, which extended from 2010 to 2011, was mostly focused on the merger and acquisition capacity, and acquired €9.674 billion in preferred shares from the savings bank sector, which resulted in the consolidations of savings banks from 46 entities to 15 entities between 2007-2011 (BdE 2017, p. 119). The Bank of Spain sought to create merged entities with assets exceeding €50 billion without any permanent public financial support (Gonzalo Alconada). It merged savings banks to clean up their balance sheets while achieving efficiency gains through reducing the number of branch offices and employees (de Juan Chapter 5.4).

In 2011, Spain sought to strengthen the solvency of its financial institutions, in line with the developments of what would later be Basel III (BdE 2017, p. 123). Real Decreto-ley 2/2011 established new capital requirements that conformed to international regulations and established the second set of FROB injections known as FROB II, which extended its capabilities to shareholder participation, and allowed it to better support those entities in conforming to the new capital requirements. FROB II acquired common shares of entities that did not meet capital requirements (BdE 2017, p. 124). The FROB acquired these shares at market value. FROB II introduced the idea of principal capital, which needed to equal 8% of risk-weighted assets of a credit entity, or 10% of the same if the entity was unlikely to raise quality capital. Principal capital is similar to the definition of common equity capital given in Basel III (OECD p. 65). However, this requirement was higher than the Basel III requirement, which was common equity capital of 4.5% of risk-weighted assets, and a CET1 (including a capital conservation buffer) of 7%. This requirement had to be met by March 2011 (one month after the law was published), with the possibility of extending the deadline to September 30 by establishing a strategy, subject to the approval of the Bank of Spain (BdE 2017, p. 124). It allowed time for credit institutions to reach minimum capital requirements by attracting private investors, going public, using corporate operations or seeking FROB assistance. For institutions that had met their capital requirements through FROB aid, the Bank of Spain could restrict dividend distribution, share issuance, and management bonuses if they defaulted on an amount of up to 20% of their required capital ratio. These FROB II participations required exit by sale of shares to third parties or to repurchase within five years (Real Decreto-ley 2/2011 p. 6). Further legal decrees established the FROB and Bank of Spain's supervisory capacity of recapitalized banks and unified deposit guarantee funds, as well as encouraging transparency on real estate exposure (BdE 2017, p.125; Appendix 2).

FROB III was launched in 2012 under the European Stability Mechanism program and Real Decreto-Ley 9/2012. FROB III had the authority of resolution and created an early action program that would allow FROB to monitor institutions that were struggling but not yet insolvent enough to require intervention (Ley 9/2012). It also allowed FROB to recapitalize

institutions not only through preferred and ordinary shares, but also through contingent convertible bonds (FROB III). It aimed to minimize systemic damage to the economy and the use of public funds in order to save institutions. It also established Sareb, the asset management company for banking restructuring, and enumerated its powers and purpose. More detailed discussion on Sareb can be found in [Tam Sareb (ESP GFC) 19-08-12].

Ley 11/2015, which was the Spanish transposition of the Bank Recovery and Resolution directive or BRRD built upon FROB III and formalized the processes of resolution while broadening the institutions eligible for assistance. It establishes competent supervisors (Bank of Spain, European Central Bank or National Securities Market Commission) that can help internally recover institutions that fail to meet capital requirements through early action (Article 6).

## Outcomes

The total amount of FROB aid amounted to €54.353 billion in a variety of capital instruments (BdE 2017 p. 247). FROB I integrated 25 cajas into seven new banks and injected €9.7 billion via preferred shares (IMF p.18). FROB II purchased €5.181 billion<sup>2</sup> of common shares to recapitalize four banking groups (of which three were already merged via FROB I) (Ponce Huerta p. 30).

Banks receiving support under FROB II

TABLE 2

Bank	Effective amount of aid (€m)	Date of agreement
CATALUNYA CAIXA (CX) Caixes d'Estalvis de Catalunya, Tarragona and Manresa <sup>a</sup>	1,718	29.09.2011
NOVACAIXAGALICIA Caixa Galicia and CaixaNova	2,465	29.09.2011
UNIÓ DE CAIXES (UNIM) (a) Caixes d'Estalvis Comarcal de Manlleu, Sabadell and Terrassa	—	29.09.2011
BANCO DE VALENCIA	998	21.06.2012
<b>Total recapitalisation processes</b>	<b>5,181</b>	

SOURCE: Devised by the author.

<sup>a</sup> Although the FROB subscribed €568 million in September 2011, the final cost of this aid was borne by the Deposit Guarantee Fund.

Source: Ponce Huerta, p. 30

The FROB borrowed €41 billion under the European Mechanism to fund FROB III (IMF p. 18). 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 (MoU). Oliver Wyman, Nomura, and Roland Berger conducted independent assessments of Spanish banks to determine their capital shortfalls, and FROB's participation (Fontevicchia). 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 2017, p. 13). Four entities [Novacaixagalicia, Catalunya Caixa, Caja de Ahorros Unión de Cajas de Manlleu, Sabadell and Tarrasa [UNNIM] and Caja de Ahorros del Mediterráneo

<sup>2</sup> Different sources differ. €5.7 on IMF p. 18; €4.751 from BdE 2017 p. 135.

[CAM]) requested FROB III support, which was given through the acquisition of ordinary shares, obligating the beneficiary entity to have the status of a bank (BdE 2017, p. 131).

It used direct recapitalization, as well as asset protection schemes (EPAs) and protections against contingent liabilities to transfer failing institutions to proper buyers. 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 resulting losses as of 2017 were about €44 billion (IMF p. 19). This required its recapitalization through debt conversion for €27 billion in 2012 (IMF p. 19). In June 2017, the Spanish government converted about €3 billion of state loans to FROB into equity. The FROB’s losses result in part from the failure of Abanca (formerly NCG), Bankia, Catalunya Caixa, and Valencia, amounting to about €38 billion.

As seen in Table 1 below, by the end of 2016, FROB still held about €11 billion in investments (IMF p. 8). FROB supported 8 out of 13 merger processes that consolidated 40 institutions, most of which were Cajas.

**Table 1: Legacy Assets and State Contingencies, end-2016**

(in billions of euros, unless indicated otherwise)

Item	Bank Assets	Sareb Assets <sup>1</sup>	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	
	<b>303.0</b>	<b>82.7</b>	<b>11.2</b>	<b>1.4</b>

<sup>1</sup> 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 p. 8

Between 2008-2011, the savings bank sector in Spain changed radically; 42 of the 45 institutions existing at the end of 2007 received capital injections from the Bank of Spain and were merged to 15 entities (BdE 2017 p. 132, 135). FROB was responsible for seven of these mergers during FROB I, though the deposit guarantee funds also contributed financial support.

The FROB accepted €38.8 billion in European assistance for recapitalization in 2012, and is repaying it; the remainder outstanding is €23.7 billion or 57% as of early 2019 (EC 2019 p. 6).

The FROB has recovered €5.911 billion of aid it dispersed as of 2019, of which €4.477 billion has come from bank sales and capital instrument repayments, and €1.434 billion comes from interest repayments (Ponce Huerta p. 34). This does not include the €2.8 billion received

from Bankia by way of dividends or the proceeds from selling shares of Bankia for €2.122 billion.

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
<b>Interest received on coupons and other</b>	—	—	<b>1,434</b>
<b>Aid provided by FROB</b>	<b>2,491</b>	<b>54,353</b>	—
<b>Sareb</b>	—	<b>2,192</b>	—
<b>Total</b>	<b>2,491</b>	<b>56,545</b>	<b>5,911</b>

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, p.35

### Table 3: Summary of Integration and Restructuring Processes

Bank	Structure	Date approved by FROB	Type of aid	Status	Amount of aid (€m)	Date disbursed
<b>Integration Processes</b>						
UNIÓN 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 Ríoja	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	Suscribed 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
<b>Total integration processes</b>					<b>9,674</b>	
Restructuring processes CAJASUR	Assignment of business	15.07.2010	Equity units	Suscribed and paid in	800	17.06.2010
<b>Total restructuring processes</b>					<b>800</b>	

SOURCE: Devised by the author.

Source: Ponce Huerta p. 29

## II. Key Design Decisions

### 1. The Fund for the Orderly Restructuring of the Banking Sector (FROB) capital injections power was initially not part of a package, but was updated to include an asset management company (Sareb) and resolution powers, 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 deposit guarantee funds, and the Bank of Spain (Real Decreto 9/2009 p. 53202; IMF Technical Note p. 4). Though these organizations worked in tandem, they were not a package, as the deposit guarantee funds were created in 1977 under the administration of the Bank of Spain (Real Decreto 3047/1977). In November of 2011, the three deposit guarantee funds were merged; the resulting institution was known as the *Fondo de Garantía de Depósitos* (FGD) (BdE 2017 p. 114). Ley 9/2012, which expanded the FROB's powers, also

established Sareb, Spain's government-owned asset management company (Ley 9/2012) Sareb was responsible for managing assets transferred to it by Spanish institutions recapitalized by the FROB. Ley 9/2012 also established the FROB as a resolution authority. In 2015, in compliance to the European Single Resolution Mechanism, Ley 11/2015 detailed the FROB's resolution powers, and established the National Resolution Fund to fund resolutions of financial entities (Ley 11/2015 Article 53).

**2. Initially, Real Decreto-ley 9/2009 (Royal Decree-law 9/2009) gave FROB the power to carry out temporary capital injections, though later laws added to its authority.**

The FROB was created in June 2009 to manage the restructuring processes of credit institutions and contribute to the strengthening of their resources (Real Decreto 9/2009 p. 53200) by Real Decreto-ley 9/2009 . Real Decreto-ley 2/2011 allowed FROB to help entities meet Basel III capital requirements of 8-10% risk-weighted assets (Real Decreto-ley 2/2011 p. 5).

Ley 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.<sup>3</sup> FROB could value institutions, and restructure institutions that require public financial support to maintain viability while minimizing the public resources used to maintain financial stability (Article 13).

The current empowerment of the FROB exists in Ley 11/2015, which established a more formal and comprehensive regime of systemic risk policy (Ley 11/2015). It aimed to clarify resolution powers that avoided conflicts of interest, continuing the entity while resolving the parts that are unviable. The early action and preventative phases are meant to be integrated into the ordinary operations of an entity, reducing the risk of insolvency and facilitating the resolution of the entity or specific assets if needed. This may also help shift the financial burden of resolution to the financial industry itself rather than public resources (a "bail in"). The law created resolution plans for entities that the FROB did not supervise, devising a scenario in which no public support was available (Article 13). This established an option for resolution that would not cause systemic problems. This law also empowered FROB to

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<sup>3</sup> Definitions of actions from Ley 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, structure requirements organizational or internal control, 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, 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 unfeasible or foreseeable that it will be in the near future, and for reasons of public interest and financial stability it is necessary Avoid bankruptcy settlement.

perform capital increase or reduction operations, and amortize capital instruments or internal recapitalization (Article 64).

**3. The first law creating the FROB was advertised as an effort to prevent systemic risk from failing SMEs in an otherwise strong banking sector but later law shows more urgency in dealing with the financial crisis.**

Real Decreto-ley 9/2009 paints the Spanish banking sector in 2009 as resilient and relatively strong (Real Decreto-ley 9/2009 p. 53194). 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 voted to approve Real Decreto-ley 2/2011, allowing the recapitalization of Spanish entities by 177 to 8, with 157 abstentions from the Popular Party and Basque nationalist party (Europa Press). 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 minimize the global impact of the financial crisis on the Spanish financial system. It helped to complete the reorganization of the financial sector, clear doubts in the markets and to guarantee a sufficient flow of credit to encourage maximum recovery and job creation. The economic coordinator of the People's Party, Cristóbal Montoro, criticized the reform for being late and poorly focused, and suggested that it would mean a shortening of credit in the short term. This would put credit institutions and even FROB in stress due to the difficulty of obtaining credit in the private market. The People's Party (PP or Partido Popular) also expressed concerns about the potential for nationalization in recapitalization efforts.

**4. The Ministry of Economy and Finance appointed FROB's Governing Commission, composed of representatives from the Bank of Spain and Deposit Guarantee Funds.**

An eight-member Governing Commission appointed by the Ministry of Economy and Finance operated the FROB beginning in 2009 (Real Decreto 9/2009 p. 53202). Five of the eight members were proposed by the Bank of Spain, while the Savings Bank Deposit Guarantee Fund, Deposit Guarantee Fund of Banking Establishments, and Deposit Guarantee Fund of Credit Cooperatives were represented by one member each. Additionally, the Minister of the Economy and Finance appointed a member from the General Intervention Board of the State Administration, proposed by the General Auditor, as an additional representative to the Governing Commission with voice but not a vote.

The Governing Commission was empowered to make its own rules and delegate power as it saw fit (Real Decreto 9/2009 p. 53203). 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 adopted by a majority of members. The Secretary of State for the Economy appeared quarterly to 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 would 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.

By 2011, the Governing Commission was composed of nine members appointed by the Ministry of Economy and Finance, of which one each represented the Ministry of Finance and Budgets, and the Ministry of Economy (Real Decreto-ley 2/2011 p.8). Four members were proposed by the Bank of Spain, and three members were proposed by the Deposit Guarantee Funds.

In 2012, the Governing Commission became comprised of nine members: four members from the Bank of Spain, of which one was the President of the Governing Commission (Ley 9/2012 Article 54). One each were the Secretary General of the Treasury, who is also the Vice President, in addition to 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 (Article 55).

In 2015, the Governing Commission became comprised of 11 members: the President of the FROB, four members of the Bank of Spain, one of whom was the Deputy Governor, three members of the Ministry of Economy and Competitiveness, the Vice President of the National Securities Market Commission, and two representatives from the Ministry of Finance and Public Administration (Ley 11/2015 Article 54).

The Table 2 below shows the summary of member changes for the Governing Commission of FROB.

**Table 2: Development of the Governing Committee of the FROB (2009-Present)**

		2009-2011	2011-2012	2012-2015	2015-PRESENT
<b>Legislation</b>		Royal Decree-Law 9/2009, of 26 June 2009 on bank restructuring and the strengthening of credit institutions' own funds.	Royal Decree-Law 9/2009, of 26 June 2009 on bank restructuring 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.
<b>Governing Committee</b>					
<b>Composition</b>	<b>Number of members</b>	8	9	9	11
	<b>Origin</b>	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.
<b>Chair</b>		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.
<b>Vice-Chair</b>		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.
<b>Attending (with right to speak but not vote)</b>		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.	
<b>Ordinary management</b>					
		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, p.31

**5. The FROB had initial funding of €9 billion from the General State Budget and Deposit Guarantee Funds, to which it may add through financing operations.**

Of the FROB's initial €9 billion, a third (€3 billion) was to be disbursed when its constitution was formalized, defined by the time the members of the Governing Commission were all appointed (Real Decreto 9/2009 p. 53201). The General State Budgets 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 they do not exceed three times the permanent financing that exists at any time. Only after January 1, 2010, with the authorization of the Ministry of Economy and Finance, the FROB could obtain additional funding of more than 10 times its permanent financing.

Any assets owned by the FROB that were not committed had to be held in public debt or other highly liquid, low-risk assets (Real Decreto 9/2009 p. 53201). 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 General State Administration was empowered to guarantee the economic obligations of the FROB with respect to its issuance of financial instruments to obtain additional funding, subject to the approval of the Ministry of Economy and Finance (Real Decreto 9/2009 p. 53209). Until December 31, 2009, the guarantee was limited to €27 billion; limits in subsequent years were determined by the state budget. If the guarantee became necessary within five days of the financial obligation's expiry date, the state paid compensation to the owners of guaranteed securities. The Ministry of Economy and Finance established the terms of guaranteed compensations, and the General Directorate of the Treasury and Financial Policy made payments to exercise the guarantee.

In 2012, the Spanish government requested financial assistance from the European Union and IMF (MoU pp. 1-2). This was approved subject to stress tests conducted by external consultants in order to identify the capital needs of various institutions (MoU p.4). The Bank of Spain concluded that ten banks required €41 billion of additional capital, and while two banks found private solutions, the European Stability Mechanism financed the eight recapitalizations of FROB III, which amounted to €39 billion (IMF p. 8).

In 2017, the Ministry of Economy decided to inject €3 billion into the FROB to strengthen its balance sheet (Segovia). FROB had been unable to repay its loans to the EU and the Spanish government due to not recovering the money it had injected during earlier stages of recapitalization.

**6. Institutions eligible for FROB were credit institutions that could be merged and recapitalized to become larger, more stable institutions.**

**FROB I & II**

Credit institutions or groups thereof presenting financial vulnerabilities that jeopardize its viability were to inform the Bank of Spain (Real Decreto 9/2009 p. 53203-53204). They submitted an action plan to strengthen equity and solvency or facilitate a merger or acquisition with a solvent entity within a month, which had to be actualized within three

months. The Bank of Spain ensured that the organization and management of the credit institution had no deficiencies. If the Bank of Spain determined that a credit institution had weaknesses in its financial situation without having presented a plan, it required that a plan to amend said weaknesses be submitted within a 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 anyway.

If a credit institution or group thereof 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 plan, or had a plan that its Deposit Guarantee Fund objected to, FROB restructured it (Real Decreto 9/2009 p. 53204-53205). In these cases, the Bank of Spain provisioned the replacement of the administrative or management bodies of the credit institution as well as any other regulations it deemed appropriate until a restructuring plan was carried out (Real Decreto 9/2009 p. 53205). The Bank of Spain appointed the FROB as the administrator of the credit institution, and FROB had one month to create a detailed report on its viability and 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, which could oppose it within ten 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 financial support 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 Deposit Guarantee Funds in Credit Institutions (Real Decreto 9/2009 p. 53206). In addition, the boards of entities requesting aid under FROB II had between five and fifteen members, of which at least one third were independent directors (Real Decreto-ley 2/2011 p. 17).

### **FROB III**

Institutions that did not, but could potentially maintain viability and meet capital requirements through their own means were eligible for early action (Ley 9/2012 Article 6). This entailed submitting an action plan to the Bank of Spain, which, with FROB's input, would modify and approve it as appropriate. This would help 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 (Ley 9/2012 Article 13). These institutions had to inform the FROB and Bank of Spain of their status and within fifteen days, submit a plan of restructuring, with a planned execution date of no more than three months after its approval by the FROB (Article 14). 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 EU in 2012 established a framework that categorized banks into different levels of eligibility for aid (MoU p. 4). 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 (MoU p. 4).”<sup>4</sup>

The Bank of Spain and the European Central Bank closely monitored the liquidity situation of banks that had capital shortfalls in the stress test (MoU p. 12). This information was regularly reported 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 2017 p. 187). The stress test concluded that 90% of capital needs were in the entities that FROB had already injected, and that the core of the Spanish banking system was relatively healthy (BdE 2017 p. 189).

Ley 11/2015 expanded institutions eligible for FROB support from just credit institutions and groups thereof; it now permitted investment services companies, and financial entities (other than insurance and reinsurance entities) established in Spain that are subsidiaries of credit institutions or investment services companies to apply for support (Ley 11/2015 Article 1). It also included financial holding companies based in Spain or of other European Union member state provided that they are supervised by a competent supervisor.<sup>5</sup> Spanish branches of European Union entities were also eligible. Investment services companies whose legally required minimum share capital is less than €730,000 or have specific activities enumerated in the law were not eligible.

## **7. FROB issued three major rounds of support first through convertible preferred shares (FROB I), then through capital injections (FROB II), and finally another set of capital injections and CoCos (contingent convertible bonds) (FROB III).**

### **FROB I**

The FROB was allowed to make capital injections to certain institutions that did not satisfy set conditions (See KDD 6) but still needed capital with which to integrate themselves with each other (Real Decreto 9/2009 p. 53207). As a condition of the capital injection, these participating institutions had to improve their efficiency, administration, and management, 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

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<sup>4</sup> See Reference: “Bottom Up Stress Test”

<sup>5</sup> A competent supervisor is 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 (Ley 11/2015 Article 2).

performed through acquisitions of preferred convertible shares in participatory quotas or portions of share capital (Real Decreto 9/2009 p. 53208).

The first round was in around March 2010 in which the FROB issued €9.674 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 (Ponce Huerta 28; BdE 2017 p. 135). The restructuring consisted of purchasing €800 million of equity units and providing a €1.5 billion line of credit. This set of interventions were 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 p. 29). 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, through three of the mergers occurred without FROB or Deposit Guarantee Fund aid (Caixa-Girona, Unicaja-Jaén, and Caja 3) (BdE 2017 p. 135).

## **FROB II**

Real Decreto-ley 2/2011 authorized FROB II, which raised capital requirements and allowed FROB to recapitalize banks using ordinary shares (Ponce Huerta p. 29). This law allows FROB to temporarily acquire ordinary shares under market conditions to help entities that cannot capture capital through traditional markets (Real Decreto-ley 2/2011 p. 5). FROB II injected €5.7 billion in 2011 and 2012 to Catalunya Caixa, Novacaixagalicia, UNNIM, and Banco de Valencia (Ponce Huerta p. 29; IMF p. 18-19).

FROB II required entities to adhere to Basel III standards of principal capital of 8% risk weighted assets (Real Decreto-Ley 2/2011 p. 5). This 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' board of directors in proportion to its percentage of capital (BdE 2017, p. 124). Entities recapitalized under FROB II that were noncompliant by more than 20% of the principal 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.

FROB acquisition of ordinary shares was conditional on the beneficiary's preparation of a recapitalization plan that includes a business plan and commitments to reduce structural costs, improve corporate governance and have better credit activity (Real Decreto Ley 2/2011 p. 6, 8). The FROB reported to the Ministry of Economy and Finance detailing the financial impact of its acquisition of common stock (p. 13). The FROB could become part of the Board of Directors of recapitalized entities in proportion to its share percentage. It could also still acquire convertible preferred shares, as allowed in Real Decreto 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 (Real Decreto-Ley 2/2011 p. 9).

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 (Real Decreto-ley 2/2011 p. 16). If a FROB

If applicant had issued convertible preferred shares to FROB I, they could request an immediate conversion of those shares into ordinary shares or contributions to the share capital. Preferred shares subscribed prior Real Decreto-ley 2/2011 was to be governed by the law in effect when they were purchased (Real Decreto-ley 2/2011 p. 19). 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 evaluate 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 through the help of FROB or Deposit Guarantee Funds, it did not need to make a public tender offer, as would normally be required according to Spanish law (Real Decreto-ley 2/2011 p. 17).

### **FROB III**

FROB III occurred after the passing of Ley 9/2012, which established FROB's powers as a resolution authority, and allowed it to perform capital injections not only through preferred and ordinary shares, but also through contingent convertible bonds (Ponce Huerta p. 30). About €41.27 billion was injected, of which €39.078 billion was used to recapitalize eight credit institutions for restructuring or resolution, and €2.192 billion was used to purchase FROB's stake in Sareb, the asset management company for bank restructuring (Ponce Huerta, p. 31; IMF p. 19)<sup>6</sup>. FROB III was financed through European Stability Mechanism funding (IMF p. 8). Sareb acquired troubled real estate assets, which reduced financial sector recapitalization requirements by €1.3 billion and restored confidence in financial institutions (Ponce Huerta p. 30). 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.

The Memorandum of Understanding between the EU and Spain in 2012 formed a strategy to strengthen the Spanish banking sector (MoU p. 3). The MoU specified that a stress test conducted by independent consultants would determine capital shortfalls of individual banks and the system overall (MoU p. 4). 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 (MoU p.4).

Spanish authorities prepared restructuring plans for Group 1 banks in conjunction with the European Commission (MoU p. 6). These included BFA-Bankia, NCG Bank, Catalunya Bank, and Banco de Valencia, which were recapitalized on December 26, 2012 for a total of €36.968 billion (BdE 2017 p. 190).<sup>7</sup> They also presented plans for Group 2 by October 2012 to the European Commission (MoU p. 6). Both involved moving impaired assets to an external asset management company (Sareb). Group 2 banks included Banco Mare Nostrum, Caja 3, and Liberbank, and they were injected with €1.261 billion on March 12, 2013 (BdE 2017 p. 190). Both Caja3 (which received €407 million) and Liberbank (which received €124 million)

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<sup>6</sup> See Appendix 1 for details on FROB III injections

<sup>7</sup> See Appendix 15 for details on amount per entity

were recapitalized using contingent convertible shares, while Banco Mare Nostrum was recapitalized with €730 million worth of shares (BdE 2017 p. 190;192). Banco CEISS was also a Group 2 bank, but was resolved through €407 million of CoCos (BdE 2017 p. 192). Group 3 banks that were planning a significant equity raise (of more than 2% risk-weighted assets) issued contingent convertible securities (CoCos) to FROB to meet their capital needs by December 2012. 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 who benefitted from FROB support were required to transfer bad assets to Sareb (MoU p. 7). Banco Popular and Ibercaja were Group 3 banks (BdE 2017 p. 192).

Restructuring was done through financial support, the transfer of assets or liabilities to an asset management company (Sareb), or a combination of both strategies (Ley 9/2012 Article 15). 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 (Article 32). This acquisition was priced relative to the economic value of the entity minus a discount in accordance with EU State Aid regulation (Article 30). FROB purchased them with cash, public debt securities, or securities issued by the European Financial Stability Facility, European Mechanism of Stability or FROB itself. The FROB's voting rights and board participation was determined by the proportion of shares it acquires in an entity (Article 31). The FROB also managed hybrid capital and subordinated debt actions meant 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 (Articles 39-40, 43) FROB III also created an asset management company to which to transfer bad assets (Sareb) (Ley 9/2012 Article 35).<sup>8</sup>

The FROB sold shares or other capital instruments, as well as assets and liabilities to third parties through a transparent, speedy, and impartial process that avoids conflicts of interest while maximizing sale price and minimizing the use of public resources (Ley 9/2012 Article 26).

### **After FROB III**

Ley 11/2015 added to FROB's recapitalization arsenal the ability to orchestrate internal recapitalization of an insolvent entity (Article 25). In response to the European Single Resolution Mechanism of 2014, the law also created the Single Resolution Board and Single Resolution Fund, which helped synchronize Spanish resolution policies with that of Europe as a whole (BdE 2014, p. 83-84). This allowed FROB to require that losses are borne internally through the write-down or conversion of capital instruments, or bail-in by other eligible liability (BdE 2014, p.83-84; Ley 11/2015 Articles 35-44). To make sure the first is

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<sup>8</sup> See [Tam Sareb (ESP GFC) 19-08-12]

sufficient to absorb losses, resolution authorities set a minimum requirement for own funds and eligible liabilities for each institution.

**8. There were no explicit individual participation limits.**

**9. 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 bank, it had the right to representation in the General Assembly equivalent to the percentage of equity they own (Real Decreto 9/2009 p. 53206). 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 has contributed were proportional to its contributions with respect to the total capital stock of the credit union.

The cancellation of shareholder rights happened at the time of the adoption of the capital increase or quota issuance agreement (Real Decreto 9/2009 p. 53206). The status of different parties and how they bear losses was established in Ley 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 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 (Ley 9/2012 Article 26). 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.

Ley 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 Ley 11/2015 also formalized the writedown of capital and bail-in mechanisms, it delineates the treatment of shareholders in the case of internal recapitalization (Article 47). The FROB could amortize existing or transfer them 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 (Article 48):

- 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 is not additional capital of level 1 or 2.
- 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. It may also reorganize the activity of the entity (Article 49). Only after these methods have 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 (Article 50).

#### **10.FROB exited from the capital injection program through repurchase of shares and sale of shares to a third party.**

In the cases where the Bank of Spain has allowed the FROB to replace the management of the credit institution, FROB is responsible for declaring bankruptcy (Real Decreto 9/2009 p. 53210).

The FROB divested from these participations by either repurchase of shares by the issuing entity or transference of shares to third parties (this must not distort competition and must be done within five years of the date of compliance of the integration plan) (Real Decreto 9/2009 p. 53208). The recapitalized entity must issue quarterly reports on the merger or acquisition to the Bank of Spain; if it cannot 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 are still eligible for FROB aid (Real Decreto 9/2009 p. 53209).

For ordinary shares associated with FROB II, divestment occurred within a maximum term of five years (Real Decreto-ley 2/2011 p. 6). The FROB were allowed to resell securities to the issuing entity or third parties proposed by the beneficiary entity within one year of the acquisition. This maximum term may be two years, in which case it may require beneficiary to adhere to additional terms. The conditions of resale must 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 (Real Decreto-ley 2/2011 p. 15).

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.

#### **11.Later in 2012 FROB gained authority to resolve unviable institutions and create an early action program to improve their health prior to them requiring government intervention.**

In 2012, the FROB gained authority to resolve unviable institutions and create an early action program to improve their health prior to them requiring government intervention. This occurred under the European Stability Mechanism and Ley 9/2012 (Ley 9/2012). 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 (Article 13). It also established an asset management company for bank restructuring, Sareb (see Tam Sareb 2019).

The FROB used four tools individually or jointly to facilitate resolution of a credit entity and they are: 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<sup>9</sup> or asset management company mentioned in the previous tools) (Ley 9/2012 Article 25).

The 2015 law transposing the Bank Recovery and Resolution Directive (BRRD) to Spain built upon the 2012 law formalizing the processes of resolution (Ley 11/2015). The FROB could now work towards an entity's survival while resolving the unviable parts of it. In accordance with the European Single Resolution Mechanism (SRM), the 2015 law also established the National Resolution Fund, which was responsible for financing the resolution processes of financial entities (Article 53). The National Resolution Fund is administered by the FROB and must constitute at least one percent of guaranteed deposits of all entities (Ley 11/2015 Article 53). To fund it, the FROB will collect annual ordinary contribution from entities and branches in Spain of EU entities proportional to its liabilities, relative to the total liabilities of all entities, and its specific risk profile.

Ley 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 would be the Bank of Spain, European Central Bank, or National Securities Market Commission (Article 6). 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 not supervised by FROB in a scenario where no public support was available (Article 13). This law also empowered FROB to preform capital increase or reduction operations, and amortize capital instruments or internal recapitalization (Article 64).

The resolution of a credit institution was pursued when two criteria existed: the credit institution was inviable or soon would be inviable, and it is in the public interest and convenience to resolve the institution to maintain financial stability, protect creditors and limit external damage (Ley 9/2012 Article 19). A credit institution was inviable in the following circumstances: when it breached solvency requirements, its required liabilities exceeded its assets, or it could not fulfill its enforceable obligations in a timely manner and

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<sup>9</sup> A bridge bank for the purposes of this article can be a credit institution, including the entity itself in resolution in which the FROB participates (Ley 9/2012 Article 27). The bridge bank must comply with regulations and supervision applicable to credit institutions. The total value of liabilities transmitted to the bridge bank may not exceed the value of assets transmitted from the entity or from any other source including the financial support it received. The FROB may 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 will manage the bridge bank with the objective of selling it or its assets and liabilities within five years when conditions are appropriate. This sale will be done under competitive market conditions. The bridge bank will cease to exist after one year from FROB's exit, or after all assets and liabilities are sold. This must therefore occur within six years of its founding, or FROB will liquidate it.

it could not remedy these circumstances by use of its own means, private markets, or restructuring aid (Article 20).

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 of Spain began resolution processes reporting its decision to the FROB, Ministry of Economy and Competitiveness, and where appropriate, the European Union and European Banking Authority (Article 21). The Bank of Spain designated FROB as administrator of the entity (Article 22). Within two months (the Bank of Spain may extend this to six months) the FROB prepared a resolution plan for the entity to be approved by the Bank of Spain; the plan included 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 Credit Institution Deposit Guarantee Fund, 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 (Article 23). The Bank of Spain could impose additional requirements on entities under resolution processes.

The criteria for the resolution of an entity under Ley 11/2015 was similar to that in Ley 9/2012 with the addition that an entity that is unviable may be defined by an entity that needs extraordinary public financial assistance (Article 20).

After FROB III, the FROB also resolved Caja Rural Mota del Cuervo, Sociedad Cooperative 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) (Huerta, p. 33). 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 of restructuring process was inappropriate, and this resulted in the only exercise of the Deposit Guarantee Scheme in Spain during the recent financial crisis. However, the court that was intended to advise voluntary insolvency procedures for Banco Madrid still has not handed down a ruling (Huerta p. 34).

### **III. Evaluation**

The overall assessment of FROB and its actions, especially after 2012, are seen as positive and contributive to a stronger economy, more stable financial sector, and reduced risk. In particular, the additions of bail-in restructuring processes, banking reforms, corporate governance replacements, and overall economic reforms are seen as successful. However, it still faces the challenges of losses to Sareb and general economic issues like national debt. In addition, the FROB actions and legislation may be improved by providing a quicker way to diagnose solvency issues in banking institutions, and resolving them in a more timely and impartial way. Regardless, it played a significant role in restructuring and resolving the Spanish banking system (IMF p. 18).

The European Stability Mechanism (ESM), which disbursed a €41.3 billion loan to the FROB in 2012-2013, sees FROB's subsequent actions as well-prepared to define the scope of necessary measures to repair the banking sector (Strauch). 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. Also to be lauded are important Spanish reforms outside the programs 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 and the decrease of funding costs, as well as bank consolidations; the number of Cajas fell from 45 to two. Banks stabilized profitability, reduced holdings of NPL and bad assets, 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 outperforms 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 10.1). However, banks still hold a lot of nonperforming loans and the post-crisis economy still contains lower volumes of credit. De Juan believes that low returns are compounded by instability caused by ECB stimulus of liquidity and deregulation in the US as well as unregulated banking activities. This restructuring activity was significant, as the banks that received public support accounted for 18% of total assets (Ponce Huerta p. 33). In 2012, total deposits at Spanish banks amounted to €1.3 trillion, of which €700 billion were covered by the Deposit Guarantee Scheme, and of that amount, €250 billion were at banks that received recapitalization aid.

The EU concludes that the FROB helped improve the resilience of the banking system and reduced the risks of financial instability (EC 2016 p. 57). Emergency recapitalization and burden sharing for losses are important aspects of FROB's powers, and its adaptation to changing international standards is commendable. 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 was timely, occurring less than six months after EU state aid rules were adopted (EC 2016 p. 90). This was key to restoring confidence in the Spanish banking system, and maintaining macrofinancial stability, in conjunction with European and Spanish policies (p. 92).

Current FROB Chairman, Jaime Ponce Huerta, reported in Spring 2019 that the FROB's ability to recover aid depends on three factors (Ponce Huerta p. 34). First, 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 percent of total shares) (IMF p. 18). Secondly, 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 (Ponce Huerta p. 34). The behavior of guarantees offered by FROB in the divestment process, if significantly different than then expected loss of €2.5 billion may also impact FROB's ability to recover its injections. Though Spain did use a great deal of capital aid (between 5-6% of GDP) relative to other

European countries, the profitability and efficiency of Spanish banks has improved greatly (Ponce Huerta p. 35).

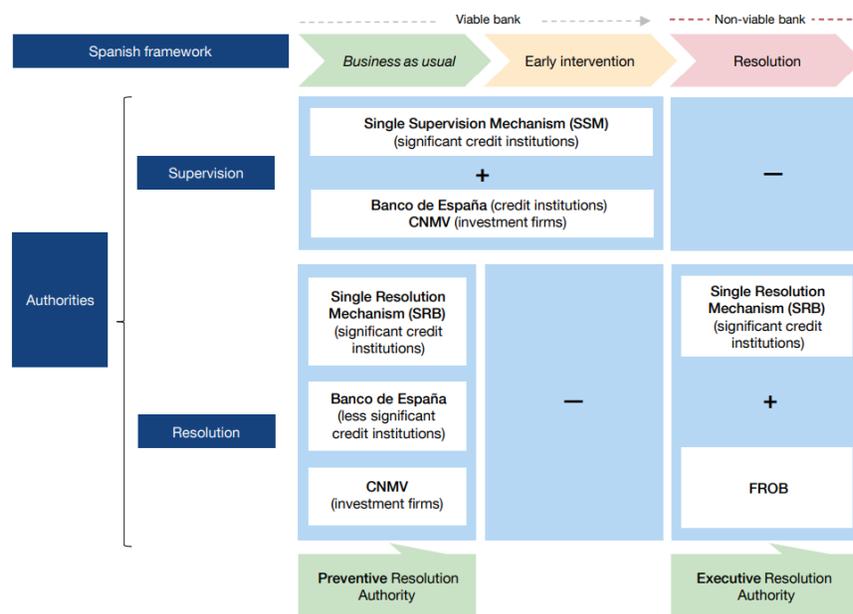
Importantly, as of December 2016, uncertainty remained as regards legal contingencies faced by FROB on guarantees granted to the acquiring institutions of the resolved banks, including against the ruling by the European Court on the floor clauses of bank mortgages, as these potential losses must be absorbed by FROB (IMF p. 18). The FROB has incurred about €44 billion in losses as of 2017 (IMF p. 19).

However, Spain also faces the challenges of a high public debt, unemployment that is higher than the euro area on average, low productivity and significant net external liabilities (Strauch). Losses from Sareb also exceed expectations, and the privatization of Bankia and caja reform are still incomplete. (EC 2019 p. 14). Banks also face profitability pressure from price correction of assets and the low interest rate environment that currently exist (Strauch). However, Strauch 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 Rolf Strauch, Chief Economist of the ESM, believed that this demonstrated the ESMs success in protecting the euro area.

The European Commission remains concerned about the quality of banks’ loan portfolios, which reflect a non-performing loan ratio above 10% of total loans, and increases in foreclosed assets (EC 2016 p. 84).

On the other hand, Ponce Huerta states that by creating a resolution infrastructure that focuses on prevention and planning compatible with the European framework 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 p. 36). Spain separates the prevention authorities from the FROB, which is responsible for executing resolution decisions.

INSTITUTIONAL ARCHITECTURE OF SUPERVISION AND RESOLUTION IN SPAIN FIGURE 3



SOURCE: Devised by the author.

Source: Ponce Huerta p. 37

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## VI. Appendix

### Appendix 1: FROB Programs between 2009-2012 and SAREB's Asset Purchase

		In € billion				
		FROB 1	FROB 2	FROB 3	SAREB (net)	Total
<b>Banks transferred to private investo</b>	<b>Merged institutions</b>					
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	Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	-	-	0.4	2.2	2.6
Banca Cívica→ Caixa	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
		<b>4.3</b>	<b>5.7</b>	<b>20.1</b>	<b>22.7</b>	<b>52.9</b>
<b>Banks under FROB's ownership</b>						
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
		<b>5.4</b>	<b>-</b>	<b>18.7</b>	<b>28.1</b>	<b>52.2</b>
		<b>9.7</b>	<b>5.7</b>	<b>38.8</b>	<b>50.9</b>	<b>105.1</b>

Source: FROB, Sareb and staff calculations

Source: IMF p. 19

### Appendix 2: Chronological Summary of Spanish Interventions 2008-2011

Chronological Summary of Spanish Interventions 2008-2011 (BdE 2017 p. 114)

October 10, 2008: Real Decreto-ley 6/2008 which created Fondo para la Adquisición de Activos Financieros (FAAF)

October 10, 2008: Real Decreto 1642/2008, which reformed the Guarantee Deposit Funds.

October 13, 2008: Real Decreto-ley 7/2008, on urgent financial and economic measures.

June 26, 2009: Real Decreto-ley 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: Real Decreto-ley 11/2010, on the reform of the savings bank sector.

February 18, 2011: Real Decreto-ley 2/2011, on strengthening the solvency requirements of credit institutions.

June 3, 2011: Real Decreto 771/2011, which modifies Real Decreto 216/2008 (on February 15) on the resources of financial institutions and Real Decreto 2606/1996 (on December 20), about Guarantee Deposit Funds of Credit Institutions

October 14, 2011: Real Decreto-ley 16/2011, which reunited the three Guarantee Deposit 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.

### Appendix 3: FROB I Involvements

**CUADRO 2.5 INVERSIONES REALIZADAS POR EL FROB I**

Millones de euros

Entidades	Fecha	Importe	Observaciones	Activos (a)
Catalunya Caixa (fusión de las cajas de ahorros de Cataluña, Tarragona y Manresa)	Marzo 2010	1.250	Las participaciones preferentes posteriormente se capitalizaron.	76.600
CEISS (fusión Caja España y Caja Duero)	Marzo 2010	525	Las participaciones preferentes posteriormente se capitalizaron.	45.700
SIP Grupo BMN (integración de las cajas de ahorros de Murcia, Penedés, Sa Nostra y Granada)	Junio 2010	915	Las participaciones preferentes posteriormente se capitalizaron.	73.000
SIP Banco Financiero y de Ahorros (integración de las cajas de ahorros de Madrid, Bancaja, Ávila, Segovia, Rioja, Layetana e Insular de Canarias)	Junio 2010	4.465	Las participaciones preferentes posteriormente se capitalizaron.	328.000
Nova Caixa Galicia Banco (fusión de Caixa Galicia y Caixanova)	Junio 2010	1.162	Las participaciones preferentes posteriormente se capitalizaron.	73.500
Unnim (fusión de las cajas de ahorros de Sabadell, Tarrasa y Manlleu)	Julio 2010	380	Las participaciones preferentes se capitalizaron y las acciones fueron adquiridas por el FGDEC.	28.500
SIP Banca Cívica (integración de cajas de ahorros de Navarra, Canarias y Burgos en abril de 2010, y posterior incorporación de Caja Sol y Caja Guadalajara en diciembre de 2010)	Diciembre 2010	977	Reembolsadas por CaixaBank en abril de 2013.	45.900
<b>TOTAL</b>		<b>9.674 (b)</b>		<b>671.200</b>

FUENTES: FROB y Banco de España.

a Volumen de activos resultantes de cada proceso de integración.

b Con independencia de las ayudas, mediante la suscripción de participaciones preferentes, a los procesos de integración detallados, en mayo de 2010 el FROB aprobó una ayuda temporal de 800 millones a CajaSur, mediante la suscripción de cuotas participativas. Este importe fue reintegrado al FROB en diciembre de 2010, al no incluirse en el plan de reestructuración de la entidad, que, a través de un proceso competitivo se adjudicó a Bilbao Bizkaia Kutxa (BBK).

Source: BdE 2017 p. 118

## Appendix 4: Savings Bank Sector and FROB/FGD

**CUADRO 2.8 TRANSFORMACIÓN DEL SECTOR DE LAS CAJAS DE AHORROS**

Millones de euros

Cajas origen (45 grupos)	Nuevos grupos a 31.12.2011 (15 grupos)	Modelo de integración	Ayudas			Total activo a 31.12.2011
			FROB I (a)	FROB II (b)	FGD (c)	
Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Rioja, Caixa Laietana, C.I. de Canarias	BFA-Bankia (2010)	SIP	4.465			312.343
Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada	BMN (2010)	SIP	915			67.201
Caja Navarra, Caja Canarias, Caja Burgos, CajaSol, Caja Guadalajara	Banca Cívica (2010)	SIP	977			71.827
Caja Inmaculada, Caja C. de Burgos, Caja Badajoz	Caja 3 (2010)	SIP				20.725
Caixa Catalunya, Caixa Manresa, Caixa Tarragona	Catalunyacaixa (2010)	Fusión	1.250	1.718		77.049
Caixa Sabadell, Caixa Terrasa, Caixa Manlleu	Unnim (2010)	Fusión	380	568		29.288
Caja España, Caja Duero	CEISS (2010)	Fusión	525			42.337
Caixa Galicia, Caixanova	Novacaixagalicia (2010)	Fusión	1.162	2.465		72.236
Unicaja, Caja Jaén	Unicaja (2010)	Fusión				38.155
La Caixa, Caixa Girona	La Caixa (2010)	Fusión				376.701
Caja Asturias + CCM, Caja Cantabria, Caja Extremadura	Liberbank (2011)	SIP			1.740 + EPA 1.715	50.847
BBK + CajaSur, Caja Vital, Kutxa	Kutxabank (2011)	SIP	800 + EPA 392			70.951
Ibercaja		—				45.144
Ontinyent		—				914
Pollença		—				353
CAM	Vendida a Banco Sabadell (2011)				5.249 + EPA 1.145	70.805
<b>TOTAL</b>			<b>10.474 + EPA 392</b>	<b>4.751</b>	<b>6.989 + EPA 2.860</b>	

FUENTES: FROB, FGD y Banco de España.

a Ayudas concedidas según el RDL 9/2009 (FROB I) mediante suscripción de participaciones preferentes.

b Ayudas concedidas según el RDL 2/2011 (FROB II) mediante suscripción de acciones.

c Se detalla el valor esperado de los EPA a 31.12.2011.

Source: BdE 2017, p. 137

## Appendix 5: FROB II Injections

**CUADRO 2.7 APOYOS DEL FROB II**

Entidad	Apojos del FROB (Importe en millones de euros)	Porcentaje de capital
Novacaixagalicia	2.465	93
Catalunya Banc	1.718	90
Unnim	568	100
<b>TOTAL</b>	<b>4.751</b>	

FUENTES: Banco de España y FROB.

Source: BdE 2017 p. 132

### Appendix 6: Full FROB Injections

**REESTRUCTURACIÓN DEL SISTEMA BANCARIO ESPAÑOL 2009-2010: AYUDAS FINANCIERAS PÚBLICAS PARA LA RECAPITALIZACIÓN**

1

Entidades integradas con capital PRIMA DE ACUERDO CON LA LEY 1/2009		Operación de apoyo a la reestructuración		QUANTIFICACIÓN DE AYUDAS PÚBLICAS						OBSERVACIONES	
				Ayudas por entidad/compromisos							
				PRIMA de capital PRIMA de participación (%)	PRIMA I	PRIMA II	Participación en las FROB (%)				BUSA
Participación	Capital	Capital	Capital				BUSA				
<b>Entidades integradas con CIBASIBAN</b>											
Banco Urco (Caja Navarra, Caja Leonesa, Caja Rioja, BPOB, BPOB)	Banco Bascos (Banco Bilbao Vizcaya)	Recepción participaciones preferentes por FROB en grupo Banco Urco	abril/09		0%					0%	Prima de capital de 100 millones de euros en concepto de reestructuración. Se incluye un compromiso gubernativo, suscrito por el FROB en Banco Urco en cumplimiento con el artículo 10 de la Ley 1/2009.
Banco de España (Banco de España)		Recepción de capital por FROB	mayo/10		0%			4.000		0,48	Prima de capital, reestructuración por el Banco de España en cumplimiento con el artículo 10 de la Ley 1/2009.
<b>Entidades integradas con BISA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)		Recepción participaciones por FROB Recepción de capital por FROB Capitalización de participaciones preferentes en garantía de capitalización de acciones por el FROB	septiembre/11 septiembre/11 septiembre/11	200 300 400	0%	0%	0%			0%	Prima de capital de 100 millones de euros por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)		Recepción participaciones por FROB	septiembre/11		1,000					1,000	El FROB era dueño de un 50% del capital de las entidades de gestión de BISA, y el FROB de un 30% de la reestructuración de acciones de las entidades de gestión de BISA, que fueron restructuradas por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. La reestructuración de las entidades de gestión de BISA se realizó en el marco de una operación de reestructuración de acciones de BISA, que fue financiada por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. El FROB financió la reestructuración de las entidades de gestión de BISA en un valor de 1,000 millones de euros.
<b>Entidades integradas con BBAIFIA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)		Recepción de capital por FROB	abril/09							407	El FROB financió la reestructuración de las entidades de gestión de BBAIFIA en un valor de 407 millones de euros. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.

**REESTRUCTURACIÓN DEL SISTEMA BANCARIO ESPAÑOL 2009-2010: AYUDAS FINANCIERAS PÚBLICAS PARA LA RECAPITALIZACIÓN**

2

Entidades integradas con capital PRIMA DE ACUERDO CON LA LEY 1/2009		Operación de apoyo a la reestructuración		QUANTIFICACIÓN DE AYUDAS PÚBLICAS						OBSERVACIONES	
				Ayudas por entidad/compromisos							
				PRIMA de capital PRIMA de participación (%)	PRIMA I	PRIMA II	Participación en las FROB (%)				BUSA
Participación	Capital	Capital	Capital				BUSA				
<b>Entidades integradas con BANCOS DE ESPAÑA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)		Recepción de capital por FROB en grupo Banco de España	abril/09	0,240						0,240	Prima de capital de 100 millones de euros en concepto de reestructuración. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.
Banco Gallego		Recepción de capital por FROB en grupo Banco Gallego	abril/10					500		500	Prima de capital de 500 millones de euros en concepto de reestructuración. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.
<b>Entidades en proceso de integración con BANCOS DE ESPAÑA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)	Banco de España (Banco de España)	Recepción participaciones por FROB Recepción de capital por FROB Capitalización de participaciones preferentes en garantía	septiembre/10 septiembre/10 septiembre/10	0,000 0,000 0,000	0%	0%	0%			0,000	Prima de capital de 100 millones de euros por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. La reestructuración de las entidades de gestión de BANCOS DE ESPAÑA se realizó en el marco de una operación de reestructuración de acciones de BANCOS DE ESPAÑA, que fue financiada por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009. El FROB financió la reestructuración de las entidades de gestión de BANCOS DE ESPAÑA en un valor de 1,000 millones de euros.
<b>Entidades integradas con CAJAS DE ESPAÑA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)	Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)	Recepción de capital por FROB	abril/09		1,740					1,740	Prima de capital de 1,740 millones de euros en concepto de reestructuración. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.
<b>Entidades integradas con BANCOS DE ESPAÑA</b>											
Caixa Nova (Caixa Nova, Caixa Tarragona, Caixa Manresa, BPOB) (BPOB)		Recepción de capital por FROB	abril/09		0%			700		700	Prima de capital de 700 millones de euros en concepto de reestructuración. Se incluye un compromiso gubernativo, suscrito por el FROB en cumplimiento con el artículo 10 de la Ley 1/2009.



Source:

[https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/InformacionInteres/ReestructuracionSectorFinanciero/Arc/mapa\\_sector2018.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/InformacionInteres/ReestructuracionSectorFinanciero/Arc/mapa_sector2018.pdf)

## Appendix 8: FROB losses

RESUMEN DE LA AYUDAS AL 31.12.17 EN EL PROCESO DE REESTRUCTURACION DEL SISTEMA FINANCIERO (a)							
	Entidades	Ayudas			Importe recuperado	Importe recuperable estimado (d)	Ayudas netas
		Capital e Híbridos (b)	EPA (c)	Garantías (c)			
FROB	BFA-Bankia+ BMN	24.069				9.857	-14.212
	Catalunya Banc	12.052		526	782		-11.796
	Novacaixagalicia	9.052		382	783		-8.651
	Banco de Valencia	5.498	501	165			-6.164
	CEISS	1.129 (e)		430	604		-955
	CajaSur	800	392		800		-392
	Banco Gallego	245		95			-340
	Banca Cívica	977 (e)			977		0
	Caja3	407 (e)			407		0
	Liberbank	124 (e)			124		0
	<b>TOTAL</b>	<b>54.353</b>	<b>893</b>	<b>1.598</b>	<b>4.477</b>	<b>9.857</b>	<b>-42.510</b>
	Ajuste por inversión inicial del FGDEC en el FROB (f)						2.250
	Ajuste por garantía del FROB al FGDEC por híbridos (g)						-115
	Ajustes por participación del ROB en la SAREB (inversión de 2.129 millones de euros) (h)						-1.642
	<b>TOTAL AJUSTES</b>						<b>493</b>
	<b>SUMA NETA</b>						<b>-42.017</b>
FGDEC	CAM	5.249	6.480				-11.729
	CCM	1.740	2.475				-4.215
	Unnim	953	1.742				-2.695
	Catalunya Banc (i)	1.001		274	383		-892
	Novacaixagalicia (i)	802		154	290		-666
	<b>TOTAL</b>	<b>9.745</b>	<b>10.697</b>	<b>428</b>	<b>673</b>		<b>-20.197</b>
		Ajuste por inversión inicial del FGDEC en el FROB (f)					
	Ajuste por garantía del FROB al FGDEC por híbridos (g)						115
	<b>TOTAL AJUSTES</b>						<b>-2.135</b>
	<b>SUMA NETA</b>						<b>-22.332</b>
<b>IMPORTE TOTAL</b>							<b>64.349</b>

Fuentes: FROB y FGDEC

Source:

[https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/Briefing\\_notas/es/notabe231118.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/Briefing_notas/es/notabe231118.pdf)

## Appendix 9: FROB Bailouts

**ANNEX**  
**Record of FROB bailouts**

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

<sup>(1)</sup>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 10: Functions of FROB

**Cuadro 11. Mapa de funciones del FROB**

Fases del proceso de resolución						
I Preparación de la resolución		II Resolución		III Seguimiento de la resolución		
IV Estrategia de salida						
<b>Funciones de resolución</b>						
<b>Gestión de la resolución</b>	<ul style="list-style-type: none"> <li>Preparación interna y planificación para optimizar la actuación en resolución</li> <li>Preparación y actualización de manuales de gestión de crisis y protocolos de actuación</li> <li>Realización de simulacros</li> <li>Colaboración en la preparación y actualización de planes de resolución</li> <li>Informar los planes de resolución y ejercer el voto español en la SRB</li> </ul>		<ul style="list-style-type: none"> <li>Lanzamiento de la resolución (entidades no significativas) tras declaración de inviabilidad: análisis concurrencia de interés público y ausencia de soluciones privadas</li> <li>Evaluación de la necesidad de instar análisis de viabilidad</li> <li>Colaboración con el SRB en el lanzamiento de los esquemas de resolución de ent. significativas</li> <li>Diseño y aprobación del esquema de resolución de ent. no significativas</li> <li>Ejecución instrumentos y poderes de resolución</li> </ul>		<ul style="list-style-type: none"> <li>Seguimiento de la ejecución y compromisos de esquemas de res.</li> <li>Seguimiento y control de las entidades en resolución</li> <li>Seguimiento y gestión de garantías concedidas en las desinversiones</li> <li>Gestión litigios relacionados con entidades en resolución</li> <li>Seguimiento de entidades puente o sociedades de gestión de activos (SGA) y planes de reorganización del negocio</li> <li>Supervisión SGA</li> <li>Actualización de manuales</li> </ul>	
	<ul style="list-style-type: none"> <li>Diseño del proceso de desinversión o venta de entidades, bancos puente, carteras o ramas de negocio</li> <li>Ejecución y seguimiento de los procesos de venta</li> <li>Seguimiento de la situación económica y de los mercados</li> <li>Relaciones con inversores</li> </ul>					
Coordinación de las capacidades analíticas y seguimiento de entidades						
Diseño e implementación de la Estrategia de Resolución						
<b>Funciones de soporte</b>						
<b>Legal</b>	Asesoramiento jurídico de la actuación del FROB y Secretaría de la Comisión Rectora		Personación en los procesos judiciales para la defensa intereses del FROB		Seguimiento y participación en la elaboración de normas relacionadas con la actuación del FROB	
<b>Gestión de medios corporativos y control</b>	Formación	Administración y servicios generales	Gestión presupuestaria, tasa y contabilidad	Cumplimiento normativo y control interno (riesgos, confidencialidad)	Coordinación con órganos de control externos	
	Gestión del conocimiento	Contratación y marco de externalización	Gestión y estrategia TIC	Procedimientos internos		
<b>Financiera</b>	Gestión económica-financiera		Gestión de la tesorería		Gestión del Fondo de Resolución	
<b>Comunicación</b>	Diseño e implantación de la estrategia de comunicación externa e interna		Gestión de la imagen y la cultura institucional		Relaciones institucionales y eventos	
<b>Reporting</b>	Coordinación de la información institucional	Informes trimestrales al Congreso	Dación de cuentas a la Comisión Rectora	Comparecencias parlamentarias del Presidente	Información para inversores	
<b>Estrategia</b>	Seguimiento plan estratégico		Diseño estrategia corporativa		Market scanning de los agentes del mercado	

Fuente: elaboración propia.

Source:

<http://www.frob.es/es/Lists/Contenidos/Attachments/589/MemoriaactividadesFROB2018.pdf>

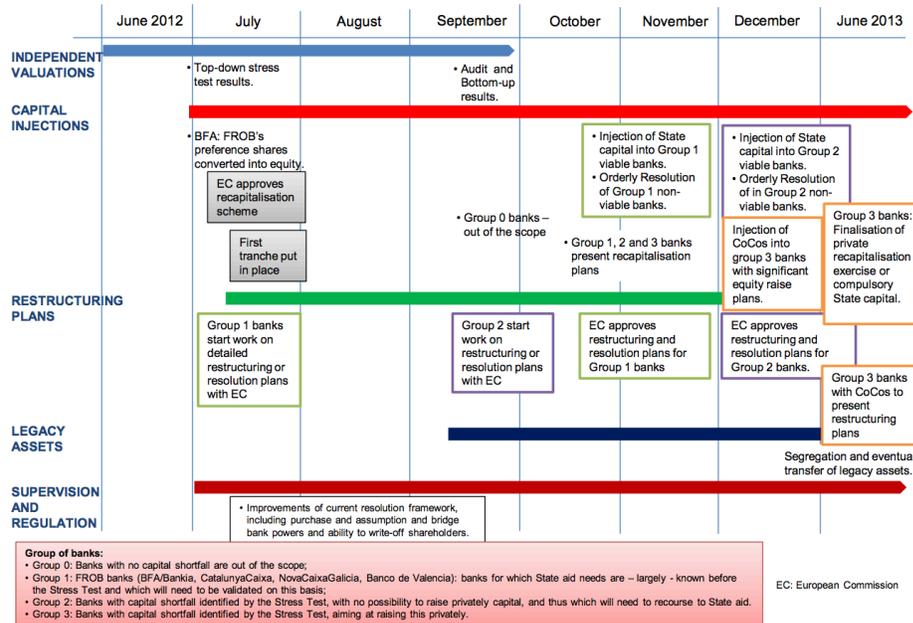
## Appendix 11: Specific information year by year on capital injections

<http://www.frob.es/es/Sobre-el-FROB/Paginas/Informes-de-cuentas-anuales.aspx>

## Appendix 12: Timeline of Spanish Banking Sector

Figure 1:

Restructuring of the Spanish Banking Sector: Timeline

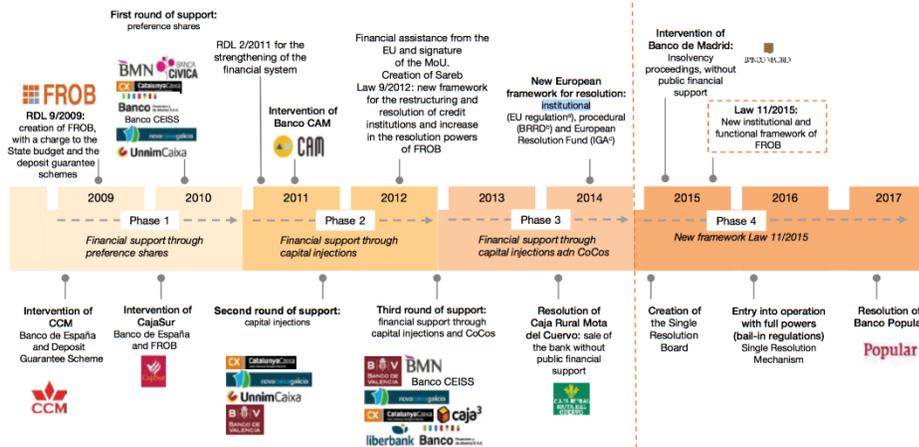


Source: MoU page 5

## Appendix 13: Timeline of FROB activities

RESTRUCTURING OF THE SPANISH BANKING SECTOR

FIGURE 1



SOURCE: Devised by the author.

a Regulation (EU) No. 809/2014 of the European Parliament and of the Council of 15 July 2014.  
 b Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014.  
 c Inter-governmental agreement on the Single Resolution Fund.

Source:

[https://www.bde.es/f/webbde/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/19/mayo/Review\\_EF\\_36\\_Spring.pdf](https://www.bde.es/f/webbde/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/19/mayo/Review_EF_36_Spring.pdf)

## Appendix 14: FROB 2009-2016 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	-	<b>Equity Fund, net</b>	<b>(1.6)</b>	<b>9.0</b>
			Memo items. Equity activities between 2009-16 are largely comprised by:		
Other investments	2.7	-	<b>Capital injections</b>	<b>42.0</b>	<b>9.0</b>
CoCos in Ceiss	0.6	-	<i>State, cash</i>	12.7	6.7
Sareb, sub debt	0.7	-	<i>Deposit guarantee Fund (DGF), cash 1/</i>	2.3	2.3
Other	0.7	-	<i>Public debt conversion</i>	27.0	-
Public debt	0.7	-	<b>Losses (main sources)</b>	<b>(43.5)</b>	-
			<i>Assets Impairment</i>	(41.1)	-
			<i>Asset protection programs</i>	(1.3)	-
			<i>Operational</i>	(1.2)	-
<b>Total assets</b>	<b>14.3</b>	<b>12.0</b>	<b>Total liabilities and equity</b>	<b>14.3</b>	<b>12.0</b>

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

Source: IMF p. 20

## Appendix 15: Stress Test plans for FROB III

**CUADRO 3.3 RESULTADOS POR ENTIDAD DE LOS DISTINTOS GRUPOS**

En millones de euros

Entidad	Tipo de plan	Necesidades de capital	Medidas para cubrir el déficit (a)					
			Ayudas públicas	Incremento de capital	Gestión de híbridos	Traspaso a la Sareb (b)	Venta de activos (b)	Otras (b)
<b>Grupo 1</b>								
BFA-Bankia	Reestructuración	24.743	17.959	0	6.669	191	0	0
Catalunya Banc	Resolución	10.825	9.084	0	1.676	188	0	0
Nova Caixa Galicia	Resolución	7.176	5.425	0	1.959	-276	0	0
Banco de Valencia	Resolución	3.462	4.500	0	416	208	0	63
<b>Grupo 2</b>								
Banco Mare Nostrum	Reestructuración	2.208	730	0	425	382	851	0
Liberbank	Reestructuración	1.197	124	0	850	145	215	0
CEISS	Resolución	2.062	604	0	1.433	263	0	0
Caja3	Reestructuración	779	407	0	44	228	0	108
<b>Grupo 3</b>								
Banco Popular		3.223	0	2.500	0	0	328	417
Ibercaja		225	0	0	0	0	150	93
<b>TOTAL</b>		<b>55.900</b>	<b>38.833</b>	<b>2.500</b>	<b>13.472</b>	<b>1.329</b>	<b>1.544</b>	<b>681</b>

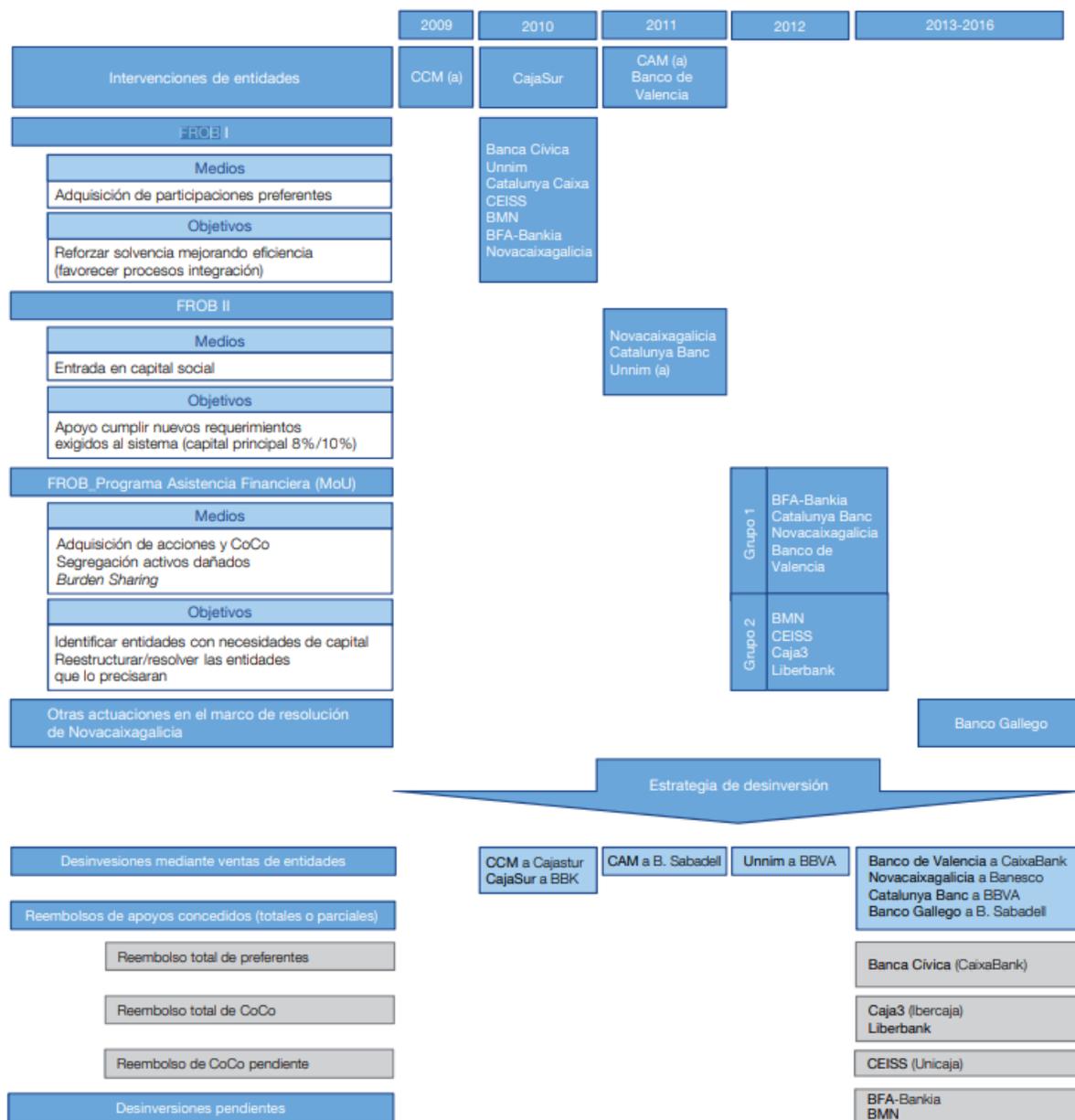
FUENTES: FROB y Banco de España.

- a** La suma de las medidas que se señalan en el cuadro no da como resultado el importe de las necesidades de capital estimadas en el ejercicio *bottom-up* mencionado. Hay que tener en cuenta que tras dicho ejercicio se elaboraron planes de cumplimiento o resolución que planteaban distintas medidas para cubrir las necesidades de capital. Posteriormente, al llevar a la práctica los planes, como en el caso del ejercicio de gestión de híbridos o en el de venta de activos, el resultado de la medida concreta en cuestión tenía un resultado distinto del inicialmente previsto, generándose las diferencias mencionadas.
- b** Reducción de necesidades de capital por traspaso de activos a la Sareb, por venta de activos y otras medidas, respectivamente.

Source: BdE 2017 p. 192

## Appendix 16: Full summary of FROB purchases and divestments

ESQUEMA 5.1 CRONOLOGÍA DE LAS PRINCIPALES ACTUACIONES DESDE 2009



FUENTE: Banco de España.

a Estas entidades recibieron ayudas del Fondo de Garantía de Depósitos.

Source: BdE 2017 p. 249