



Restructuring Process

Spanish Savings Banks

Progress report

13th / February / 2015

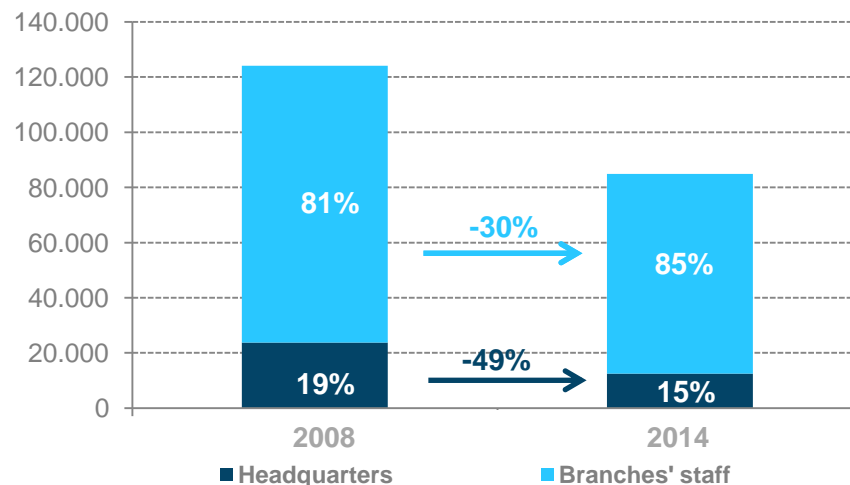
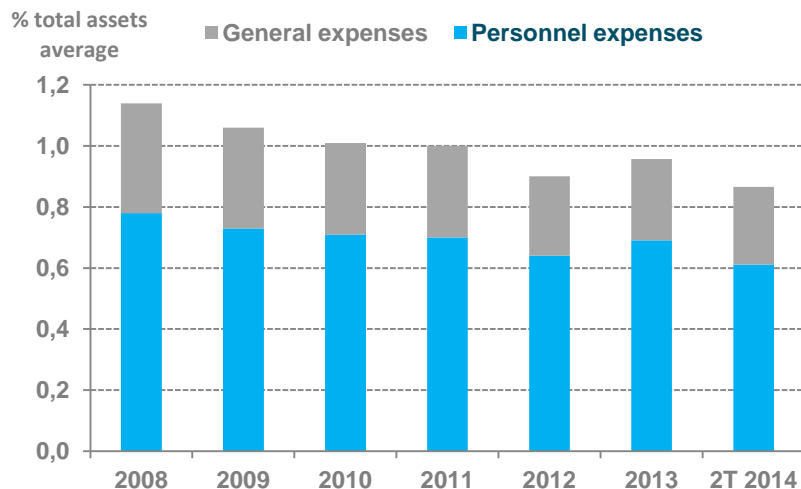
CONSOLIDATION PROCESS AND OPERATIONAL ADVANCES

Consolidation process

- Out of 45 savings banks (in early 2010), 43 have participated or are participating in a consolidation process, which in total assets represents average **99,9% of the Sector**.
- The sector was composed of 45 institutions with an average size in terms of total assets of 29,440 M€ (December 2009); and is now composed of **11 entities or groups of entities**, with **average total assets of 91,509 M€** (September 2014).

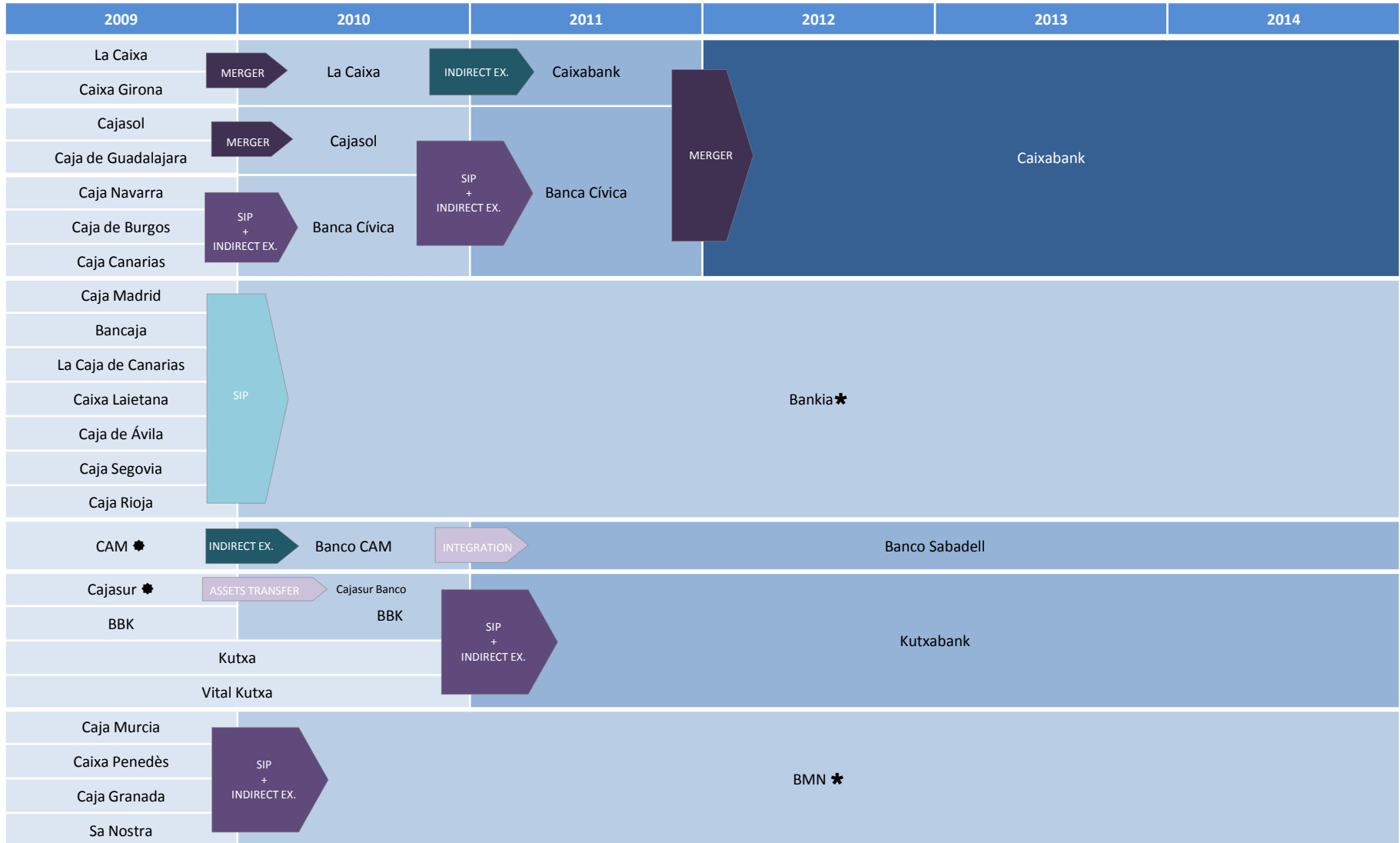
Operational advances

- The **number of branches** of savings banks has decreased to 14,663 on December 31st 2014, which implies a reduction of 36.7% (8,494 branches).
- The **number of employees** of savings banks has decreased to 82,663 on December 31st 2014, which implies a reduction of 33.4% (41,391 employees).





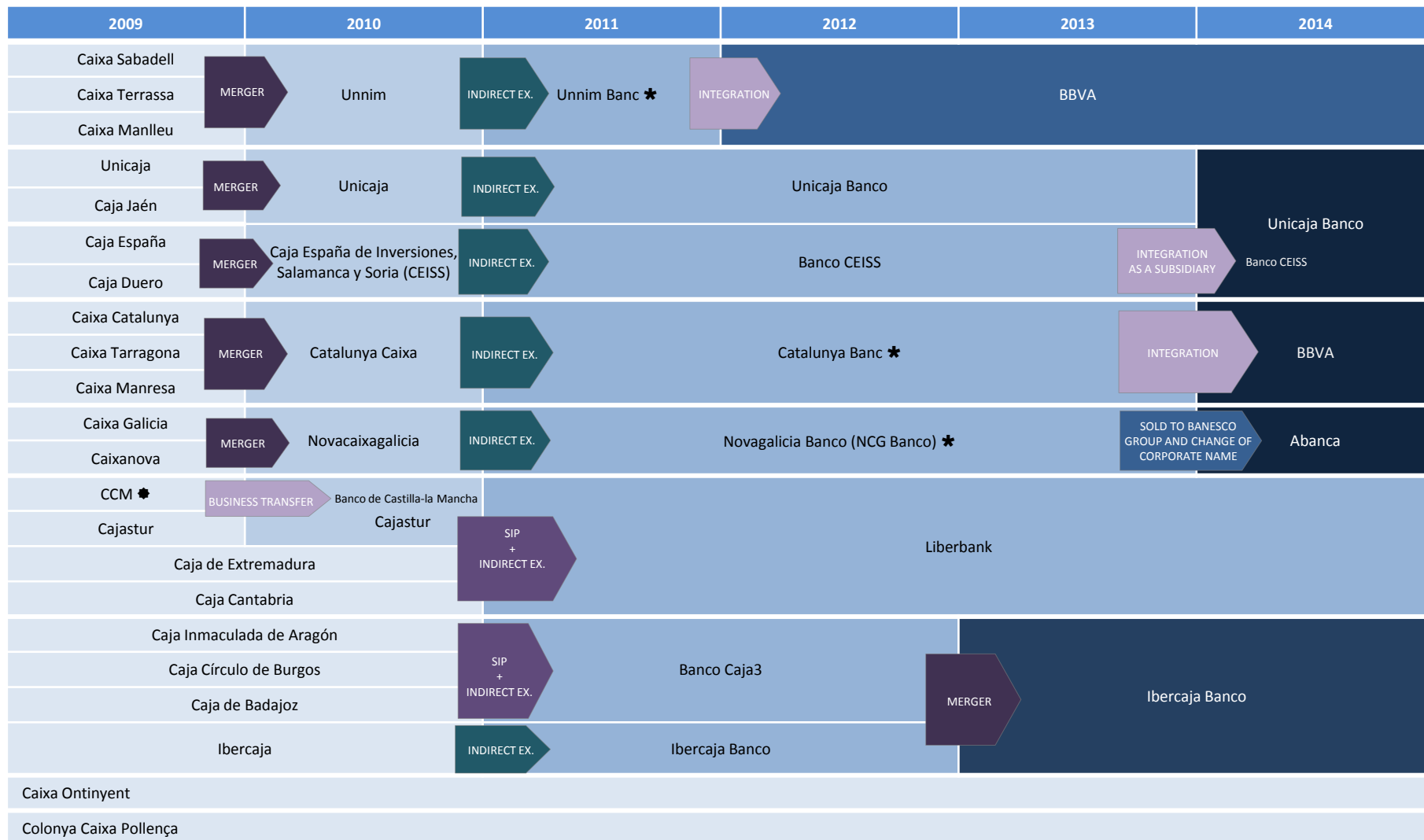
SECTOR RESTRUCTURING PROCESS(I)



* Intervention by the Bank of Spain.
 * Majority ownership FROB.



SECTOR RESTRUCTURING PROCESS (II)



*Intervention by the Bank of Spain.
 *Majority ownership FROB.

First support for bank restructuring

Royal Decree-law 9/2009

- Constitution of the **Fund for Orderly Bank Restructuring** (in Spanish, Fondo de Reestructuración Ordenada Bancaria: FROB) with an initial allocation of 9,000 M€. The Fund for Orderly Bank Restructuring was created to manage the restructuring and resolution processes of credit institutions and assist in the enhancement of their solvency position.

Reform of Spanish Savings Banks Sector

Royal Decree-law 11/2010

- New corporate formulas: indirect exercise of financial activity through a bank and Special Character Foundations.
- Improvements in corporate governance: reduced weight of public authorities representation and professionalization of the members of governing bodies.

Higher requirements of solvency

Royal Decree-law 2/2011

- **Increase of the “capital principal” requirements:** 8% of risk weighted assets, rising to 10% for those groups or entities which have a percentage of wholesale funding in excess of 20% and have not allocated at least 20% of their capital to third party investors.

Clean up of Real Estate exposure

Royal Decree-law 2/2012

- Establishing a **clean up plan** that includes capital requirements and additional provisions to cover the deterioration in bank balance sheets caused by the assets at risk related to the property development business.

Law 8/2012

- Higher provisions for performing assets associated to land for property development, construction or real estate business.** Foreclosed real estate assets are separated through their mandatory transfer to **Assets Management Company** (in Spanish, Sociedad de Gestión de Activos; SGA).

Impact analysis

	Total balance sheet	Coverage Dec 2011	Provisions + Capital		Total	% Coverage
			RD-I 2/2012	Ley 8/2012		
Troubled assets	184.000	54.000	45.000	-	99.000	53,8%
Performing assets	123.000	-	9.000	28.000	37.000	30,1%
Total assets	307.000	54.000	82.000		136.000	44,3%

**EUROGROUP
Financial
assistance:
conditions**

Memorandum of Understanding (20.07.12)

- **Roadmap:** 14 banking groups are grouped into 4 categories according to the **stress test**:
 - Group 0: Entities that do not require support to meet capital requirements.
 - Group 1: Entities controlled by the FROB.
 - Group 2: Entities unable to raise capital to fulfill the new capital requirements without resorting to State Aid.
 - Group 3: Entities with capital shortage but with credible recapitalization plans that allow them to raise private funds.
- **Specific conditions:**
 - **Plans for restructuring or resolution.**
 - **Burden sharing:** the holders of hybrid instruments should share part of the restructuring cost through Subordination Debt Exercises.
 - **Segregation of damaged assets:** Entities that receive State Aid should transfer their real estate assets to an Asset Management Company.
- **Horizontal conditions:**
 - New requirements to provide regular information and to improve the transparency.
 - Strengthen the governance of savings banks and banks controlled by them.
 - Review of existing framework of loan impairments and provisions.
 - Higher Common Equity Tier 1 of 9%.
 - Review of framework for risk concentration and related party transactions.

Stress test by Oliver Wyman (September 2012)

- Analysis of **90% of the Spanish banking system in assets.**
- In the adverse scenario:
 - Grupo 0: 7 banking groups (more than 62% of the analysed portion of the system) do not have additional capital needs.
 - Additional capital needs have been identified for the remaining groups, that amount to €59.3 billion and this amount falls to €53.84 billion when the mergers under way and the tax effects are considered.

DOMESTIC STRESS TEST 2012

	Capital needs after the tax effect		Actual/future situation
	Baseline scenario	Adverse scenario	
Grupo Santander	19.181	25.297	
BBVA	10.945	11.183	
Caixabank+Banca Cívica	9.421	5.720	
Kutxabank	3.132	2.188	
Banco Sabadell+CAM	3.321	915	
Bankinter	393	395	
Unicaja	969	452	
CEISS	-1.269	-2.063	Integration in Unicaja as a subsidiary in 2014
Ibercaja	389	-226	Fully comply with the required capital needs on 31.12.2012
Caja 3	-188	-779	Integration completed in Ibercaja in 2014
Liberbank	103	-1.198	Stock Exchange in 2013
BMN	-368	-2.208	Sale of Caixa Penedés Network to Banco Sabadell in 2013
Banco Popular	677	-3.223	
Banco de Valencia	-1.846	-3.462	Integration in Caixabank in 2013
Novagalicia Banco	-3.966	-7.176	Renamed as Abanca and it belongs to Banesco from 2014
Catalunya Banc	-6.488	-10.825	Integration in BBVA in 2014
Bankia-BFA	-13.230	-24.743	
Total system (only needs)	27.355	-55.902	

**Bank crisis
management
framework****Asset Management
Company****Other measures****Law 9/2012 and Royal Decree-law 1559/2012**

- Definition of **crisis scenarios**:
 - **Early intervention**: actual or potential default of solvency, liquidity, organizational structure or internal control requirements, but it would be possible to return to compliance by itself.
 - **Restructuring**: The credit institution requires public financial support in order to ensure its viability, and objective factors make reasonably foreseeable that such support will be refunded or recovered on time.
 - **Resolution**: The credit institution is not viable, or it is expected that it will be in that situation the near future, and for reasons of public interest and financial stability it is necessary to avoid its liquidation through a standard bankruptcy legal procedure.
- Identification of restructuring and resolution instruments.
 - **Capital structure**: mainly private.
 - Definition of **transfer assets** and **transfer value**.
 - Financial assets expected: maximum 90.000 millions of euros.
 - **Transferred assets to Group 1 entities.**
- **New legal framework to commercialize hybrid instruments and complex products for retail investors.**
- **Strengthening the solvency**: Core tier 1 9% since 01.01.13.

**Reform of the
Savings Banks
regime
(I)**

Law 26/2013, December 27th, on savings banks and banking foundations

SAVINGS BANKS

- **Delimitation of the activity:** entities engaged in deposit taking and lending in a scope restricted to one autonomous region, or neighboring provinces with a maximum of 10.
- **Governing bodies:** general assembly, board of directors and steering committee.
- **Stricter incompatibility regime:** executives of political parties, trade unions and professional associations, elected representatives of government, senior officials of the government, or persons which held that position in the last two years, cannot be members of the governing bodies.
- **Temporary compatibility** for people who are simultaneously members of the board of trustees of the banking foundation and the board of directors of the bank participated by the banking foundation, with the following limitations:
 - a) They shall not exercise executive functions in either the bank or the foundation.
 - b) The compatibility may not exceed 25% of the members of the bank's board of directors.
 - c) The compatibility of each member is maintained until his current term at the bank expires, and in any event no later than June 30th, 2016.
- **Transformation into banking foundations:** the savings bank will have to transfer its financial activity to a credit institution when the value of its assets exceeds 10 billion euros, or its market share in deposits in its autonomous region exceeds 35%.

Reform of the
Savings Banks
regime
(II)

BANKING FOUNDATIONS

- **Definition:** Foundation that maintains a holding in a credit institution that reaches, directly or indirectly, at least 10% of the capital or voting rights, or allows it to appoint or remove at least one member of its board of directors.
- **Governing bodies:** Board of Trustees, General Manager and other delegated bodies. Natural or legal persons can be elected as trustees when representing founding institutions or organizations representing collective interests, or when they have donated funds to the institution, have a good reputation related to social works or are experts in financial issues.
- **Purpose:** development of their social project and management of their participation in the financial institution.
- **Participation in credit entities:**
 - if it exceeds 30% or grants control: obligation to prepare a management protocol for the financial participation, and a financial plan.
 - if it exceeds 50% or grants control: in addition, the financial plan should include a plan for investment diversification and risk management, and they have to create a reserve fund (the fund is not compulsory if the plan for diversification includes a divestment strategy in order to reduce the participation below 50% within five years).
 - if it doesn't reach 10%, the banking foundation will be transformed into a general-regime (regular) foundation.
- The relevant Autonomous Community will be responsible for the **supervisory authority** (the "protectorado"). In the case of banking foundations operating in more than one Autonomous Community, this responsibility will correspond to the Ministry of Economic Affairs and Competitiveness.
- A reinforced quorum is required for agreements regarding **dividends** in credit institutions controlled by banking foundations, and the decisions must be adopted by a majority of two-thirds of the capital present or represented at the Board.
- **Montes de Piedad** (charitable pawnbrokers): may be assigned to the social work activities of savings banks, banking foundations, credit institutions controlled by them or regular foundations.

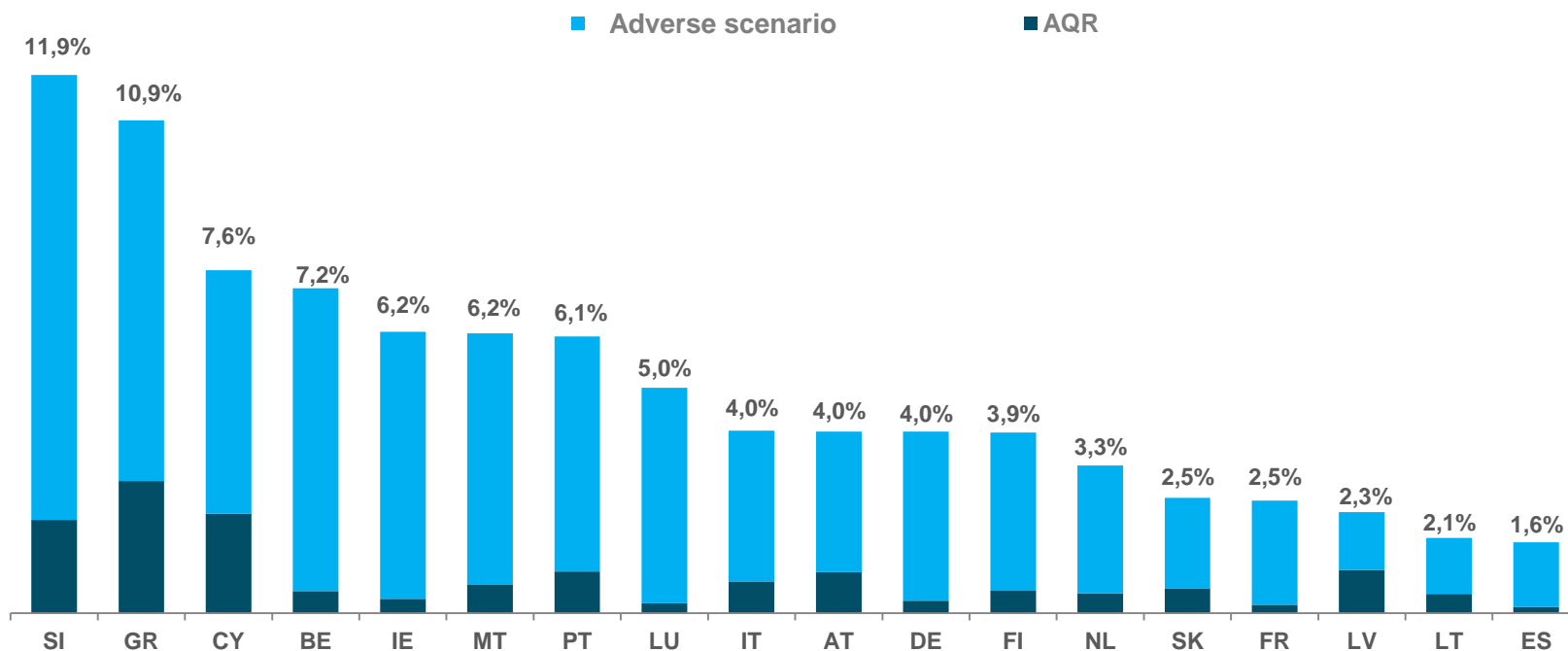


COMPREHENSIVE ASSESSMENT (I)

Results:

Spanish entities	CET1 Ratio				Capital shortfall threshold of 8% for AQR adjusted CET1 Ratio	Net effect of previous CET1 capital actions performed
	Year-end 2013	AQR-adjusted	Baseline Scenario	Adverse scenario	Mill. EUR	Mill. EUR
LA CAIXA	10,28%	10,24%	10,79%	9,25%	0	1.923
BFA - BANKIA	10,68%	10,60%	12,33%	10,30%	0	991
UNICAJA	11,08%	10,88%	11,12%	8,89%	0	0
IBERCAJA	10,03%	10,01%	10,31%	7,82%	0	0
KUTXABANK	12,12%	12,03%	12,36%	11,82%	0	0
CATALUNYA BANC	12,32%	12,21%	11,76%	8,02%	0	0
ABANCA	10,25%	10,18%	11,50%	9,14%	0	0
BMN	9,44%	9,01%	10,30%	8,09%	0	0
LIBERBANK	8,66%	7,82%	8,51%	5,62%	32	637
CECA SECTOR	10,5%	10,4%	11,2%	9,3%	32	3.551
BBVA	10,75%	10,54%	10,24%	8,97%	0	0
SABADELL	10,26%	10,26%	10,16%	8,33%	0	6
POPULAR	10,63%	10,06%	10,20%	7,56%	0	120
SANTANDER	10,38%	10,34%	11,05%	8,95%	0	0
BANKINTER	12,04%	11,67%	11,63%	10,80%	0	13
CAJAMAR	11,00%	9,95%	10,17%	7,99%	0	50
SPAIN	10,6%	10,4%	11,6%	9,0%	32	3.740
EMU	11,8%	11,4%	11,6%	8,4%	24.617	35.935

➤ Impact of comprehensive assessment on CET1 Ratio. Analysis by country:



- Spain is the country within the SSM that records a lower impact from AQR (0.1%), reflecting the proper classification, valuation and provisioning in the balance sheets of Spanish banks.

