

Foro de Seguro de Depósitos de las Américas
Americas Deposit Insurance Forum



INSTITUTO
PARA
LA PROTECCIÓN
AL AHORRO
BANCARIO

Spain's experience with banking sector restructuring: some takeaways

Javier Torres

Director of Resolution and Strategy - FROB

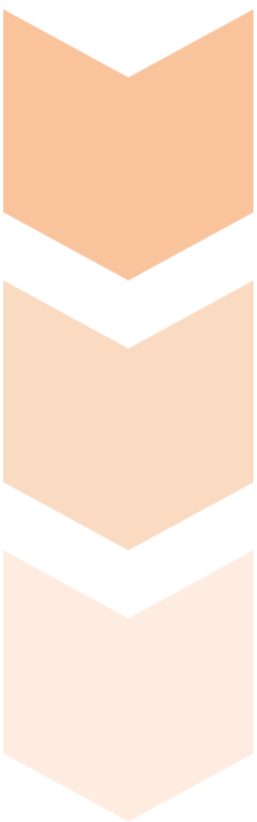


SPAIN'S EXPERIENCE WITH BANKING SECTOR RESTRUCTURING: SOME TAKEAWAYS

Tuesday, April 24, 2018

Javier Torres, Director of Resolution and Strategy

Table of contents

- 
- 1 Spanish financial sector through the crisis. FROB's role.
 - 2 New institutional and functional framework.
 - 3 Main takeaways and challenges ahead.



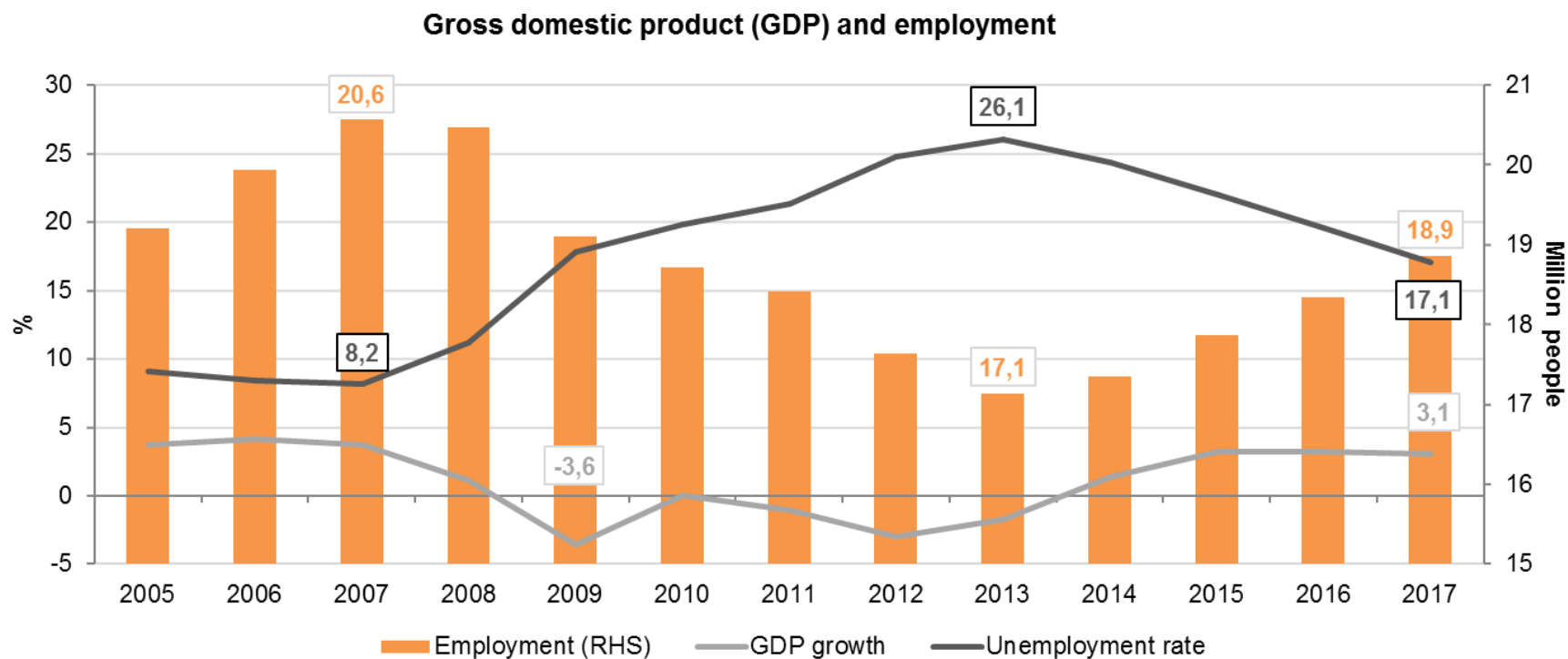
The Spanish financial sector through the crisis



GDP

FROB
Spanish Executive Resolution Authority

GDP contraction of 3,6% - end 2009

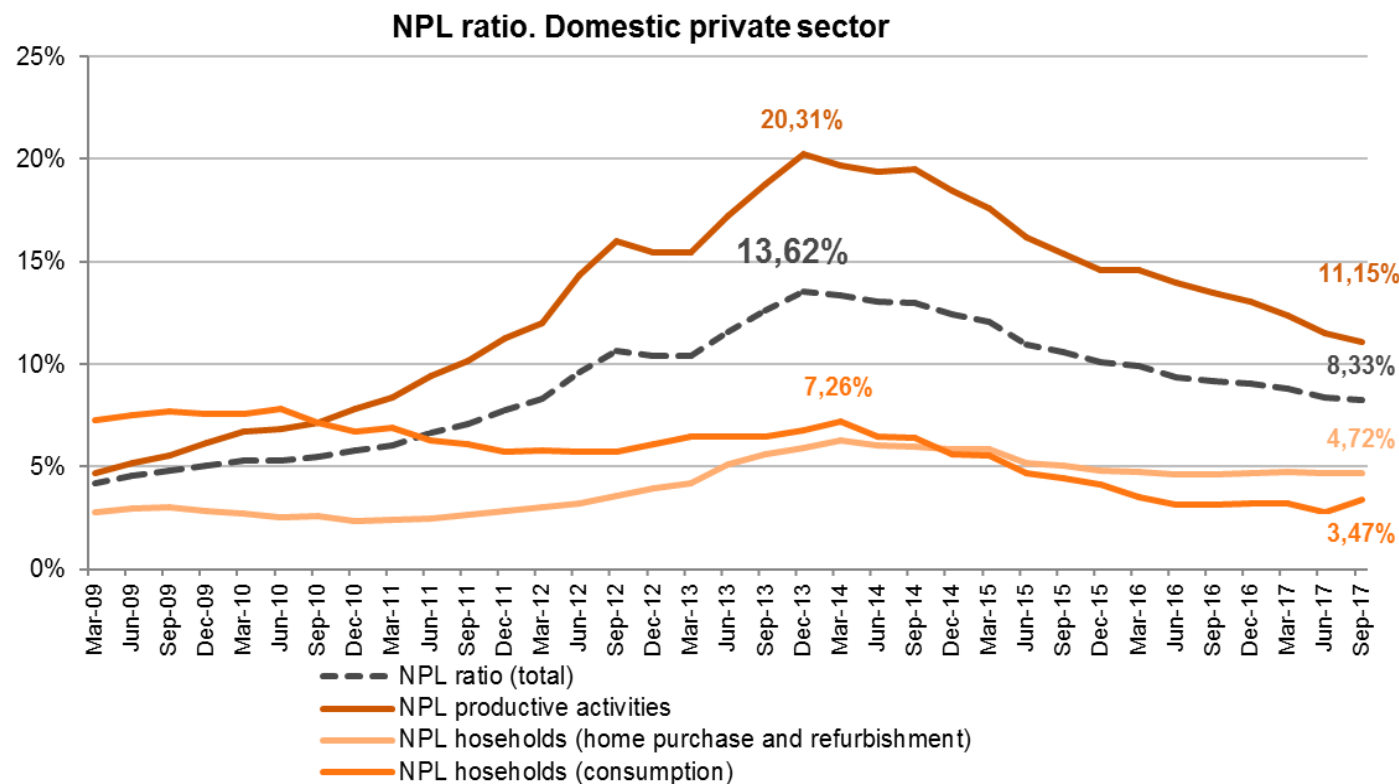


Source: IMF WEO

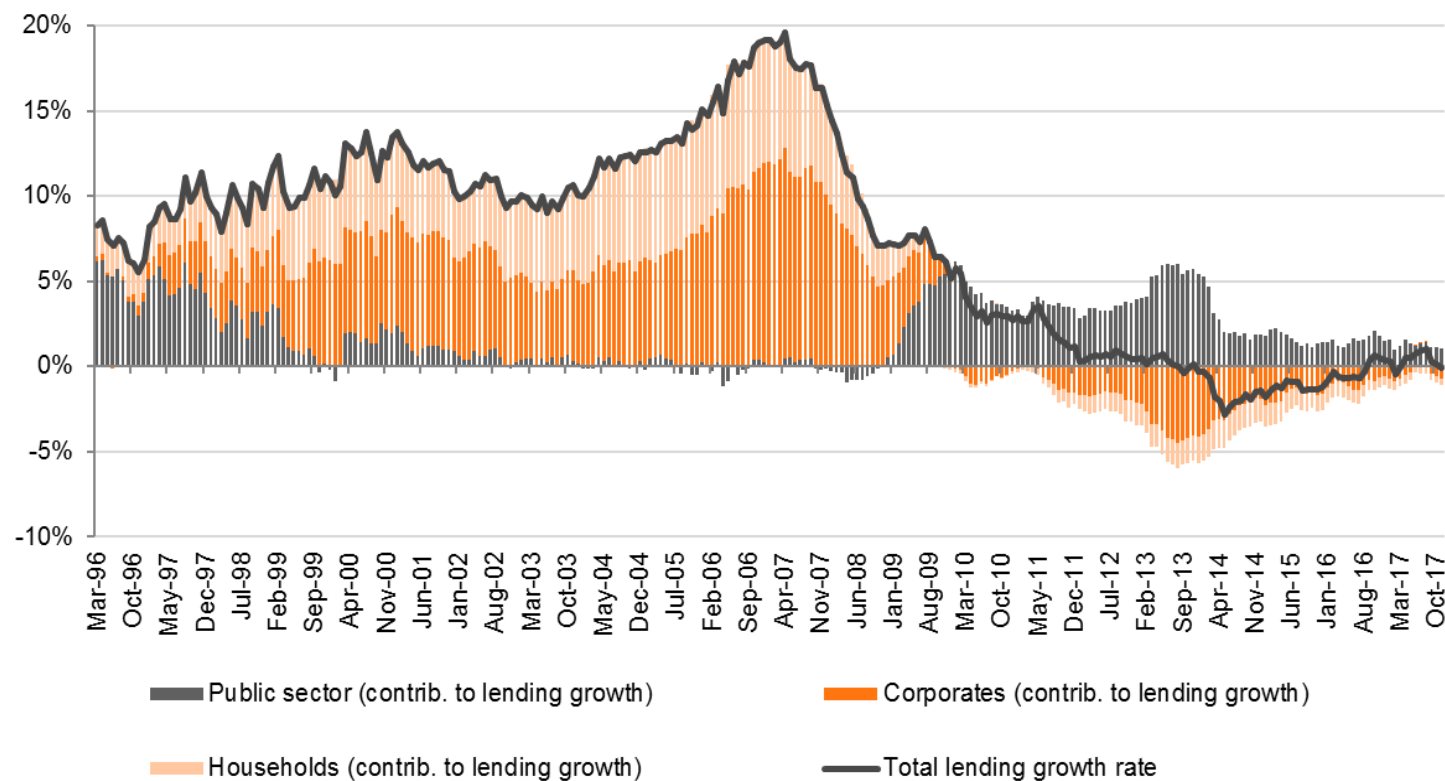
NPL ratio

FROB
Spanish Executive Resolution Authority

NPL ratio peaked in Dec-13 (13.6%)



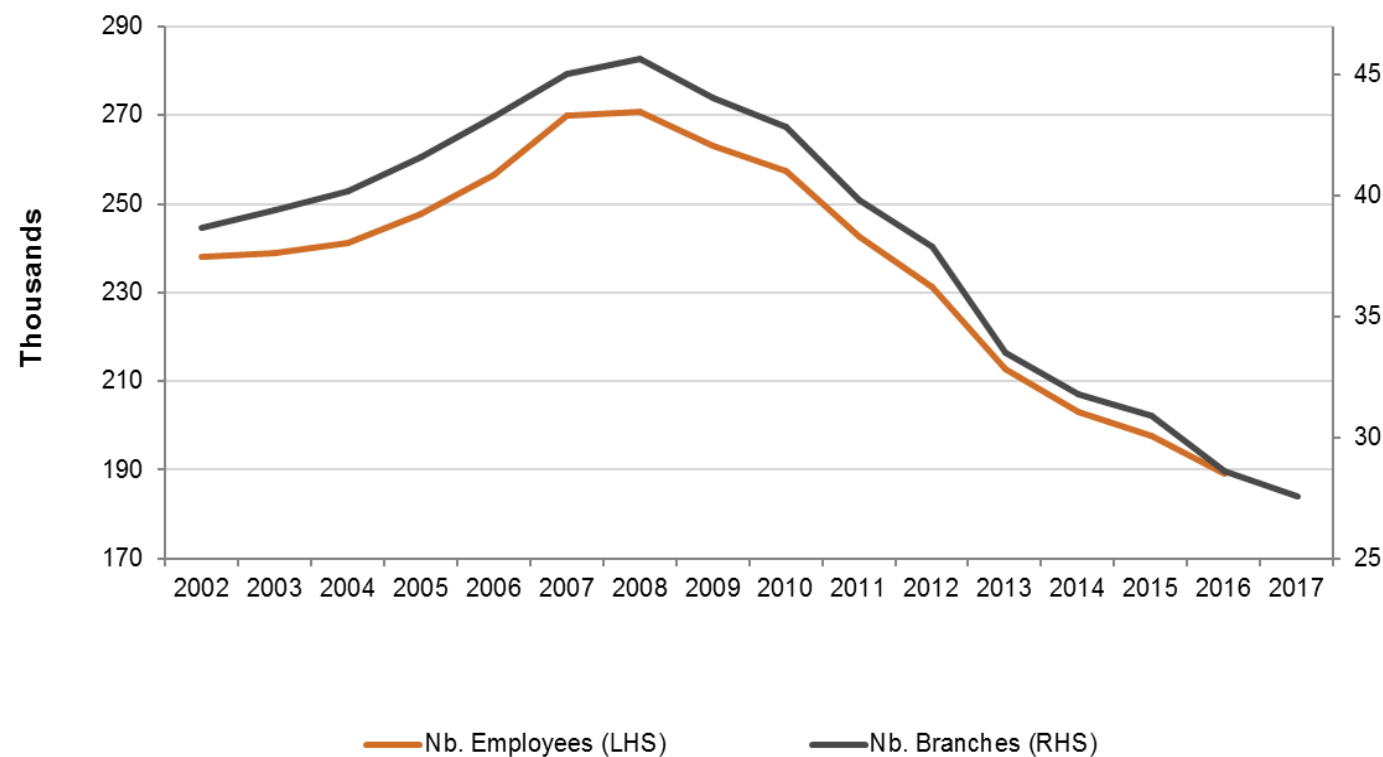
Domestic lending

Deleverage process of the Spanish economy.

Restructuring of the banking sector



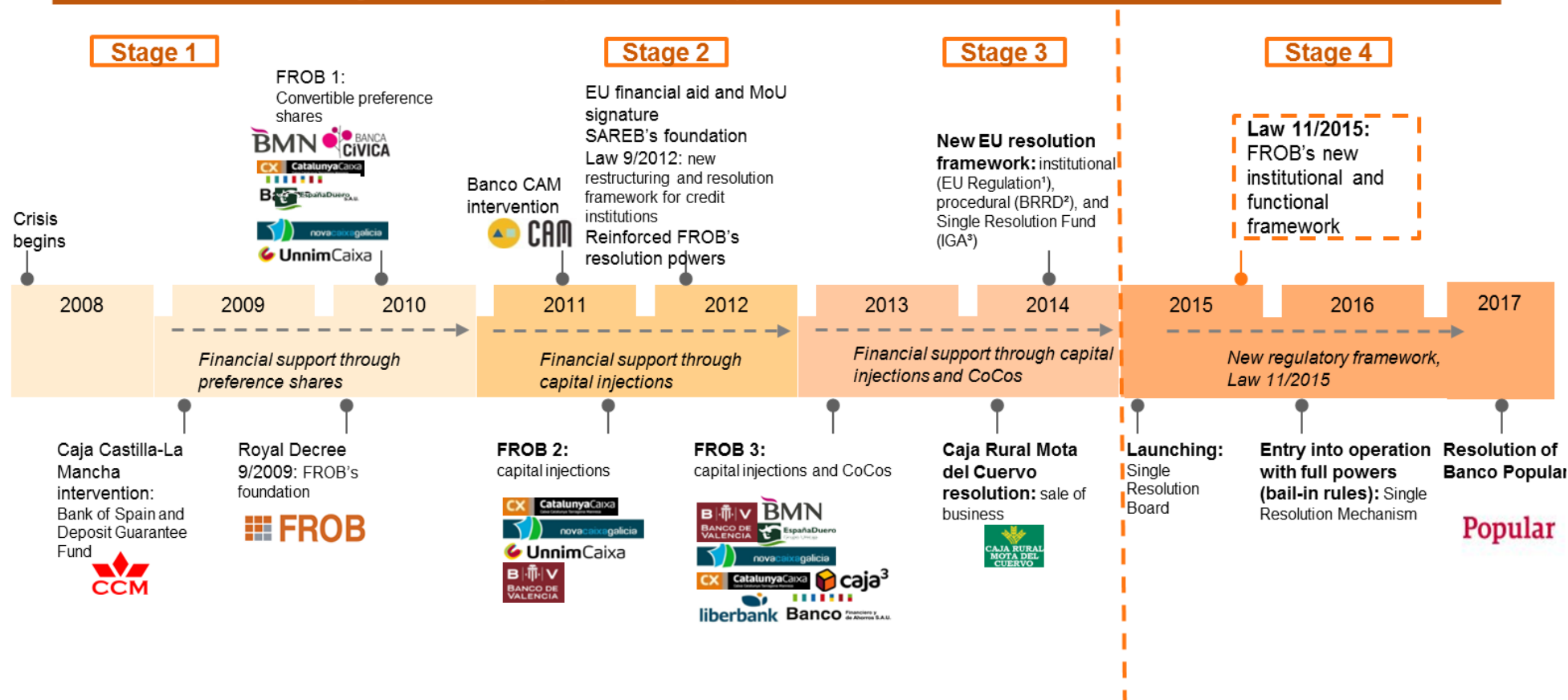
Spanish entities have made a significant downsizing effort aimed at reducing costs



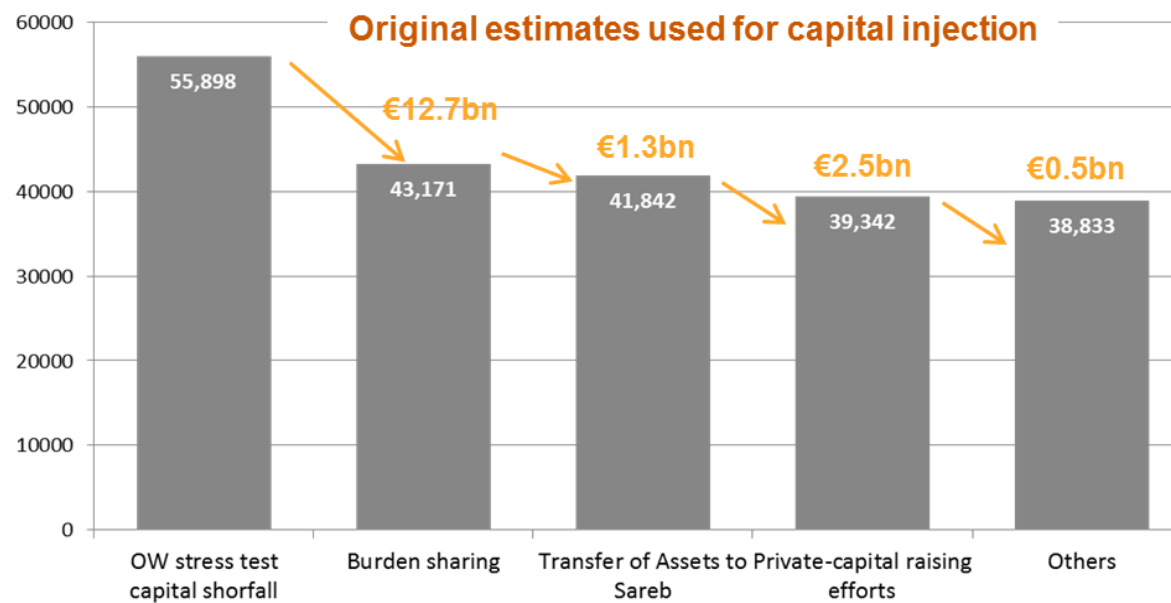
2009-2013
FROB's role



Timeline of the banking restructuring process in Spain



FROB 3. Dec.'12-2013

FROB
Spanish Executive Resolution AuthorityCapital
injectionTransfer of
assetsBurden
sharingCapacity
adjustments,
divestments

Restructuring of the banking sector. Summary

SUMMARY	TOTAL CAPITAL INJECTIONS	RECOVERD AMOUNT (FROB)
State-aided entities		4,477
Interest payments received		1,434
FROB injection (banks)	54,353	
FROB injection (Sareb)	2,192	
Total	56,545	5,911

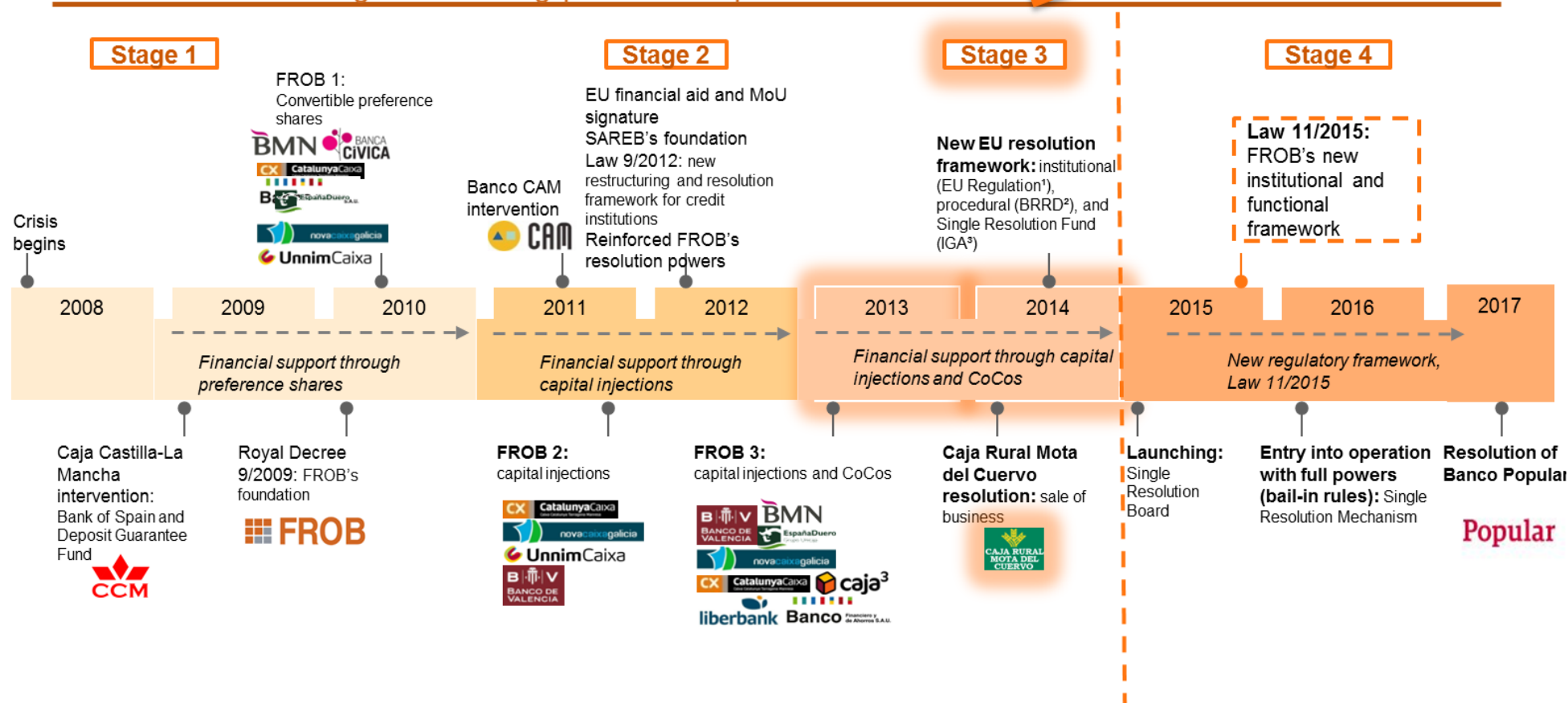
Main takeaways



Takeaways from this period

1. Solvency problems vs. liquidity problems
2. Limited capacity of retail customers for absorbing losses
3. Responsibility of the management
4. Challenges in AMC creation and transfer price

Timeline of the banking restructuring process in Spain



Main takeaways



Takeaways from this period

1. Solvency problems vs. liquidity problems
2. Limited capacity of retail customers for absorbing losses
3. Responsibility of the management
4. Challenges in AMC creation and transfer price
5. Public interest – dynamic definition
6. Challenges from cooperative banks
7. Need for fast insolvency proceedings



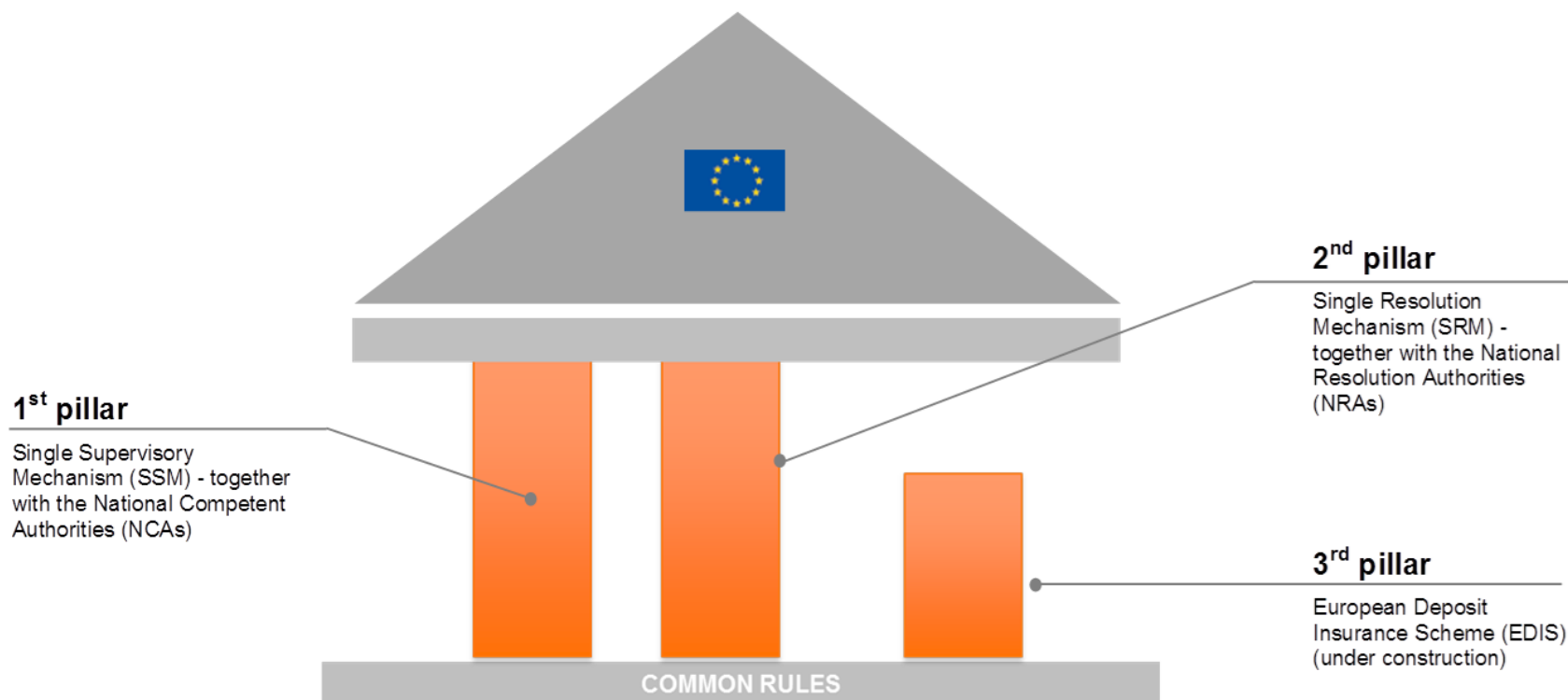
New institutional and functional framework



New institutional and functional framework

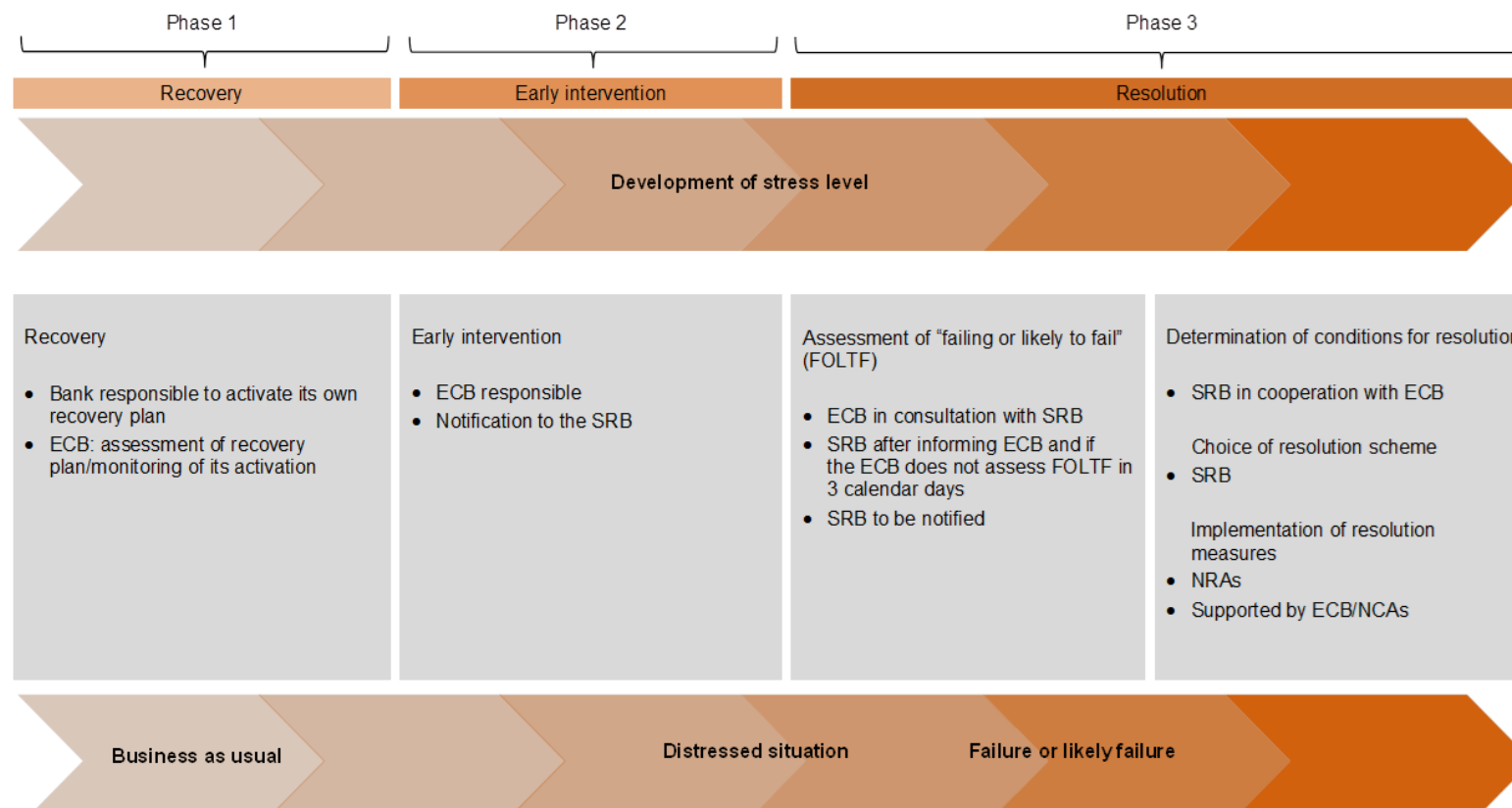


The Banking Union

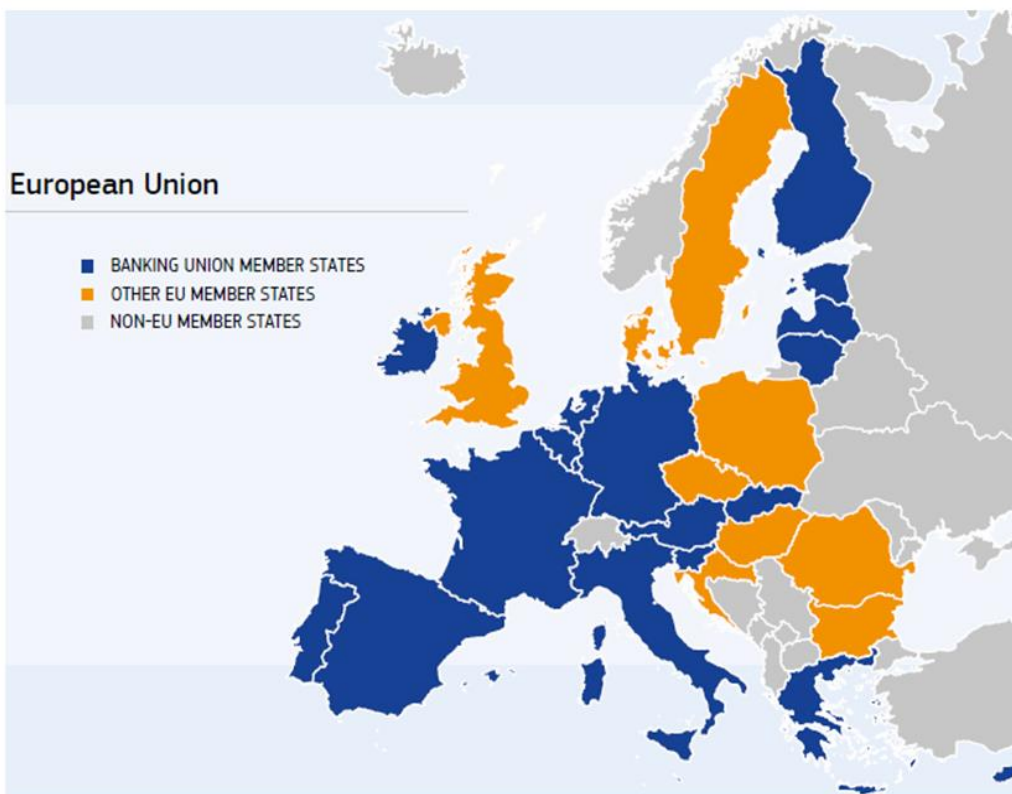


New institutional and functional framework

From Recovery to Resolution



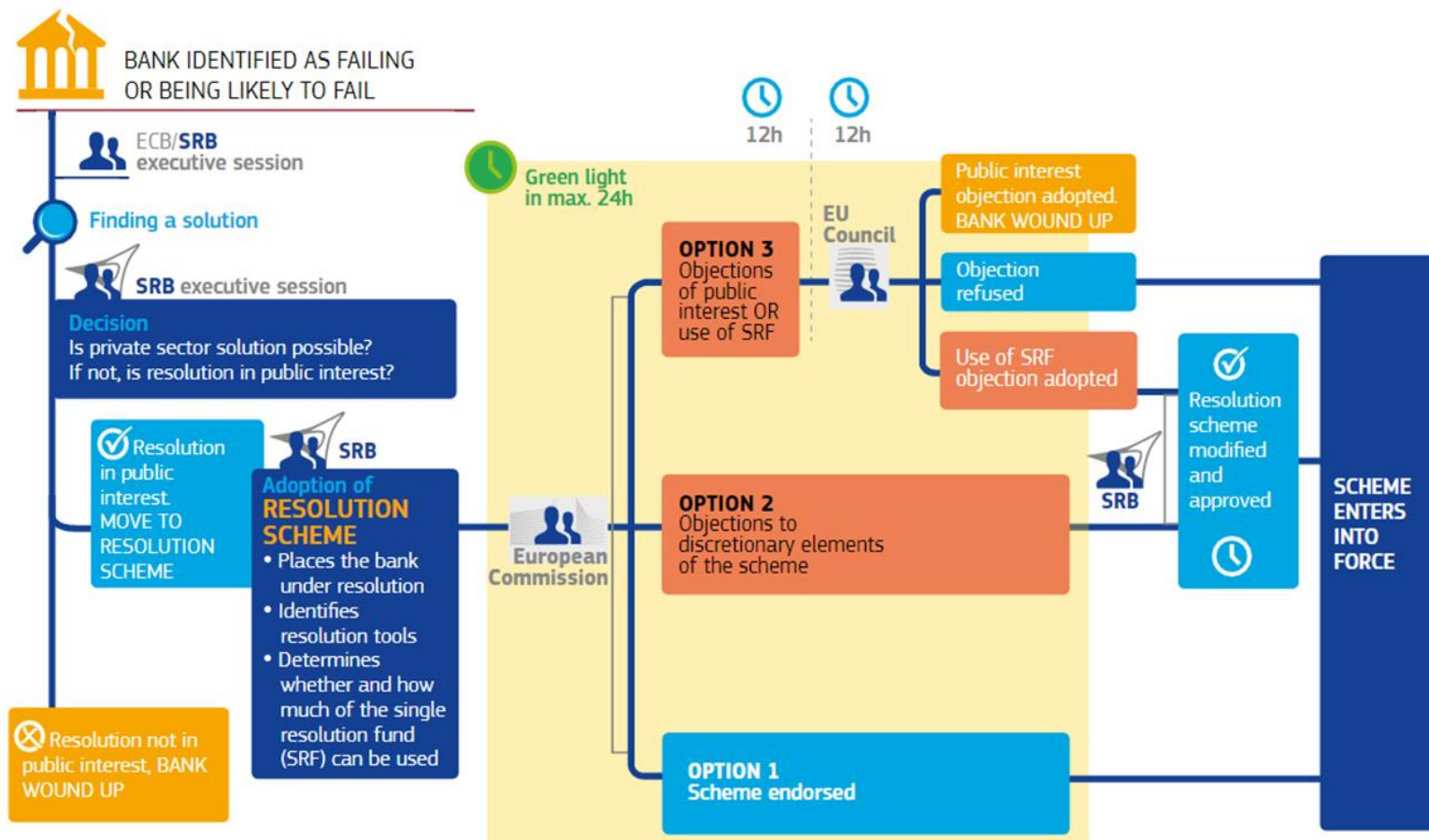
Division of tasks within the SRM



Source: SRB

- ☐ The SRB together with the National Resolution Authorities (NRAs) forms the SRM.
- ☐ The SRB is directly responsible for:
 - ☐ Significant banks
 - ☐ Cross-border banking groups
- ☐ NRAs are directly responsible for all other banks. SRB could 'take over' direct responsibility.
- ☐ The SRB closely cooperates with the NRAs

Resolution procedure in the Banking Union

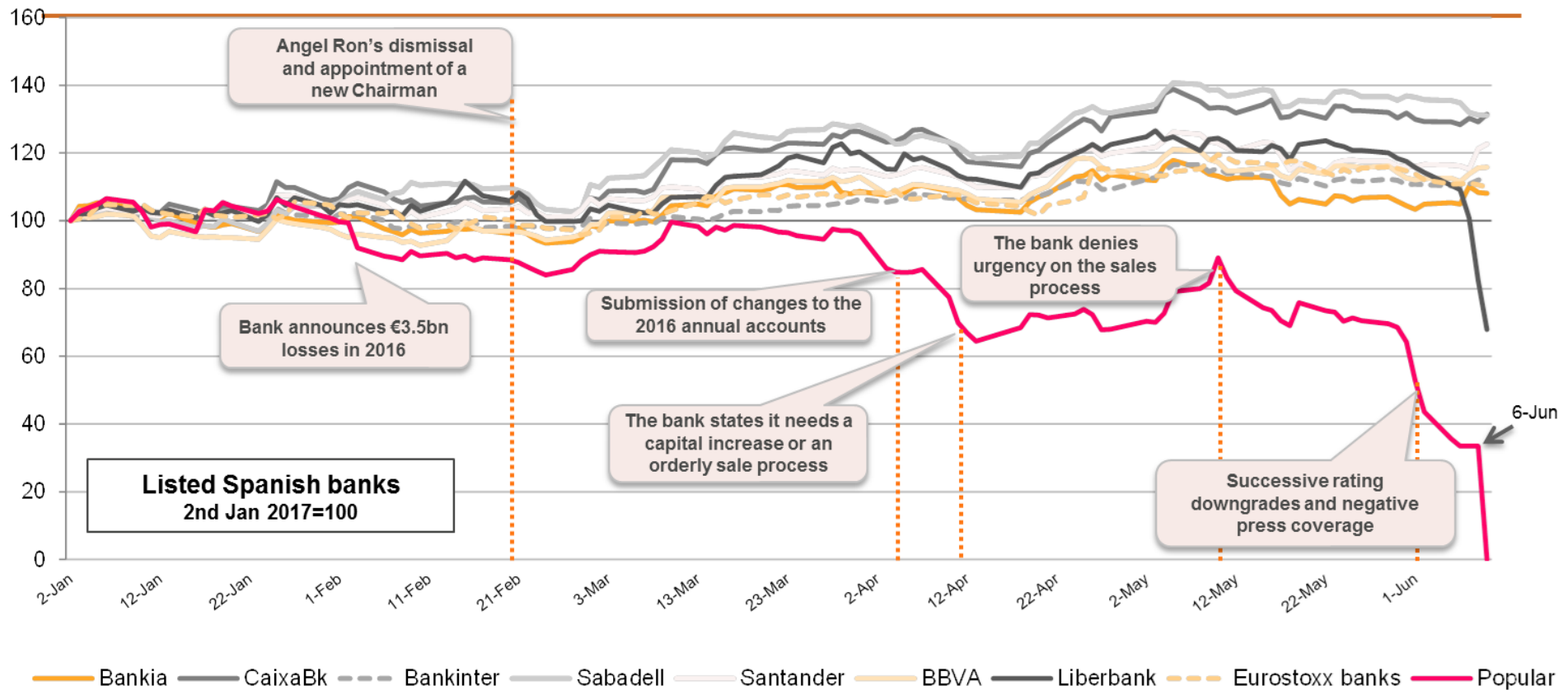


Source: SRB

Resolution process of Banco Popular



Market price of Listed Spanish Banks and Key Milestones



Crisis Preparedness



- The SRB activates the crisis preparedness procedure:

- daily calls to monitor the group's liquidity situation
- analysis of all potential resolution tools
- drafting of a potential resolution scheme
- hiring of legal advisors and a valuation firm.

Following SRB's request, FROB' approves:

- Hiring of Jefferies/ Arcano as financial advisor and Baker & McKenzie as legal advisor
- Analysis and design of a potential sale process

- The SRB Extended executive session approves the marketing decision

- Following SRB's request, FROB formally launches the bidding process

- Contact with potential buyers
- Drafting of Process Letter
- Signature of NDAs
- Access to VDRs

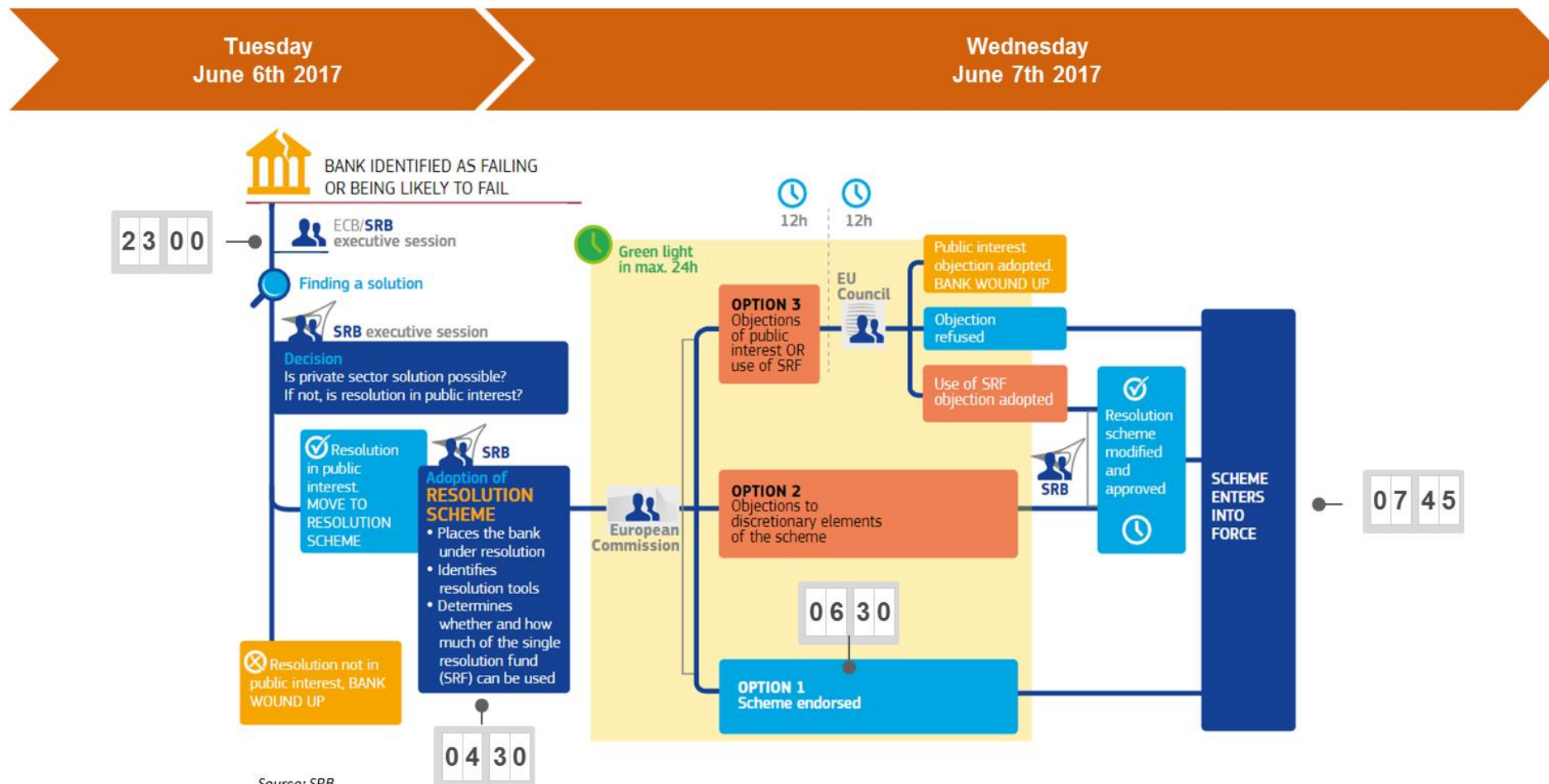
Jefferies
ARCANO

Deloitte.

Linklaters

Baker
McKenzie.

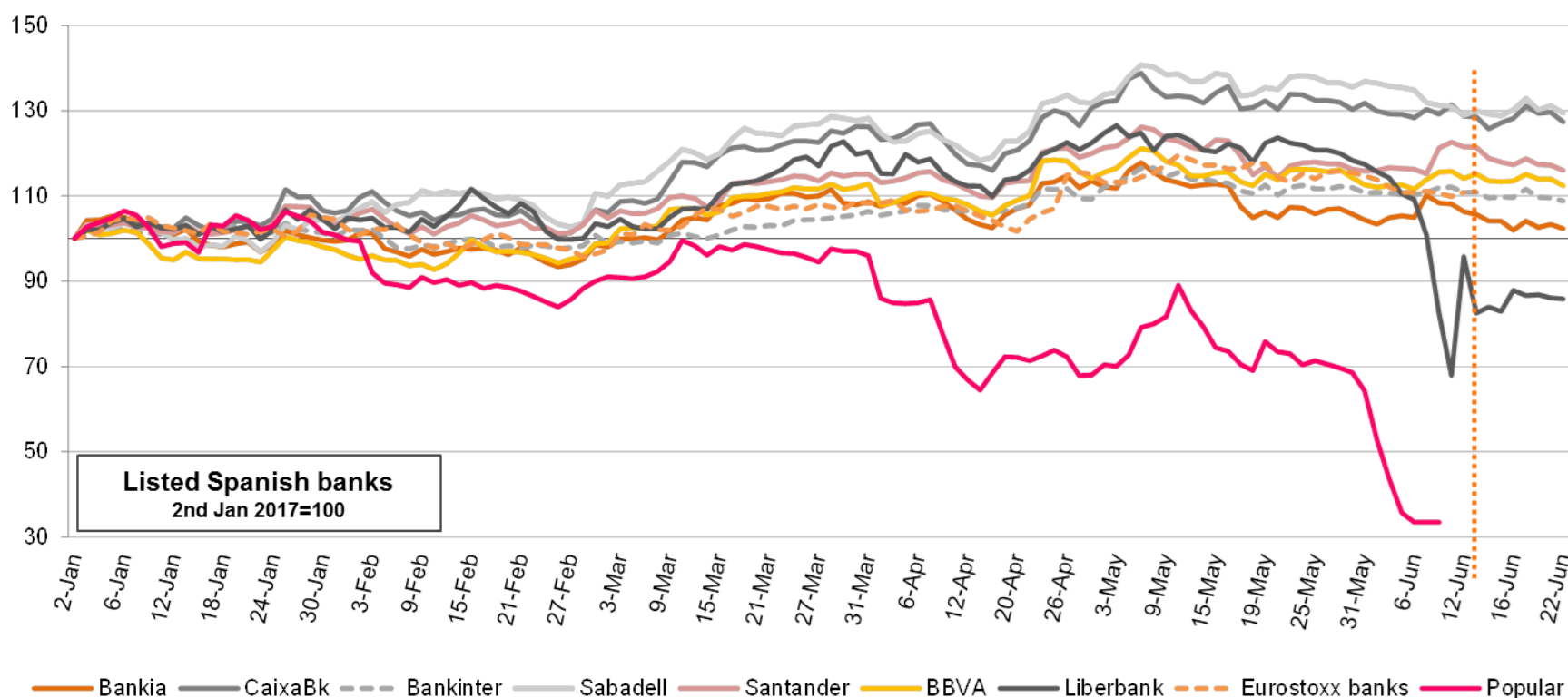
Resolution Execution



Stock Market Reaction



After the announcement only one entity affected





Main takeaways and Challenges ahead



Main takeaways



Takeaways and challenges ahead

1. Solvency problems vs. liquidity problems
2. Limited capacity of retail customers for absorbing losses
3. Responsibility of the management
4. Challenges in AMC creation and transfer price
5. Public interest – dynamic definition
6. Challenges from cooperative banks
7. Need for fast insolvency proceedings
8. Timing, early intervention and preparing for resolution
9. Liquidity post-resolution. Moratorium tool
10. Challenges on level playing field and ensuring resolvability

We remain at your disposal for any further queries:

Thank you for you attention

FROB

www.frob.es

Javier Torres: jtorres@frob.es



Foro de Seguro de Depósitos de las Américas
Americas Deposit Insurance Forum