IP/10/70

Brussels, 28th January 2010

State aid: Commission approves Spanish recapitalisation scheme for credit institutions

The European Commission has approved until 30 June 2010 a Spanish recapitalisation scheme for banks aimed at enhancing the strength and solvency of credit institutions so that they are able to provide credit normally and that confidence in the national financial system can be maintained. The Commission found the scheme to be in line with its Guidance Communications on state aid to overcome the financial crisis (see IP/08/1495 and IP/08/1901). In particular, the measures approved are limited in time and scope, require market-oriented remuneration and contain enough incentives to redeem the state participation over time. The Commission, therefore, concluded that the scheme is an adequate means to remedy a serious disturbance of the Spanish economy and as such compatible with Article 107.3.b of the Treaty on the Functioning of the European Union (TFEU).

Competition Commissioner Neelie Kroes said: "The Spanish recapitalisation scheme will strengthen confidence in the Spanish banking system and, above all, encourage lending to the real economy. At the same time, the scheme establishes sufficient safeguards to limit disproportionate distortions of competition".

The Spanish scheme would allow the *"Fondo de Reestructuración Ordenada Bancaria"* (FROB) to subscribe to convertible preference shares that would qualify as Tier 1 in the regulatory capital of the beneficiaries.

In order to benefit from the scheme, beneficiaries will need to draw up an integration plan, setting out the specific measures and commitments to be implemented in order to achieve an increase of efficiency and solvability. This plan will have to be approved by the Bank of Spain before it is presented to the FROB.

Before each individual bank recapitalisation, the FROB will communicate to the Commission the results of an assessment of the beneficiary's risk profile by the Bank of Spain. This will enable the Commission to assess the situation in turn and to indicate the necessary follow-up, such as the need to provide a restructuring plan, to pay an adequate remuneration on the convertible preference shares or the need for a ban on coupon payments on hybrid instruments.

The distortive effect of the recapitalisations will be minimised by various remuneration conditions, including fixed step-up clauses, and remuneration linked to dividend payments. Conditions for recapitalisation will also include rules on payment of dividends and management remuneration, behavioural commitments and a ban on coupon payment of hybrid instruments.

Spain has committed to notify the conditions of recapitalisations exceeding 2% of risk weighted assets to banks that are not fundamentally sound, together with a restructuring plan in line with the Commission's Communication on bank restructuring (see IP/09/1180).

The Commission found the scheme and the commitments made by Spain to constitute an appropriate means to restore confidence in the creditworthiness of Spanish credit institutions and to stimulate lending to the real economy. The scheme is well-designed and interventions by the FROB will be limited to what is necessary to achieve the strengthening of the Spanish banking sector.

A possible prolongation of the scheme beyond 30 June 2010 will be notified to the Commission together with the biannual report on the functioning of the scheme.

The non-confidential version of the decision will be made available under the case number N28/2010 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.