Investors seek to profit from cajas reform

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A branch of Caja Madrid in the Spanish capital: a number of savings banks have formed bigger groups with a view to listing this year

The already rapid restructuring of the Spanish banking sector is accelerating, according to analysts and bankers, now that the finance ministry has seized the initiative from the central bank and investors in Spain and abroad are busily studying possible mergers and takeovers.

"London-Madrid flights must be more clogged with bankers than usual," says Ronit Ghose, senior European banking analyst at Citi, noting the interest of international investment bankers and sovereign wealth funds in the reform of Spain's unlisted cajas, or savings banks, and a series of probable stock market listings and advisory mandates. "There's a lot of activity," he adds.

The combination of the global financial crisis and the popping of the Spanish housing bubble has already reduced the number of caja groups from 45 to 17 and obliged many of them to create joint banking operations that can tap the capital markets.

Elena Salgado, finance minister, this year threatened to nationalise cajas that need more capital and fail to secure it from private sources, a move likely to reduce the number still further before her deadline in the autumn.

She has said they need a maximum of €20bn in extra capital, though some other estimates exceed €100bn.

Ms Salgado has in the past three weeks sidelined Miguel Angel Fernández Ordóñez, governor of the Bank of Spain, and repeatedly increased the level of capital that will be demanded of the cajas to levels far higher than those currently demanded by international regulators.

Her latest edict, on February 9, said minimum "principal capital" – akin to core tier one capital under the future Basel III capital adequacy rules – would in general be 8 per cent of risk-weighted assets, but 10 per cent for unlisted institutions that had less than a fifth of their equity held by private investors and depended on wholesale financial markets for liquidity.

The upheaval among the cajas has attracted Asian and Gulf sovereign wealth funds, foreign banks, such as Barclays – which this month poached Jaime Echegoyen from Spain's Bankinter and appointed him chief executive of its Spanish retail business – and Madrid-based listed banks such as **BBVA**, which have all expressed interest in new investments or possible gains in market share.

José María Arias, chairman of **Banco Pastor**, one of Spain's smaller listed banks, said on Friday that he had been speaking to investment bankers to see how to take advantage of the restructurings, although he declined to say whether there was a plan to link up with Novacaixagalicia, which was formed following the merger of two Galician cajas.

Caja Madrid set to shelve bonuses

Caja Madrid, the Spanish savings bank that leads a combined group of seven cajas planning a flotation this year, is expected to decide on Monday to suspend €25m ($34m) in bonuses allocated to its former chairman and nine colleagues.

Now under the chairmanship of Rodrigo Rato, former managing director of the International Monetary Fund, Caja Madrid has with its junior partners received €4.46bn in support from the Fund for Orderly Bank Restructuring.

Executives at the bank say the bonus payments will be delayed until after repayment of the aid, due in five years.

The three biggest banks intending to come to market in the summer, all creations of cajas, are Caixabank, Banco Financiero de Ahorros and Banco Base.

With Caixabank alone expected to be worth about the same as France's Crédit Agricole, investment bankers from groups such as Goldman Sachs, Deutsche Bank and Bank of America Merrill Lynch have been eagerly competing to sell their services.

They doubt that Miguel Blesa, former chairman, and the other beneficiaries will mount a legal challenge.

Profits have fallen sharply, largely because of Caja Madrid's bad loans to property developers.

Although the quality of the new banks is bound to vary, Citi's Mr Ghose says investors have been encouraged by apparent progress in the eurozone in tackling the sovereign debt crisis and by the transition in Spain from the traditional system of cajas to a more "rational, private-sector banking model" with a focus on return on equity.

"The whole process leads to a more consolidated market structure, one that is more oligopolistic and UK-style," he says.

Executives at some of the cajas are incensed by what they regard as the imposition of "Anglo-Saxon" banking practices on cajas, which have, since their inception almost two centuries ago, had a vocation to help society through charitable works.

They are also angered by official discrimination in favour of listed banks.

The Spanish Confederation of Savings Banks said in a statement on Thursday: "The effort that is being asked of the savings banks in terms of solvency is so great that it puts the level required above that achieved by many European financial institutions."

However, the heavy burden of bad loans to property developers and the need to attract outside investors from Spain or abroad means that weaker cajas are obliged to seek partners and float their banking operations or face nationalisation.

The worst thing that could happen, according to Miguel Martín, chairman of the Spanish Bankers Association, would be for the Spanish commercial banks to show no interest in the recapitalisation of the cajas.

"If they are not interested, that would be a very bad sign for the rescue operation because foreign investors wouldn't be interested either," he said.