FINANCIAL TIMES

May 9, 2012 7:41 pm

Spain takes 45% stake in Bankia

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Spain has taken a 45 per cent stake in Bankia, the country's third-largest bank by assets, as worries over the financial system sent equity and bond markets falling on Wednesday.

The Bank of Spain said Bankia and BFA, its parent company, had informed it that the conversion of €4.47bn of state aid in the bank into ordinary shares was "the most advisable option for strengthening the [bank's] financial soundness".

As a result of the conversion the Frob, Spain's bank bailout fund, will hold the 45 per cent stake in Bankia.

Spain's ministry of economy said the move was "a necessary first step to ensure its solvency, the tranquility of depositors and dispel doubts about the entity's capital needs".

José Ignacio Goirigolzarri, Bankia's new chairman, met the board of BFA – which controls 45 per cent of the bank – on Wednesday evening to recommend that Madrid take a direct stake in the bank.

Before the part-nationalisation was announced, Mariano Rajoy, Spain's prime minister, assured Bankia's deposit holders that the government would stand behind the bank. "The government guarantees the stability of the overall banking system," he said.

The Bank of Spain said it still had to approve the conversion – which would also need to be valued – along with other state authorities.

Bankia's difficulties contributed to a sharp sell-off of Spanish equity and bond markets on Wednesday.

Bankia suffered steep falls following the resignation on Monday of Rodrigo Rato, executive chairman. Spanish equities dropped 2.8 per cent to close at the lowest level since October 2003 and 10-year government bond yields, which have an inverse relationship with prices, jumped more than 6 per cent – closer to levels considered unsustainable by markets.

Bankia shares fell 5.8 per cent, Santander dropped 4.52 per cent, BBVA was 4.73 per cent lower and La Caixa fell 6.7 per cent.

Turbulence in the markets came despite Mr Goirigolzarri, a former BBVA chief executive, being named as Bankia's chairman, and expectations that the government was about to inject new capital into the lender.

On Friday, the government is expected to ask banks to set aside at least an extra €30bn in capital against their property assets, people with knowledge of the plans said. This would be likely to take the form of the general provisions for all property loans being raised from 7 per cent to 30 per cent, with those banks that cannot afford this being granted a form of state-backed guarantee for a fee. Spanish banks have about €180bn of problematic property loans.

Bankia and BFA have a combined property exposure in Spain of €51.5bn, the largest of any bank in the country, including Santander, the eurozone's largest lender by value, which has an exposure of €32bn, according to research by CA Cheuvreux.

Worries over Spain, which the European Commission fears will miss its deficit reduction target, and Greece, where parliamentary elections at the weekend failed to produce a majority government, prompted many investors to rush into the havens of US, German and UK bonds.