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Caja Madrid, Bancaja Start Moves to Form Top Spain Savings Bank 2010-06-10 22:06:26.420 GMT

By Charles Penty and Paul Tobin

June 11 (Bloomberg) -- Caja Madrid and Bancaja began a merger process that would create Spain's biggest savings bank amid government efforts to shore up the country's financial system.

The boards of the second- and third-biggest savings banks met yesterday to hear more about steps by Bancaja to join a project already under way by Caja Madrid to combine with five other smaller savings banks, the two lenders said in filings to regulators. The merger would create a lender with about 340 billion euros (\$413 billion) in assets, according to their published accounts.

Spanish savings banks are rushing to combine before a deadline to tap a government rescue fund expires at the end of this month. Greece's sovereign debt crisis has focused attention on Spain's public finances and the costs of buttressing foundation-based lenders, known as "cajas," which were hobbled by bad loans following recession and a property crash.

"It's a process that's running late, but that obviously has to go forward," said Andrew Lim, an analyst at Matrix Corporate Capital LLP in London. "What we're seeing now is a catch-up process."

The addition of Bancaja to the Caja Madrid-led group would eclipse the 272 billion euros of assets at Barcelona-based La Caixa, which is currently Spain's biggest savings bank.

The cajas will combine under a central-bank-endorsed model that allows them to create a core business group to combine some central functions while maintaining separate legal identities and branch networks, they said.

Pool Their Earnings

The lenders will pool their earnings and guarantee each other's solvency, Caja Madrid and Bancaja said. They would seek about 4.5 billion euros from a government bank-rescue fund to support their merger, Efe newswire reported, citing people familiar with the situation it didn't identify.

The lenders' combined central business would be registered in Valencia, Spain, where Bancaja is based, and have its operational headquarters in Madrid, the banks said.

Caja Madrid would name the executive chairman of the core business group and Bancaja the vice-chairman, they said. The lender would be the biggest commercial and business lender in the Spanish market, Caja Madrid said in a statement sent by e-mail yesterday. Caja Madrid's chairman is Rodrigo de Rato, a former head of the International Monetary Fund.

Banco Santander SA's Spanish branch network and Banco Espanol de Credito SA, a retail bank it owns in the country, have combined assets, liabilities and equity of about 240 billion euros. Including its foreign business in markets from Brazil to the U.K., Santander is the biggest Spanish lender, with assets of more than 1 trillion euros.

New Bank Model

Caja Madrid, a lender with assets of about 190 billion euros, said May 28 it was in merger talks with Caja Insular de Canarias, Caixa Laietana, Caja de Avila, Caja Segovia and Caja Rioja. Caja de Ahorros del Mediterraneo, an Alicante, Spain-based lender and four other savings banks, with 135 billion euros in combined assets, have also confirmed plans to merge.

The Bank of Spain took over CajaSur, an insolvent lender with about 19 billion euros in assets on May 22 and said May 26 it would speed up its schedule for provisioning bad loans, pressuring lenders to take steps to boost their solvency.

Bancaja, with assets of about 111 billion euros, has 4.5 billion euros in real-estate risk compared with 3.9 billion euros of shareholders' equity, Daragh Quinn, an analyst at Nomura International in Madrid, wrote in a May 27 report.

The lender's first-quarter profit fell 27 percent to 78.1 million euros from a year earlier as bad loans rose to 5.02 percent of total lending. Caja Madrid, a lender with about 190 billion euros of assets, posted an 80 percent drop in profit to 73 million euros over the same period and reported a bad-loan ratio of 5.43 percent.

Spain may need to find 50 billion euros of capital for the "part" of its banking system that requires restructuring, Banco Bilbao Vizcaya Argentaria SA, the country's second-biggest commercial lender, said June 7.

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