



Rato states that the new LORCA will allow savings banks to recapitalise without losing their social character

- The chairman of Caja Madrid foresees that the new legal framework will mean greater professionalisation of governing bodies.
- He emphasises the high solvency of the Spanish financial system and encourages making the necessary reforms in order to restore market confidence.

Barcelona 14/07/2010. The chairman of Caja Madrid, Rodrigo Rato, stated today that the recently approved reform of the Savings Banks Law (LORCA) will allow these institutions to adapt to new capital demands and to strengthen their core resources without losing their social role.

Rato, who gave a conference to more than 200 Catalan business people at the Círculo Ecuéstre in Barcelona, emphasised that the modification of the savings banks' legal framework, which was approved last Friday by the Ministers' Council, has its main goals in allowing the recapitalisation of these entities and seeking greater professionalisation of their governing bodies.

The first objective will allow savings banks to "issue core resources of the highest category with the same conditions as other financial institutions". Equity shares with constitutional rights, and without limits on their possession, will act as a catalyst to allow savings banks to adapt to the new capital requirements that will be established at Basel III, and that will mean an unparalleled challenge for the whole of the financial system, he declared.

Rato also pointed out that the new LORCA will also be a boost to the professionalisation of the management and governing bodies of these companies and it will generate a new scenario where each company will be able to select the model that best suits its needs.

The chairman of Caja Madrid suggested that, with the new and more flexible legal framework, savings banks will be able to choose between four different routes: maintaining current status with the possibility of issuing new equity shares; forming an IPS, like the one recently set up between Caja Madrid, Bancaja, Caixa Laietana, Caja Insular de Canarias, Caja de Ávila, Caja Segovia and Caja Rioja, with total assets of 337,257 million euros; ceding all the financial business to a bank but without losing the status of a savings bank; or transforming into foundation and ceding all business to a bank.

Solvency in the Spanish system

The chairman of Caja Madrid also used his speech to emphasise the high solvency of the Spanish financial system compared to its closest competitors, as it carries a total solvency of 12.2% and a volume of core resources on assets of 7.9%, above the European Union average and much higher than countries like Italy, France, Germany and the United Kingdom.

This strength is especially notable if one takes into account that Spanish companies have received, proportionately, a much smaller volume of public injections of capital, via the FROB, than other European countries, specifically 1.4% of GDP.

Rato emphasised that the main weaknesses of Spanish companies, like the rise in delinquency due to the increase in doubtful assets and the consequential decrease in the coverage ratio, have been neutralised and in recent months they have shown much more moderate behaviour than in the period 2007-2008.

In his view, coverage via generic and specific provisions, combined with the capacity for profit generation in 2010, provide a coverage of 71% for the potentially problematic investment in the construction and property development sector. However, these good bases do not deny the fact that in the Spanish

system there is currently an excess of implemented capacity that must be tightened.

Problems in the debt market

The chairman of Caja Madrid also made a assessment of the cash flow problems in the interbank market which have led to the European Central Bank (ECB) becoming the main liquidity source for companies. Rato emphasised that "the use made by Spanish companies of the ECB is less than Germany and it is at a level appropriate to the weight of its financial system". Despite this, the leading executive of the savings bank emphasised that these problems have been transferred to the sovereign debt market, especially in peripheral countries, where risk premiums have shot up excessively.

In the case of Spain, Rato declared that Spain is in a similar position to that of other issuers like France or Germany, although it has ahead of it the challenge of recovering confidence with the adoption of the required structural reforms and a solid clean-up of the financial system that will allow the situation to normalise.