

Santander seeks to bolster capital strength with €7.2bn rights issue

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Santander of Spain, regarded as one of the strongest banks in Europe, unsettled equity markets yesterday by launching a deeply discounted €7.2bn (\$9.2bn) rights issue to bolster its capital.

Only weeks ago, senior executives of the acquisitive bank were boasting of their ability to buy other banks weakened by the global crisis and insisting Santander did not need capital urgently.

But by yesterday the pressure to match the capital strength of rival banks bailed out and recapitalised by their respective governments had become too much for Emilio Botín, Santander's chairman, to resist.

Santander will issue 1.6bn new shares and ask shareholders to take part in a one-for-four rights issue at €4.50 a share, compared with a closing price on Friday of €8.34. The issue, led by Merrill Lynch, is fully underwritten.

Shares in the bank fell 5 per cent to €7.92 in reaction.

Mr Botín described the rights issue as a "superb investment opportunity for shareholders" but admitted that Santander was increasing its core capital ratio to 7 per cent from 6.31 per cent in the third quarter "in response to our higher expectations in the current economic environment".

Santander had said it would generate more capital from profits and by selling assets such as its 31 per stake in Cepsa, the Spanish fuel group, but said yesterday that it had decided to postpone the disposals.

Three other Spanish banks -BBVA, Banco Popular and Banco Pastor - denied they had any plans to launch their own issues, although several banks have taken less drastic steps to boost capital, including the sale and leaseback of their buildings.

Spanish banks and cajas, the unlisted regional savings and loans institutions, have been hard hit by the collapse of the Spanish housing market. Bad loan ratios are rising fast and the Bank of Spain is already pushing for mergers or takeovers to rescue the weakest cajas.

However, executives at the stronger Spanish banks argue they are less vulnerable than many of their international peers because they engage mostly in low-risk retail banking, are exposed to barely any toxic assets and have been obliged by regulators to build up billions of euros of bad loan provisions.

Santander, which has made three UK acquisitions and is taking over Sovereign Bancorp of the US, denied the rights issue was to fund further acquisitions.

Fonte: Financial Times, London, November 11 2008, Companies & Markets, p. 15.