Bankia and Spain's preference shares scandal

by Helen Gibbons

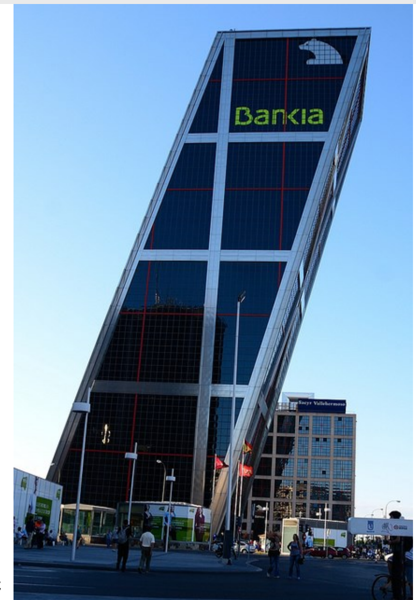
Bankia is Spain's fifth-largest bank by gross asset. It is quoted on the Madrid stock exchange and is part of the Ibex 35 benchmark index. Formed in 2010 from the merger of seven *cajas*, or savings banks, with massive exposures to Spain's burst property bubble, it became one of Spain's largest holders of real estate. By late 2012 its shares were almost worthless and it had been bailed out with €22bn of taxpayers' money.

Some subscribers to the bank's initial public offering in 2011, including the utility Iberdrola, have filed lawsuits to recover losses. Courts have already ruled that Bankia's offering documents contained 'serious inaccuracies'.

But the most notorious losers in the Bankia story have been individual investors. After Spain's property bubble burst, Bankia and other banks sought to balance their books by urging clients to convert their savings into preference shares. Deposit clients were typically pensioners, who collectively bought around €30bn of such shares. Rather than being warned of the inherent risks, they appear to have been reassured that 'prefs' were a safe option capable of yielding up to eight per cent. Many believed that as clients with no mortgage debt they were 'VIPs' eligible for the higher returns. Crucially they were unaware that their shares would be subordinate to the banks' debt. The shares were allegedly marketed by branch managers with little understanding of complex equity products.

While Bankia has agreed to reimburse individual investors who took part in the IPO, the Spanish consumer organisation ADICAE, with which UKSA is associated through our membership of Better Finance in Brussels, has waged a long fight against Bankia in the Madrid court on behalf of 2,143 individual preference shareholders. In a country with no tradition of collective redress it believes it has established an important principle in persuading the court of the collective nature of the claim, defeating Bankia's case-by-case approach. At ADICAE's request, the court has ordered Bankia to submit internal documents relating to the marketing of the shares and the bonuses and incentives distributed through its branch network.

ADICAE is hopeful that the court will declare the share purchase contracts null and void on grounds of unfair terms ('*cláusulas abusivas*'). As the case nears its conclusion, ADICAE aims to maintain pressure by organising a demonstration outside the court and a mass presence in the public gallery.



Bankia was formerly regarded as an upright member of the Spanish banking community

Bankia has other associations with the grim period of financial failure and excess in Spain. Its chairman, Rodrigo Rato, was the former Spanish economy minister and headed the International Monetary Fund. He presided over Bankia's IPO in 2011. With 65 others he now faces charges from anti-corruption prosecutors over the alleged use of 'black' (off-the-books) credit cards to fund €15m of spending between 2003 and 2012.

The preference shares scandal has dented the attractiveness of shares as an asset class in Spain, particularly among younger people. Individual share ownership had previously shown strong growth.

The conclusion of the Bankia cases should mark the end of a dark chapter in Spanish banking. By international comparisons the Spanish banking sector is efficient overall. Spain's banks have long had one of the highest ratios of customers to employees. Timely reorganisations have avoided the depth of problems seen elsewhere in southern Europe. Leading Spanish banks are global players, as evidenced by the footprints of Santander and TSB owner Sabadell. As for Bankia, the Spanish state still owns 64 per cent but has said it will privatise the bank by the end of 2017.

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