Application 7.12

MANAGING THE MERGER BETWEEN CAIXABANK AND BANKIA

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On 17 September 2020, Spain's second largest credit institution, CaixaBank, merged with the fourth, Bankia, in an announced takeover process, creating the new CaixaBank, the country's leading financial institution by volume of assets. The Catalan group (CaixaBank) initially held 74.2% of the share capital, while the Madrid group (Bankia) retained the remaining 25.8%.

As reported in the joint merger project, the reasons behind the operation included improving efficiency and streamlining operating costs in a financial environment characterised by a prolonged downturn in net interest income. Further considerations involved the COVID-19 pandemic and other structural challenges informed by the new scenario, such as the digital transformation of the economy and business.

The swap rate for the shares was based on the real value of the corporate assets of CaixaBank and Bankia, being set at 0.6845 newly issued CaixaBank shares for each Bankia share, with a nominal value of one euro, with no cash compensation. This meant a price of 4,300 million euros, corresponding to a control premium of more than 35% of Bankia's share price as of 16 September 2020.

Among the expected benefits of the merger, the first estimate forecasted annual cost savings from 2022 onwards of around 770 million euros, thanks in part to staff adjustments and branch closures. An additional goal was to post an annual return on tangible equity (RoTE) of 8% from 2022 onwards.

In November 2021, the operation concluded with organisational and productive integration, once the brand, headquarters, and management team had been decided. CaixaBank was maintained as the brand name, the headquarters were established in Valencia, with operational headquarters in Barcelona and Madrid, and the new institution was chaired by José Ignacio Goirigolzarri (from Bankia) and directed by Gonzalo Gortázar (from CaixaBank), with a management committee made up of 14 members, of whom 11 were from CaixaBank. Ten of the 15 members on the board of directors represented the Catalan bank, with the other five from the Madrid-based institution.

At the time of the merger, the two banks had approximately 21 million customers, the largest commercial network in Spain and Portugal, with around 50,000 employees and 6,000 branches, 15,000 ATMs, and led the field in online banking, with digital customers accounting for 71.4%. The merger sought to improve profitability by reducing costs, mainly through voluntary redundancies and fewer branches. It was initially estimated that around 8,000 employees (approximately 15% of the workforce) would be made redundant, and that over 1,500 branches in Spain (approximately 25% of the existing network) would be closed.

Regarding the workforce, the Spanish government sought to avoid the wholesale layoff of employees, but if CaixaBank did not implement the planned cuts, the premium, or price it would pay to the former owners of Bankia, could be reduced. It should be remembered that Bankia's main shareholder was the state itself, capitalising on the 24,000 million euros in public funds it had received years earlier for its financial bailout. Redundancies would affect all areas: central services, employees reporting to the central services but located in regional offices, the regional offices themselves, subsidiaries, and, above all, the branch network.

The restructuring of the branch network had to consider possible duplications of each entity's original branches, as well as closures in regions with an over-presence. For example, Catalonia, Madrid and Andalusia had more than 3,000 branches. Technological integration is a crucial milestone in any merger process, as it unifies all the commercial data and operational channels into a single system. This operation, the largest carried out at that time in the Spanish financial system, meant transferring the details of 7.6 million active Bankia customers, with a volume of 10.4 petabytes. These figures correspond to 2,500 million digitised documents, such as ID cards, contracts, signatures, receipts, and correspondence, which in paper form would cover more than 20,000 football pitches.

All the branches in the new entity would thus provide the same portfolio of products and services and use the same technological platform. Likewise, all the company's customers, regardless of whether their bank of origin was CaixaBank or Bankia, would have the same range of services and operate through the same digital channels: the www.caixabank.es website and the CaixaBankNow and Imagin mobile applications. The account numbers of former Bankia customers changed (because their IBAN disappeared), but they did not have to do anything regarding the products linked to their account, such as credit cards, direct debits, deposits, or payments, as their accounts automatically switched from being referenced by one number to another. Nonetheless, a transitional period was established for mortgage loans, personal credits, deposits, and insurance policies held by Bankia customers, during which the same conditions were maintained until their maturity.

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