

# Conquering the market: Santander and BBVA's expansion strategies in Latin America

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**Abstract:** Three decades from now, with very few precedents, the two main Spanish banking corporations began an intense process of expansion throughout Latin America, competing against each other and against other Latin American banks. This paper attempts to analyse the level of penetration they reached within each country and the subcontinent, the different strategies they used to achieve dominance, and to describe which were the elements that allowed their success or failure in their initiatives.

## 1. Introduction

This project represents a still preliminary approach to the expansion of these two major Spanish banks in Latin America. Although it has some background history, this process of expansion and settlement is a recent phenomenon that has unfolded mainly in the past three decades. During these 30 years, both banks: Banco Santander (hereafter Santander) and Banco Bilbao Vizcaya Argentaria (hereafter BBVA), managed to establish as the foreign banks with strongest investment in the subcontinent, superior even to the long-standing United States. They consolidated their leadership in some countries, when not werw the stars of the *bancarization* process in others.

In short, our aim is to describe and analyse which were the elements that encouraged these entities to take such a big step towards to the American continent, and ask ourselves why Latin America was the fundamental axis to their growth in the past two decades, instead of other financial markets. What advantages did they find in Latin America above other competitors? What was the level of success in their initiatives? What strategy did they use to penetrate in Latin America? Where do they stand at the end of the process? We will also

discuss partially to what extent the internal development of these countries has predetermined the outcome.

Moreover, we wanted to highlight how important Latin America has been for both corporations, referring to the level of participation in the total revenue of their respective groups, employees and assets.

Beyond the individual analysis of both banking organisations, our goal is to carry out a study comparing their achievements in Latin America. This study will enable us to clarify which of both corporations made better decisions when taking on this investment process. To achieve this, their performances, referring to profitability and efficiency will be analysed, regarding the size of their investment. We will discuss their performance in Latin America as a whole, and more specifically, in those countries where they achieved a greater market share.

This major phenomenon of Spanish banks arriving to Latin America has been studied previously by many authors<sup>1</sup>. It is also worth mentioning the independent and corporate histories that both bank entities ordered to be made in their 150 anniversary, in 2007<sup>2</sup>. Almost a decade has passed since then, and we plan to analyse a phenomenon that can now be considered consolidated from a longer perspective, despite the ups and downs that could have constrained it. Some of the elements analysed are of a global nature, for example the complex development of the current crisis of the financial markets.

We should also mention the impact that the uneven development of the continent could have had: the permanent crisis of some countries such as Argentina or Venezuela, the restrained growth of Brazil; or the consolidation of other countries such as Chile or Peru, which have grown surprisingly fast in a convulsed economical context. However, as Santander and BBVA have interpreted it, it is clear that Latin America has logic and a sum of common elements that make it possible to analyse it as a whole and extrapolate general conclusions.

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<sup>1</sup> Arroyo, Larrinaga and Matés (2012), Calderón and Casilda (2002), Martín Aceña (2008), Sierra (2007), between others.

<sup>2</sup> Martín Aceña (2007) and Guillén & Tschöegl (2008) for Santander, and González (Dir.), Anes & Mendoza (2007) for BBVA.

## 2. Investments stages

### 2.1.- Background

It would be complicated to say which of the two banking organisations started this American adventure first. Moreover, if we take into account that both companies have gone through complicated processes of merging, since they have absorbed hundreds of other banks in the past years. Therefore, we must analyse the previous history of some of them to discover their origins. We might not always be able to find a continuation line with banks or subsidiaries of those banks, operating nowadays.

Clearly, *Banco Hispano Colonial*, which was absorbed in 1950 by *Banco Central*, is the first one with a complete historic line up until now, although not a direct one. This is because, even though it started on 1876, as well as the national loan created to finance the Cuban War, this Bank lost soon their fiscal privileges in the island. After Cuban independence in 1898, it left the Caribbean and operated exclusively in Barcelona<sup>3</sup>. *Banco Hispano Americano*, settled in 1900, however, was forced to close their subsidiaries in Latin America after the banking crisis of 1913. The *Hispano Americano* then left Latin America to establish in the Spanish market, where most of its shareholders lived. It did not open any more offices in Latin America until the beginning of the 60s, starting by Caracas and Mexico D.F. in 1962; Buenos Aires, Río de Janeiro, Bogotá and San José de Costa Rica in 1966; and Lima in 1968. Despite this, its activity in Latin America didn't take hold up until the mid-90s, when they started a purchasing process of subsidiaries<sup>4</sup>.

In spite of this historical background, and the obvious cultural and economic proximity of Spain with Latin America, these initiatives did not actually take hold, so neither of Santander or *Bilbao* or *Vizcaya* banks considered jumping to Latin America as a strategic investment until much later.

Santander could have maybe been the one with the highest interest in pursuing an American adventure, since it had a long commercial history with Latin America. For years, it financed those Santander traders who negotiated with the Caribbean during the second half of the nineteenth century. Despite of this, at that time it could only be considered a complementary activity coming from a small bank from Spain, and nothing more<sup>5</sup>. However, a little after the

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<sup>3</sup> Rodrigo (2000).

<sup>4</sup> Tortella y García Ruiz (1999).

<sup>5</sup> Martín Aceña (2007), p. 47-48 and Hoyo (2015), p. 73.

Spanish Civil War finished, the bank's management team, led at that time by Emilio Botín Sanz (grandfather of the current president), decided to initiate ties with some of those countries with whom he had had to act, for decades, through correspondents.

Therefore, in 1947 *Banco de Santander* opened its first office in La Habana, because of a reciprocity agreement with *The Trust Company of Cuba*. After that, other offices in Mexico (1956), Caracas (1957) and Buenos Aires (1969) followed. The last ones mentioned were designed from the new Ibero-American department, opened by *Banco de Santander* in 1955. From then on, without urgency, Santander gave a qualitative leap forward, by acquiring small bank entities, starting with Argentina. In 1963 they bought *Banco del Hogar Argentino* and in the next four years *Banco Mercantil de Rosario de Santa Fe*, and *Banco Comercial e Industrial de Córdoba*. In that same year, 1967, he founded *Banco de Santander y Panamá*, but Santander did not buy more banks in the following decade. Later on, Santander made minor purchases in other places: the Dominican Republic (*Banco Condal Dominicano* in 1976), Puerto Rico (*First National Bank of Puerto Rico*, 1977) and (*Banco de Crédito y Ahorro Ponceño*, 1978), Costa Rica (*Banco Santander Costa Rica*, 1977), Guatemala (*Banco Inmobiliario*, 1977), Ecuador (*Sociedad General de Crédito*, 1979), Uruguay (*Casa Bancaria Santander*, 1979 and *Bancos del Litoral Asociados*, 1982), and Chile (*Banco Santander Chile*, 1979 and *Banco Español Chile*, 1982). However, not every purchase was successful, and therefore did not continue in time. Between 1985 and 1987, the Santander carried out divestments in the Dominican Republic, Costa Rica, Guatemala, and Ecuador; and decided to concentrate its efforts in Argentina, Chile, Uruguay and Puerto Rico<sup>6</sup>. Puerto Rico in 1989 was, by far, the most profitable among all Santander branches in both Latin America and Spain. With only 45 offices, it contributed with a profit (before taxes) of 5.812 million of pesetas (34,9 million of Euros)<sup>7</sup>. Despite this, Latin America was still just complementary to the activity of the Bank in Spain.

BBVA's roots are also diverse, but more recent. Its roots go back to the offices of *Banco Exterior de España* in 1967. The first one was founded in Paraguay, followed by another one in Panamá in the same year. Later on, they opened branches in Nicaragua (1977), Chile (1978) and Argentina (1980). The reality is that those branches from the old *Banco Exterior* were not very meaningful towards the fusion of the BBVA later on. They were only a network to simplify Spanish companies' transactions in Latin America. *Banco de Vizcaya* only joined

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<sup>6</sup> Martín Aceña (2007), p. 161 y 217-221.

<sup>7</sup> Banco Santander Annual Report 1989, p. 68.

the Latin America adventure from 1982, when it purchased *Banco Occidental* in Madrid, which was likewise the owner of *Banco Comercial de Mayagüez*, in Puerto Rico, from 1979, which also joined BBVA's network. *Banco de Bilbao* only opened one office in Panama in 1983<sup>8</sup>. Beyond this, the BBVA did not seem to have any intention to invest any more in Latin America.

## 2.2 Expansion phase

The great step forward and the true expansion in the Americas began in the mid-90s, and it was deeply influenced by the Spanish banking situation. Spanish banks experienced a number of internal transformations on the decades before and after the 2000; these led to an unprecedented internationalization process.

After years of deep intervention in the Spanish financial system, which must be traced back to 1921, the leaders in the Franco regime began a process of gradual release of the banking market, using the *1959 Stabilization Plan*. This process has extended, with complete continuity, from the democracy to the present. The most important legislative milestones to explain this change were: *Ley de Bases y de Ordenación del Crédito* (1962), that although proceeded to nationalize the Bank of Spain, relaxed the barriers to entry in the sector and facilitated the growth of offices; the authorization of new banks (1977); and finally, the liberalization of interest rates and commissions (1987)<sup>9</sup>.

Once resolved the liberalization of the sector in the late eighties and early nineties of the twentieth century, a great number of mergers and acquisitions occurred in Spain, more or less encouraged and / or allowed by the government. These included the so-called “Big Seven” Spanish commercial banks (*Central, Banesto, Hispano Americano, Bilbao, Vizcaya, Santander* and *Popular*) and what remained of state-owned banks, excluding the Bank of Spain and the Official Credit Institute (ICO). This process resulted in the current bicephalous structure of the Spanish financial system, where only *Banco Popular* has stayed behind of all of the others great one, this might have been the cause of its lack of an international profile and its current size.

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<sup>8</sup> Arroyo, Larrinaga & Matés (2012), pp. 291-292 and González, Manuel Jesús (Dir.), Anes, Rafael & Mendoza, Isabel (2007) chapter IX.

<sup>9</sup> Martín Aceña and Totos (eds) (1999), chapter. 2. For a general overview of the Spanish banking history see Gutiérrez & Martínez (dir.) (2014).

The merger process was initiated by Basque banks, *Bilbao* and *Vizcaya*. Who, after building a tough competition in the Basque region and throughout the country, finished a process led by *Banco Bilbao* in 1988<sup>10</sup>. They combined their industrial holding with a very orthodox and exemplary banking tradition of procedures, which came from *Banco Vizcaya*, to form a conglomerate of 40,000 million of euros in banking assets. The new group, chaired by Jose Angel Sánchez-Asiaín, from *Banco Bilbao*, and Pedro Toledo, from *Banco de Vizcaya*, snatched the market leadership to *Banco Central* and broke the market balance among the seven large financial entities, after a decade of relative *status quo*<sup>11</sup>.

In response to the Basque conglomerate, the Madrid banks began a number of mergers and acquisitions, which included the failed fusion between *Banco Central* with *Banesto* and BBV with Santander. The only success of this process was the combination of the two banks that had traditionally monopolized the leadership in Madrid: *Banco Central* and *Banco Hispano Americano*. This merger left Santander in the background, headed by Emilio Botin Rios since 1986. Mr Botin Rios played for high stakes and won the battle to control *Banesto*, in the auction after the intervention process by the Bank of Spain, in 1994. *Banesto* had been the largest bank in the country, and fell down after having been managed for some years by Mario Conde.

The Spanish State closed the Spanish banking overview map in 1991, because it had built a larger entity itself, based on the combination of all state-owned banks, excluding the Bank of Spain. Among these banks are could find: *Banco Hipotecario de España*, *Banco Exterior de España*, *Banco de Crédito a la Construcción*, *Banco de Crédito Local de España* and *Caja Postal*, and in total there was a sum of 57 entities. They all shared a single chart under the umbrella of the new *Argentaria-Corporación Bancaria de España*. The holding company was born as a public entity, but from 1993 a gradual privatization process began, which ended in 1998<sup>12</sup>. Interestingly, the first president of *Argentaria* was Francisco Luzon, who then became

<sup>10</sup> Bilbao had failed in its attempt to merge with Banesto in 1987.

<sup>11</sup> According to Martín Aceña (2007, p. 182), the Spanish banking market presented the following market share in two significant previous moments (in %):

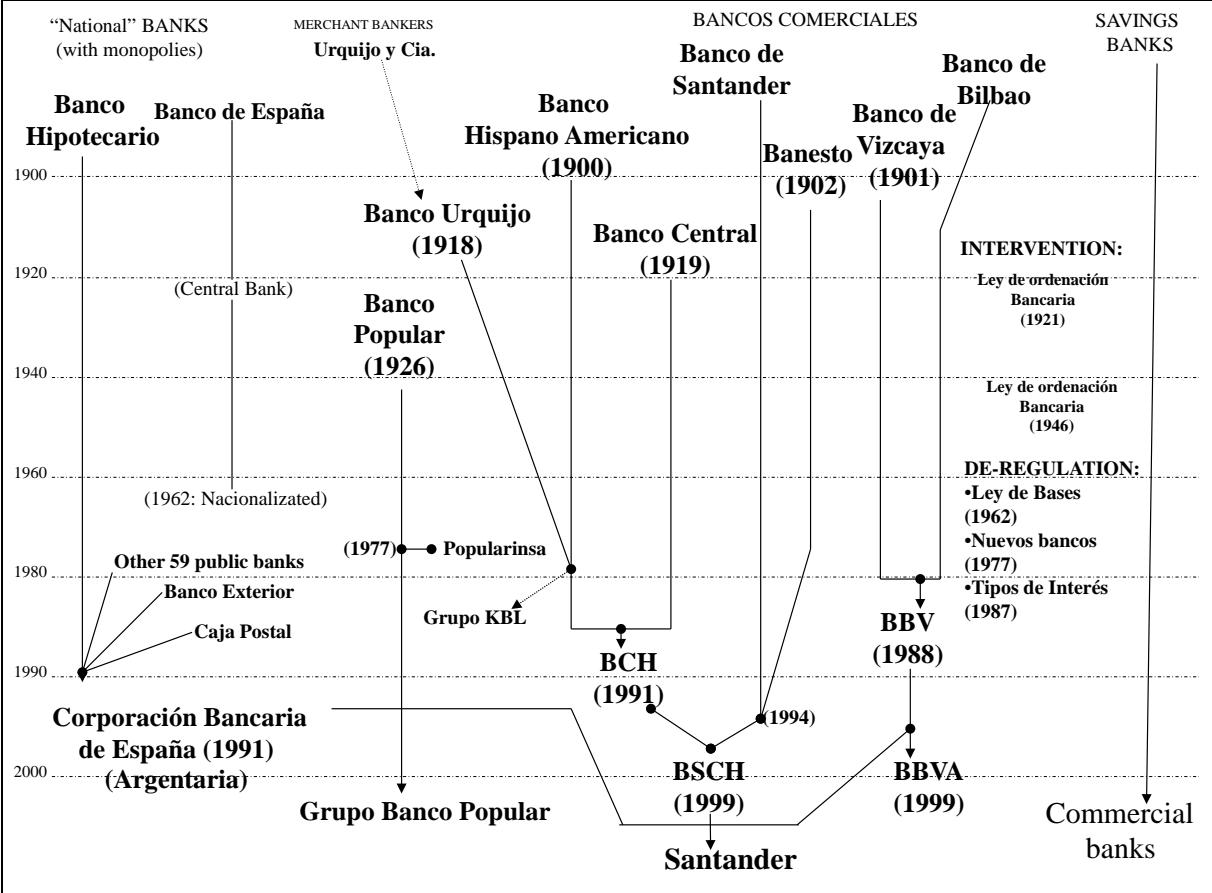
	1962	1985
Banco de Bilbao	8.0	8.0
Banco Central	10.7	9.9
Banesto	18.7	8.1
Hispanoamericano	14.4	7.1
Popular	4.9	3.6
Santander	5.7	6.4
Vizcaya	8.3	5.1

Source: Martín Aceña (2007), p. 182

<sup>12</sup> Martín Aceña & Titos (eds) (1999), chapter 7. A summary of the structure of the banks joined BBVA in Arroyo y Cruzado (2012).

the person in charge of Santander’s business activity in Latin America (up to 2012). However, his successor, Francisco González, co-chaired BBVA after the merger, chairing the entity alone from 2001 up until now.

Figure 1: Concentration process of Spanish banks in the XX century



Source: Own elaboration.

At the same time as all these corporate operations and, as we shall further along see, strongly conditioned by them, BBV, BCH and Banco Santander began the final wave of purchases and acquisitions in Latin America, in a competition for banking leadership in Spain.

BBV took the first steps, based on a strategic plan called by the bank “Program of the Thousand Days” for the period 1994-1998. BBV focused its efforts in Colombia, Peru, Argentina-Uruguay, Venezuela, Chile and Brazil. It used a strategy to partially invest in

emblematic financial entities, with the intention to increase its shares gradually in order to achieve the control of these entities<sup>13</sup>.

In Colombia, BBV bought an initial 40% of *Banco Ganadero*'s shares in 1995. In 1996, it became *BBV-Banco Ganadero* and BBVA consolidated its property when it acquired another 15% of its shares in 1998. In Peru, however, they decided to ally with the local *Grupo Brescia* to finance equally the  *Holding Continental, S.A*, They intended to acquire Peruvian state banks, through the privatization process opened by the government in 1992. In 1995, the  *Holding* acquired the 60% of the capital of *Banco Continental* at auction. Before the year ended, BBV Group raised its shares to a 75.14% of the share capital of *Banco Continental* through the company  *Holding Continental, SA*. again. This allowed them to take full control the bank and set up *BBV Banco Continental* in 1998<sup>14</sup>.

BBV decided to make its biggest investment in Argentina. In 1996, they decided to take control of an important bank: the *Banco Francés del Río de la Plata*, founded in 1886. The control path was this time indirect. It was achieved acquiring the firm OTRA, the major shareholder of *Sud America Inversiones*, and owner of a 30% of the capital of the bank. Soon after that, the *Banco Francés* began a process of growth that advantaged BBV, when it ended its merger with *Banco de Crédito Argentino* in 1997, and the insurer *Grupo Consolidar Argentina* in 1999.

The expansion of *Banco Bilbao Vizcaya* (1997-1998) concluded in Venezuela, Chile and Brazil. In 1997, they penetrated in Venezuela and acquired 40% of *Banco Provincial*, founded in 1952. This action turned them into the main shareholders of the main bank of the country, and in a good position to expand their quota when the right time came. In September 1998 it acquired 44 % of capital of Chilean *Banco Hipotecario de Fomento Nacional (BHIF)*. In Brazil, however, its bet was weaker; in August of 1998 the BBV took control of a smaller bank: *Banco Excel Económico*<sup>15</sup>. Overall, at the end of 1998, BBVA had 19.8 % of its assets in Latin America.

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<sup>13</sup> Uriarte (2000), p. 59-60. Uriarte, then CEO of BBVA, insisted that he had chosen countries “who enjoyed greater political stability and had few organized markets and sufficiently developed. From that moment his aim was to strengthen the position in these markets”

<sup>14</sup> Arroyo, Larrinaga y Matés (2012)

<sup>15</sup> *Ibíd.*



Meanwhile, Santander resumed his adventure in Latin America with equal or greater force than its rival. In 1995 it acquired in Peru *Banco Interandino* and *Banco Mercantil*; which merged in 1996 to form *Banco Santander Peru*. In 1996, *Santander Chile* bought the first of a series of blocks of shares of *Banco Osorno y La Union*, reaching 70% of its capital.

The most active year, however, was undoubtedly 1997. Its first purchase, *Banco de Venezuela*, was closed in January, and two months later, the *Banco Mexicano*, which changed its name to *Banco Santander Mexicano*. In Colombia they bought of 55% of *Banco Comercial Antioqueño*'s shares, and renamed it *Banco Santander Colombia*. They also bought the main finance company of consumer credit in the country: *Invercrédito*. In Argentina, Santander bought 35% of *Banco Rio de la Plata*, the fifth largest bank in the country, who likewise owned important subsidiaries in Panama and New York. Santander consolidated all of its assets in Argentina, reaching 51% of the group's capital, and called it *Santander Rio*. Finally, also in 1997, Santander bought in Brazil the *Banco Geral do Comércio* to Camargo Correa group, which allowed them to enter Latin America's largest market by population. At this time, Banco Santander was the bank with the largest market share in Latin America, over the total assets of all Spaniards, with 24%<sup>16</sup>.

Finally, the BCH made the lowers investment of them all, but certainly significant. Its strategy was also different, since it was based on a holding investor, *O'Higgins Central Hispano* (OHCH), according to Chilean *Luksic* group, who tried taking control of shareholdings more than taking management control<sup>17</sup>. On this basis, in 1995 the holding was made with the control of *Banco de Santiago* and in 1996 took the control of *Banco del Sur*, both in Chile. Also in 1996, OHCH acquired *Banco Asunción*, in Paraguay, of *CH Banco* in Uruguay and Argentina's *Banco Tornquist*. The same strategy followed in 1997 with the *Bital* (Mexico) and 1998 in the *Banco de Santa Cruz* (Bolivia) and *Banco de Galicia* (Argentina)<sup>18</sup>.

So that, by 1998, the three major Spanish banks had positioned as the most active in the South American cone, beating American banks. Not without risks. In mid-1998 the markets punished BBV and Santander because of its excessive exposure to Latin America with a

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<sup>16</sup> Martín Aceña (2009).

<sup>17</sup> Sierra (2007), p. 249.

<sup>18</sup> Martín Aceña (2009).

linear unprecedented decrease<sup>19</sup> in the stock market. However, the financial entities did not stop their investments, while their processes of merger were closed in Spain.

### **2.3 A stop along the way: BBVA and BSCH fusions.**

So far, excluding the restive disappearance of the savings banks in the period 2008-2013, the process of banking concentration in Spain reached its peak in 1999, the year that coincided with surprising simultaneity the gestation of the two largest Spanish banking conglomerates to date.

In the case of the merger between Banco Santander and *Banco Central Hispano*, metaphorically, the little fish ate the big. Santander had never reached in previous decades over the fifth post among the seven big banks, but its takeover of *Banesto*, which was totally integrated in 1998, accelerated negotiations in which Emilio Botín managed to generate a false sense of a merger of equals, although, finally, Santander took a role of superiority. The agreement was signed on January 15<sup>th</sup>, 1999, to create a giant, *Banco Santander Central Hispano* (BSCH), with total assets of 239,000 million euros, 8,681 offices and 106,519 employees. The operation was made by an exchange of three Santander shares for five of the BCH, maintaining a system of co-chairs until 2002 between Emilio Botín-Sanz de Sautuola and Jose Maria Amusátegui, until the retirement of the second. Angel Corcóstegui, from BCH, was the vice president and CEO. This formal balance was dismantled with the early retirement of both executives from BCH, in 2001 and 2002, with stratospheric compensation (43 million euros for Amusátegui and 108 million for Corcóstegui)<sup>20</sup>. With Botín alone in the presidency and his brother Jaime Botín (president of *Bankinter*) in the first Vice-Presidency; the new CEO was Alfredo Sáenz, who came from the presidency of *Banesto*. Only four years after the merger, Botín regained the name “Santander” for the whole group, including Spain from 2007, coinciding with the commemoration of the 150th anniversary of the bank. This decision clearly showed that Santander and the Botín family had been the backbone of the merger. Though in some way the group also avoided the confusion that generated the acronym bank with the British giant HSBC.

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<sup>19</sup> Calderón & Casilda (2000), pp. 81-82.

<sup>20</sup> The Spanish Supreme Court studied the possible illegality of these payments, but finally the case was dismissed.

In the struggle to regain the leadership in the Spanish banking map, the BBV group accelerated the march to regain its dominance and merged, in late 1999, with the public conglomerate *Argentaria*, which has just completed its privatization process. In principle, the union was raised again as a merger of equals. Emilio Ybarra and Francisco González assumed the co-chairmanship of the new entity, with Pedro Luís Uriarte as CEO, and a board of directors that was the result of the sum of BBV and *Argentaria* members. However, in this case, the process of taking control of the bank was opposed to Santander, as the oldest directors were finally excluded. In early 2002, the bank had announced a possible transfer of the presidency to Gonzalez; however, another case of corruption brought before the courts, this time by some improper pension benefit of members of the former board of directors of BBV, made Ybarra step down earlier and with him much of the members of the board from the Basque group; so that from December 2001 Francisco Gonzalez became sole president of BBVA, and José Ignacio Goirigolzarri the new CEO.

The bet to win of both groups had been strong. However, at the time of the merger, the two companies were in stalemate, with a slight advantage of BBVA in terms of market capitalization, profitability and efficiency, compared with BSCH, which had more assets and a larger network of offices. Together they accounted for not less than 90% of the market share in the Spanish retail banking, with the only counterpoint of the Spanish Savings Banks<sup>21</sup>. Meanwhile, Santander (as such since 2007) and BBVA had put Spain in the international banking map, as never before had been.

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<sup>21</sup> Savings Banks started these years a growing process that let then to control the 60% of the banking quota in Spain. However, from 2008 to 2012 the saving banks almost disappeared, transformed in commercial banks.

Table 1: BBVA and Santander big figures at the end of the fusion process (euros)

<b>BBVA</b>		<b>BSCH</b>
37,142,548,051	Market Capitalization	34,257,689,950
226,341,158,511	Total assets	256,031,156,467
176,156,647,795	Clients resources	218,347,697,523
107,941,773,947	Credits	125,070,618,922
47,900,664,719	Investments funds	49,282,992,559
1,310,000	Shareholders	800,000
20,20%	ROE	18,07%
54,30%	Efficiency	57,10%
	<b>MARKET SHARE (Commercial Banks)</b>	
41,31%	Deposits	49,20%
42,31%	Credits	48,26%
20%	Investments funds	24,20%
7.317	Oficces	8.904
4.357	Spain	6.344
2.960	Abroad	2.560
91.004	Employees	102.000
38.343	Spain	47.990
52.661	Abroad	54.990
4,118,134,939	Industrial porfolio capital gains	4,002,740,615
1,712,884,497	Net earning for 1999 (estimated)	1,775,990,768

Source: Actualidad Económica, December 1999. Original figures in pesetas.

In the Latin American context, the merger allowed both groups to take a very important qualitative and quantitative step, summarized in Tables 2 and 3. Overall, investments which amounted to about 10,000 million dollars had contributed to create the two most important and large banking networks in the continent, with unlimited growth prospects in sparsely banked economies<sup>22</sup>, where Spanish banks reached with higher incentives and advantages than their competitors from other countries.

In particular, after the merger, Santander was the largest foreign entity in Argentina, Chile, Mexico and Peru, while BBVA reigned in Venezuela and Colombia. To which must be added a very remarkable participation in the field of pension funds of Latin American countries, a much higher percentage than these banks had in Spain, with more than 11.5 million clients in the case of BBVA (and managed 19,800 million) compared to 4.1 million of BSCH (with 6,019 million managed)<sup>23</sup>.

<sup>22</sup> Following Sierra (2007), p. 245, at the beginning of the 90's only a 40% of the adult population in Latin America had relationships with the banking system. In Spain the figures reach to 99%.

<sup>23</sup> Calderón, Álvaro & Casilda, Ramón (2000), pp. 80, 84.

Table 2. Presence of BBVA in the Latin American banking market in 1999.

Country	Domestic bank	% property	Position in the domestic banking system	Value of the assets	Year of entry	Price of purchase
Argentina	BBVA Banco Francés	60	3	8,859	1996	980
	Corp Banca Argentina	100	20	400	1999	85
Brasil	Banco Excel-Econômico	100	14	5,000	1998	847
Chile	Banco Hipotecario Internacional Financiero	55	6	2,960	1998	218
Colombia	Banco Ganadero	63	6	3,526	1996	619
Mexico	BBVA México (Probursa)	67	5	8,556	1995	365
Perú	Banco Continental	39	3	2,864	1995	156
Puerto Rico	BBVA Puerto Rico	100	3	3,580	1979	
Uruguay	Banco Francés	58			1995	
Venezuela	Banco Provincial	51	1	4,186	1997	432

\*At 31 December 1998.

Source: Calderón, Álvaro & Casilda, Ramón (2000), p. 78.

Table 3. Presence of Banco de Santander in the Latin American banking market in 1999.

Country	Domestic bank	% property	Position in the domestic banking system	Value of the assets	Year of entry	Price of purchase
Argentina	Banco Río de la Plata	51	2	9,175	1997	807
	Banco Tornquist	100	16	1,165	1996	93
	Banco de Galicia y Buenos Aires	10	1	14,100	1998	
Bolivia	Banco Santa Cruz	90	1	1,336	1999	180
Brazil	Banco Santander Brasil*	100	11		1997	389
	Banco Noroeste	76	9	9,357	1998	564
Chile	Banco Santander Chile	86	2	9,709	1979	718
	Banco Santiago	44	1	10,430	1991	294
Colombia	Banco Santander Colombia	60	6	2,086	1997	236
Mexico	Banco Santander Mexicano	71	5	9,808	1996	500
	Bitel	8	4	10,000	1999	37
Panama	Centrobanco Hispano Panamá	100				
Paraguay	Banco de Asunción	85	5	151	1996	10
Peru	Banco Santander Perú	100	6	951	1995	90
Puerto Rico	Banco Santander Puerto Rico	78	2	6,468	1996	366
	BCH Internacional	100		718	1978	
Uruguay	Banco Santander Uruguay	100	3	2,008	1997	380
	Eurobanco S. A.	100			1996	8
Venezuela	Banco de Venezuela	98	3	2,008	1997	380

\*(ex-Banco Geral do Comércio)

Source: Calderón, Álvaro & Casilda, Ramón (2000), p. 81.

## 2.4. Consolidating the networks

In the years after the completion of the process of concentration in Spain, both groups have continued their dynamic growth through mergers and acquisitions in Latin America, further reinforced by bonding under the same brand (in the case of Santander from 2003). They have consolidated their networks under their respective acronyms with very significant leaps forward in the two most populous countries of the sub-continent: Mexico (127 million inhabitants in 2015) and Brazil (205 million in 2015), not forgetting other major economies.

The bet of Santander for Brazil concluded in 2000 with the purchase of *Banco Bozano Simonsen*, *Banco Meridional* and, especially, *Banco do Estado de Sao Paulo (Banespa)*, a particularly active and efficient bank, which cost the bank 5,018 million euro. At that time, Santander became the third bank in Brazil, with 7.1% of total bank assets and 5.6% of the country's deposits<sup>24</sup>. But the most important progress in the country was consolidated in 2007, as result of the purchase of Banco Real, thanks to the takeover bid for ABN AMRO by the consortium formed by of Royal Bank of Scotland, Santander and Fortis, so that Santander-Brasil instantly doubled in size and became the third largest bank by deposits and the second by loans, with 3,603 branches and 21.9 million customers<sup>25</sup>.

In parallel, Santander strengthened his positions in other countries with significant presence, where the bank increased its participation in certain banks and acquired new ones. In Argentina the shareholding control of *Banco Rio* was extended to 80% and merged *Banco Tornquist*. In 2000, the acquisition of *Banco de Caracas* placed Santander as the first bank in Venezuela, and in Mexico Santander bought *Grupo Financiero Serfin*. Finally, in 2002 its stake in *Banco Santiago* was increased to 79%, which gave it the opportunity to merge its assets with *Banco Santander Chile* to create *Santander Santiago*, the country's largest bank, with a market share of 25%<sup>26</sup>.

Only a significant disinvestment can be discussed in the case of Santander, in Venezuela. There, in 2008 the bank had a market share of 11.4% in loans and 10.8% in deposits, with a network of 285 offices, 3.2 million customers, and a net attributable profit of 317 million euros<sup>27</sup>. Santander had decided to disinvest in favour of *Banco Occidental de Descuento*, but the government of Hugo Chavez imposed a concerted nationalization of the bank, in which

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<sup>24</sup> BSCH Annual Report 2000, pp. 98-99.

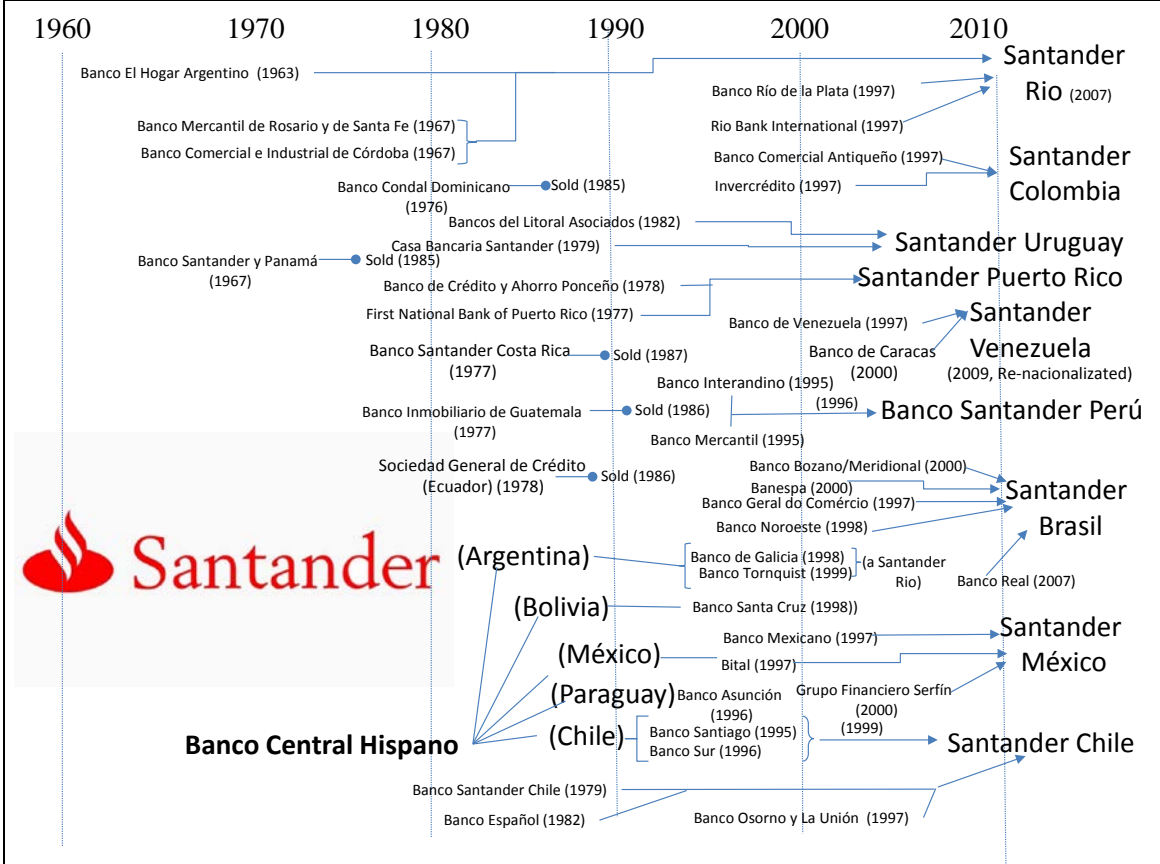
<sup>25</sup> Santander Annual Report 2007.

<sup>26</sup> Martín (2009), p. 16-17 and BSCH, Annual Report 2000, pp. 98-99.

<sup>27</sup> Santander Annual Report 2008

Santander was compensated with 755 million euros (1.1 billion dollars)<sup>28</sup>. It is striking that BBVA has maintained its investment there, with no problems in a certainly identical unfavourable socio-political context.

Figure 2: Santander in Latin America. Expansion chronology.



Source: Own elaboration.

BBVA great leap has been in Mexico, where the group has a strong commitment to achieve market leadership, with the absorption of *Bancomer*, the leading financial institution in Mexico and the most important of Latin America in assets and number of customers. There, BBVA had inherited the *Banco de Vizcaya* meaningful participation in the *Probursa* group, which had grown from just 1% in 1991 to 20% in 1993 and 75% in 1995, to which he joined in 1996 the purchase of *Banco de Oriente* and *Banca Cremi* to create BBVA-Probursa. This subsidiary grew significantly in their just four years, with an aggressive retail trade policy. Although the fundamental value for BBVA of this investment was to enable it to conveniently

<sup>28</sup> Santander had invested 430 million in Venezuela in 1997 and 2000, so the bank had got a gain of 325 million euro, though Santander had claim 110 million more to the government of Venezuela. *El País*, 23-5-2009, [http://elpais.com/diario/2009/05/23/economia/1243029604\\_850215.html](http://elpais.com/diario/2009/05/23/economia/1243029604_850215.html) Acces 12-8-2016.

positioned in the market to gain control of twice nationalized *Bancomer*, formerly *Banco de Comercio*, by far the bank with the largest and best network across the country<sup>29</sup>.

BBVA board offered in July 2000 to *Bancomer* shareholders a friendly offer of 1,400 million dollars for 54% of its capital, who accepted. The new bank *BBVA-Bancomer* integrated only a month later all the assets of *Banca Promex*, under *Bancomer* control since 1998. Consequently, the sum of *Bancomer*, *BBV-Probursa* and *Banca Promex* allowed to bring together a market share of approximately 30% in its main business lines, with assets totalling around 400,000 million pesos and a customer base that exceeded 9 million people, with 36.349 employees, a network of 2,276 offices and 4,057 ATMs<sup>30</sup>.

Investments in other countries were more punctual. In 2005 it was bought at auction *Granahorrar*, a Colombian mortgage lender, for 364 million euros<sup>31</sup>. The greatest efforts were made with the acquisition of pension funds, such as *Hipotecaria Nacional*, in Mexico in 2004, and the financial society *Forum* in Chile, in 2007<sup>32</sup>.

The other side of the investment process was the abandonment of their investments in territories where its presence was practically testimonial, as was the case of Puerto Rico and Panama, whose assets were sold in 2012 and 2013. In the first sold, for 500 million dollars (about 385 million euro) to the financial group *Oriental Financial Group Inc.*, BBVA recognized losses of 15 million euros<sup>33</sup>, while Panama's assets were sold to *Leasing Bogota SA* for 645 million dollars, which meant gains of 230 million euros<sup>34</sup>. More significant, if anything, it has been his resignation in 2012 the business of pension fund in Mexico, Colombia, Chile and Peru, which were sold for 4,000 million euros, with capital gains of 1,765 million<sup>35</sup>. Finally, the bank passed hard times when having to face the crisis of the Argentine *Corralito*, which resulted in a drastic reduction in the brokerage business and retail banking in 2002, forcing the BBVA *Banco Francés* to reduce its workforce by 907 people (17.7%) and the closure of 96 offices in the year<sup>36</sup>.

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<sup>29</sup> Del Ángel, Gustavo (2012) & González, Anes & Mendoza (2007), p. 550. González, Anes & Mendoza (2007), p. 548-550.

<sup>30</sup> Annual Report BBVA-Bancomer (2000), p. 17 & González, Anes & Mendoza (2007), p. 550. BBVA took full control of Bancomer In 2004.

<sup>31</sup> Annual Report BBVA (2005), p. 11.

<sup>32</sup> Arroyo, Larrinaga and Matés (2012), p. 296.

<sup>33</sup> Annual Report BBVA (2012), p. 43.

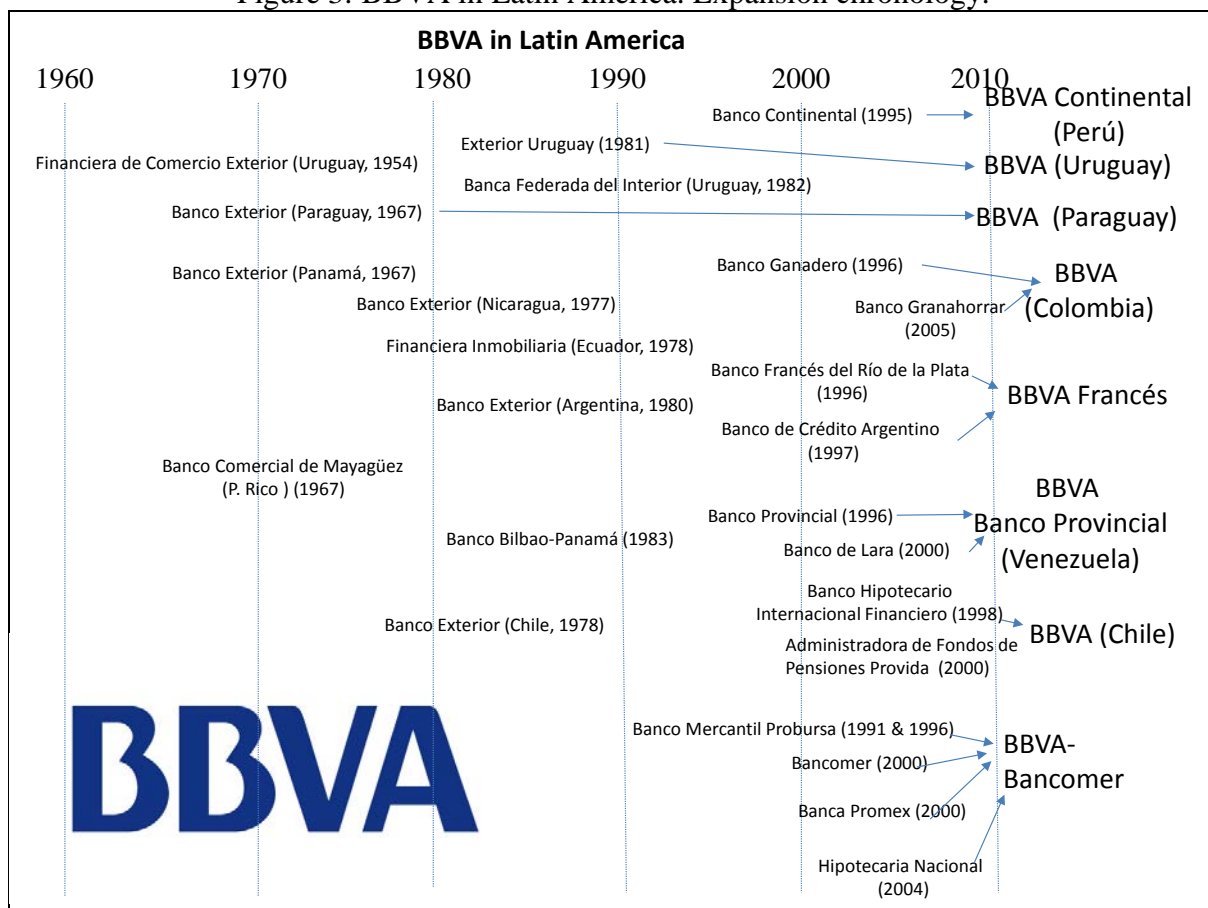
<sup>34</sup> Annual Report BBVA (2013), p. 43.

<sup>35</sup> <http://es.fundspeople.com/news/bbva-concluye-las-ventas-de-sus-afp-en-latinoamerica-con-unas-plusvalias-de-1-765-millones>. Access, 10-8-2016.

<sup>36</sup> BBVA Annual Report, 2002, P. 114.



Figure 3: BBVA in Latin America. Expansion chronology.



Source: Own elaboration.

In short, the growth of Santander and BBVA has been marked by two major stages, highlighting the second one, which parts from 1994-96 and can give closed with the onset of the global crisis of 2007. Since then, only divestments have taken place, as we shall see. This fact has not influenced the amount of the assets of the two groups in the region that has not stopped growing.

In both cases, these growths have been based almost exclusively on acquisitions of existing financial institutions, in many cases due to processes of privatization of banks and pension systems of public origin or nationalized years ago. Also in both cases, the Spanish network has ended up imposing its internal structures and corporate image to all acquisitions since, although, in some cases has remained the reference to absorbed historic banks, the acronym of the brand has imposed in all markets, unifying corporate image in logos, offices, brand image, advertising and social networking.

The result has been a well established position in the continent, which exceeds the traditional predominance of US banks in the area since 1999<sup>37</sup>. Since then, the sum of the subsidiaries of Santander grants it, without discussion, the first place among Latin American banks, with a significant presence in Chile, Argentina, Mexico and Brazil. While BBVA has placed second, leading the Mexican market, with a strong presence in Peru, Venezuela, Uruguay and Argentina. Both groups have improved the rank in most countries in the period, as shown in the following table.

Table 4: Santander and BBVA Market share in Latin America, 1999, 2006 and 2015

	1999		2006		2015 (BBVA 2014)	
Brazil	S: 11th	B: 14th	S: 4th	B: -	S: 3rd	B: -
Mexico	S: 5th	B: 5th	S: 3rd	B: 1st	S: 3rd	B: 1st
Argentina	S: 2th	B: 3rd	S: 1st	B: 3rd/1st*	S: 1st	B: 3rd
Chile	S: 1th	B: 6th	S: 1st	B: 4th	S: 1st	B: 4th/5th*
Peru	S: 5th	B: 3th	S: -	B: 2nd	S: ζ	B: 2nd
Venezuela	S: 3rd	B: 1st	S: 3rd	B: 4th	S: -	B: 3rd
Colombia	S: 6th	B: 6th	S: 12th	B: 3rd	S: ζ	B: 4th
Uruguay	S: 3rd	B: -	S: -	B: 5th	S: -	B: 2nd/3rd*
Paraguay	S: 5th	B: -	S: -	B: 1st/2nd*	S: -	B: -
Puerto Rico	S: 2nd	B: -	S: 4	B: 6th/7th*	S: ζ	B: -
Latin America	S: 1st	B: 2nd	S: 1st	B: 2nd	S: 1st	B: 2nd

Source: Martín Aceña (2007), p. 290; BBVA 2006 and 2015 RSC report; Calderón & Casilda (2000), p. 78, 81; Santander 2015 Annual Report; BBVA 2014 Annual Report.

\*Loans/deposits

For recipient countries, it would be pending a detailed analysis of the direct influence of the investment process in their respective economies and, in particular, in its financial system. But, in general, although the banking structure already existed on a smaller scale, it appears that the establishment of networks of BBVA and Santander has generated more competition in the Latin American financial market and has also helped to modernize the technological bases of banks and reduce financial intermediation margins of the banking system.

### 3. Why then and why Latin America?

The reasons for the big scale process of investment of Spanish banks in Latin America, in just over two decades, are partly implicit in the speech that we have developed so far. It's important to highlight that, although the Spanish bank investment in Latin America has been

<sup>37</sup> According to the 1998 CEPAL report on foreign direct investment in Latin America and Caribe in 1997 the first foreign bank in Latin American, by assets, was Citibank, with 23,483 million dollars (established in Brazil, Argentina, Chile, Colombia, Peru and Venezuela), followed by Santander, with 19.913 million. Banco Bilbao Vizcaya was the fifth in the list, with 16,920 million and BCH was 11<sup>th</sup>, with 5.569 million.

the most important, it has not been exclusive as it has been also carried out by other Spanish multinationals that have turned the region over the same period, as technological and construction firms<sup>38</sup>.

Pedro Luis Uriarte himself, first BBVA CEO, reasoned as follows the intention of the bank when investing in the continent: “The international strategy BBVA was cemented on clear guiding principles: management control of those entities located in related countries for reasons of language or cultural (which enabled to export the KnowHow), located in areas of high growth potential and capable of providing high returns. The expansion in Latin America made sense in light of these criteria.”<sup>39</sup>

The vision of the executive hardly differs from academics who have studied the phenomenon as a whole, which have highlighted several elements that tend to coalesce<sup>40</sup>.

For Calderón and Casilda<sup>41</sup> the key is to look for size and competitiveness, beyond Spain, a fully mature banking market, tending to saturation. Mergers generated significant synergies in Spain that allowed deriving resources to expanding markets. There, they could get the best experience of their organizational and technological capabilities and adequate risk diversification in terms of profitability.

An argument shared by Martín Aceña<sup>42</sup>, which according to H. G. Grubel (1977), concludes that the international expansion of Santander prevailed finding new markets on the “client-following”. It also highlights important triggers, some of them we have already advanced, as previous banking reform in Spain and cultural ties with Latin America. As was also appreciated by Toral<sup>43</sup>, who stressed how national competitive advantages that all the Spanish companies, especially banking, got after the processes of previous liberalization in Spain before the nineties. It led a fundamental experience to banks to compete in the best conditions.

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<sup>38</sup> Sánchez Peinado (2001). See also especial issues in *Revista de Historia Industrial* (2007, num. 40) and *Revista de la Historia de la Economía y de la Empresa* (2014, num. 8)

<sup>39</sup> Uriarte (2000), p. 61.

<sup>40</sup> See a general theoretical view of banking investments abroad in Guillen & Tschoegl (2008), chapter 1 and Sánchez Peinado (2001).

<sup>41</sup> Calderón and Casilda (2000), p.

<sup>42</sup> Martín Aceña (2009)

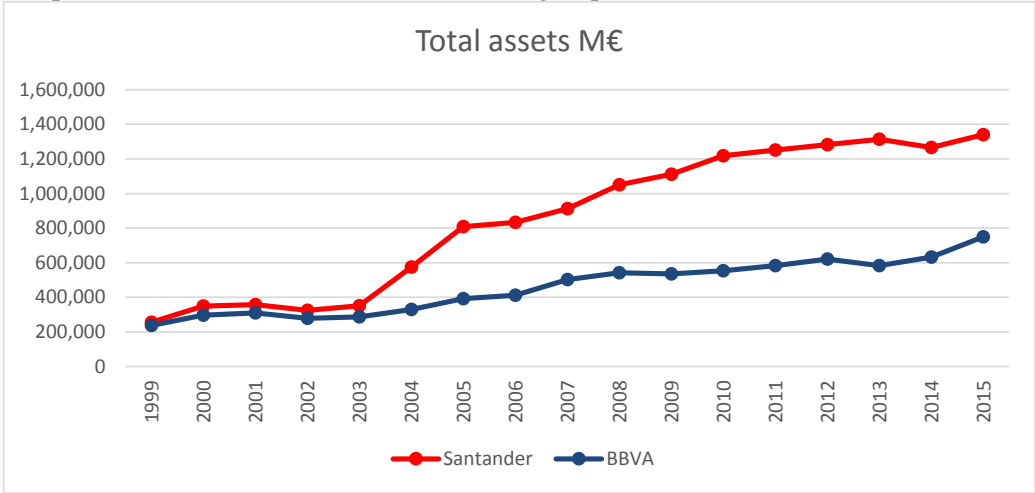
<sup>43</sup> Toral (2000).

#### 4. Comparative analysis of the process of banking investment in Latin America for Santander and BBVA

After two decades of continued and major development of the Spanish banking investment in Latin America, it is possible to analyse from a quantitative point of view the phenomenon in perspective. This analysis will help us to reach some remarkable conclusions. For this purpose, we start from the reality of the two involved groups, BBVA and Santander, to analyse in detail some different variables (assets, loans, deposits, number of offices and employees, net interest income, net attributable profit and Roe) at a compared level.

Overall, it is important to note that although they started from a position of dead heat at the time of the big mergers in 1999, the general evolution in both groups has differed in a very important way. After 16 years, a basic assessment of the main figures confirms that Santander has almost doubled to BBVA (see Graph 1 comparison of assets), thanks not only to its growth in Latin America, but also due to its aggressive policy of purchasing assets in Europe, especially the absorption of Abbey in 2004. Santander should already be considered in the global context as a systemic bank and one the most dynamic in the world; first in market capitalization in the euro zone. Nevertheless, BBVA growth has also a very important merit as it has increased 3.5 times its size, with a very significant increase in the last two years; it places BBVA well above other historical financial entities in the old continent or others that have disappeared in the development of the latest crisis.

Graph 1: Evolution of Santander and BBVA groups total assets, 1999-2015.

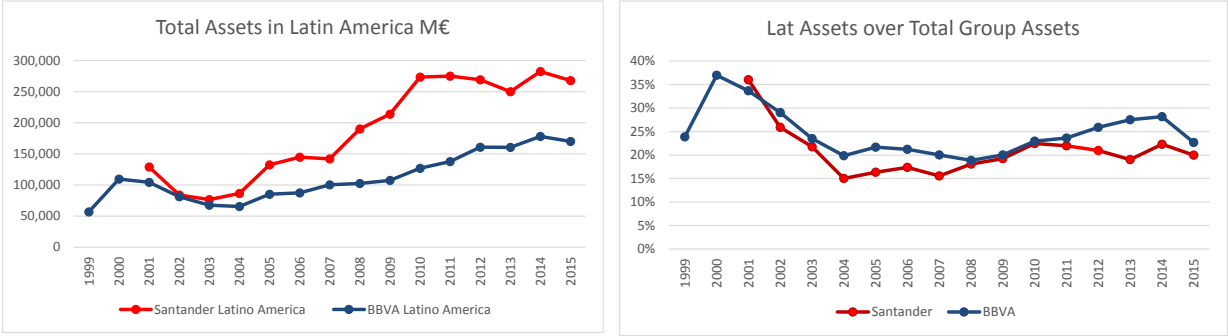


Source: BBVA and Santander Annual Reports

However, despite the fact that the growth of Santander has also been consistently higher in Latin America, as we can see in Graph 2, the sub-continent has weighed more in the balance-

sheet of BBVA than in the case of Santander (Graph 3), above all since *Bancomer* joined the group and despite their significant divestments in 2012 and 2013 in the field of pension insurances and the sale of their investment in Puerto Rico and Panama. However the falls in value on its balance sheet are notable in Latin America until 2004, similar to the falls in value in Santander.

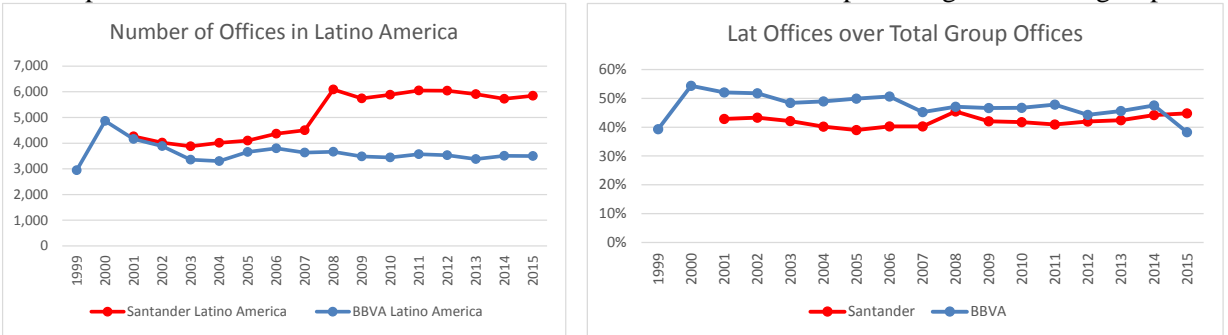
Graphs 2 and 3: Santander and BBVA total assets in Latin America and percentage over total group assets.



Source: BBVA and Santander Annual Reports

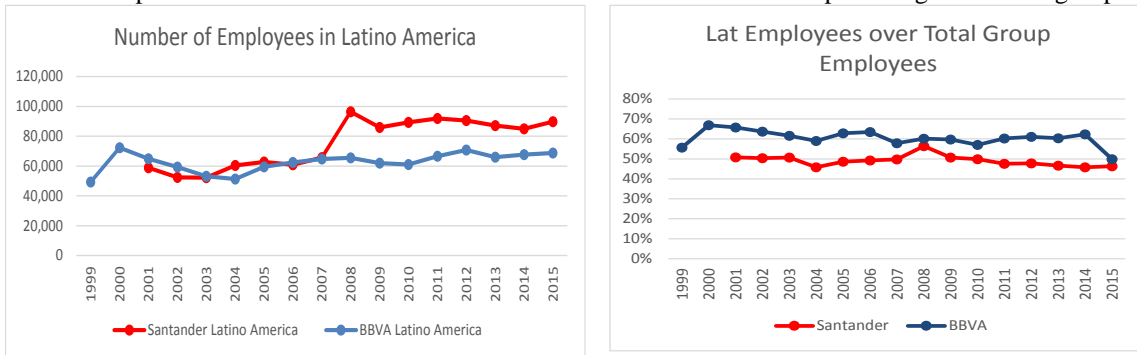
Figures for offices and number of employees hardly differ from the trend of assets; although growths are logically lower (see Graph 4 and 5). However, it should be noted the number of employees over the group in Latin America, both Santander and BBVA, since they mean more than 60% of staff in BBVA and half of staff in Santander over their respective groups (see Graph 7). This position can only be explained partly by the geographical dispersion and the low productivity of the staff in relation with the rest of the group, which must be balanced with a lower remuneration policy. Only then it is explained that the level of efficiency is quite discrete in the subcontinent (See Graph 8), similar to the values reached by both groups.

Graphs 4 and 5: Santander and BBVA offices in Latin America and percentage over total group.



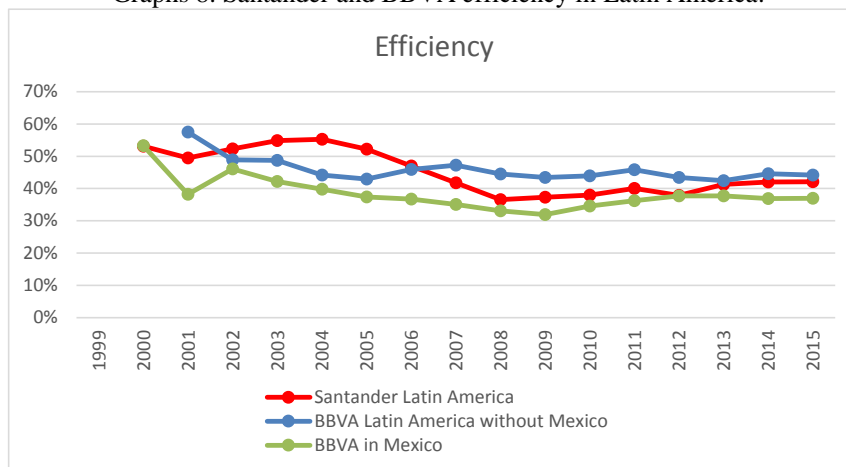
Source: BBVA and Santander Annual Reports

Graphs 6 and 7: Santander and BBVA offices in Latin America and percentage over total group.



Source: BBVA and Santander Annual Reports.

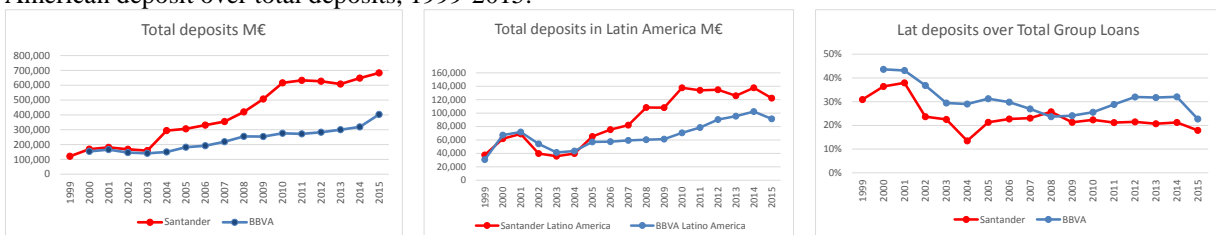
Graphs 8: Santander and BBVA efficiency in Latin America.



Source: BBVA, Bancomer and Santander Annual Reports

In relation to the structures of the banking liabilities and assets, the interpretation is similar, but with nuances. It highlights as the loan investment has grown in greater volume in Santander than in BBVA, expanding their loans well above their deposits. This policy implies a greater risk taking, growing, by the Santander group in Latin America, triggering a NPL<sup>44</sup> ratio nearly double its rival, as shown in graph 15.

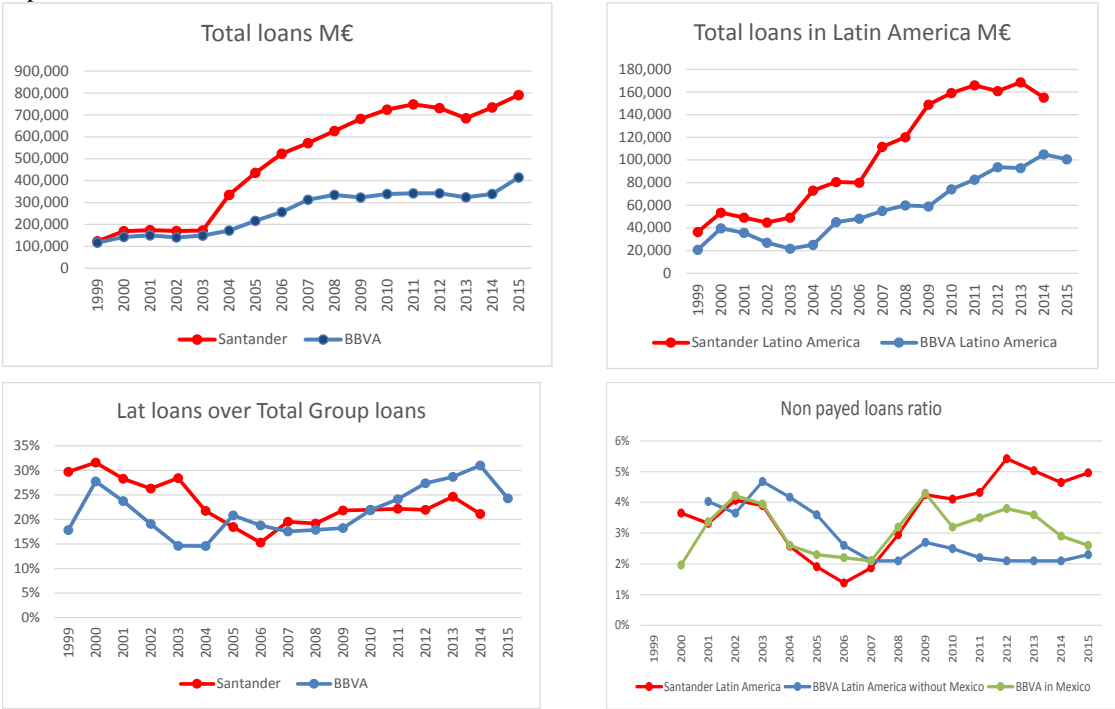
Graphs 9, 10 and 11: Santander and BBVA total deposits, Deposits in Latin America and percentage of Latin American deposit over total deposits, 1999-2015.



Source: BBVA and Santander Annual Reports.

<sup>44</sup> Non payed loans.

Graphs 12, 13, 14 and 15: Santander and BBVA total loans, in Latin America and percentage of Latin American deposit over total loans, 1999-2015.

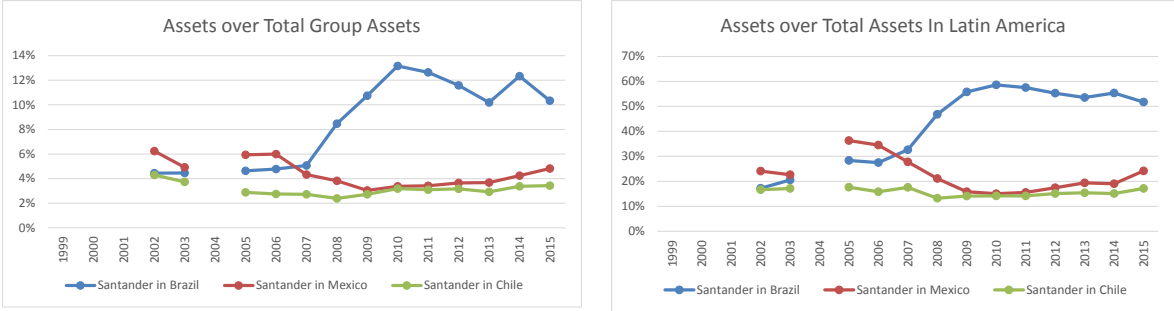


Source: BBVA and Santander Annual Reports

Moreover, if we analyse separately the networks, it highlights the firm commitment of both groups by specific economies, where they have concentrated the majority of their assets.

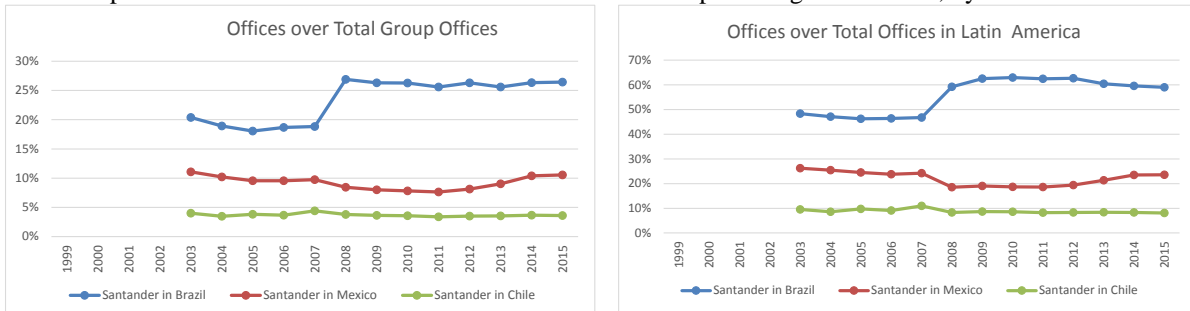
In the case of Santander, the bank deliberately opted for Brazil and it has been extraordinarily showed in the balance sheet from the acquisition of *Banco Real*. Thus the assets in this country clearly exceed 10% over total assets of the Santander group from 2009 and represent more than a half of the bank's assets in Latin America, although it has transferred slightly part of that percentage to Mexico and Chile in the last two years. Again, Brazil concentrates most of the employees and offices.

Graphs 16 and 17: Santander total assets in Latin America and percentage over assets, by main countries.



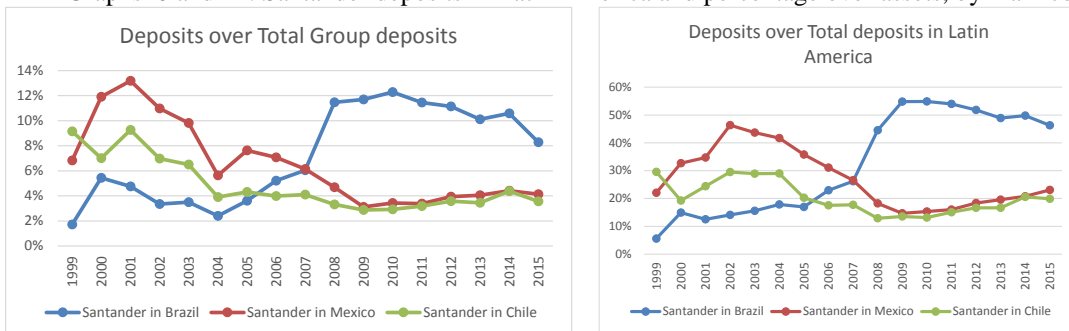
Source: Santander Annual Reports

Graphs 18 and 19: Santander offices in Latin America and percentage over assets, by main countries.



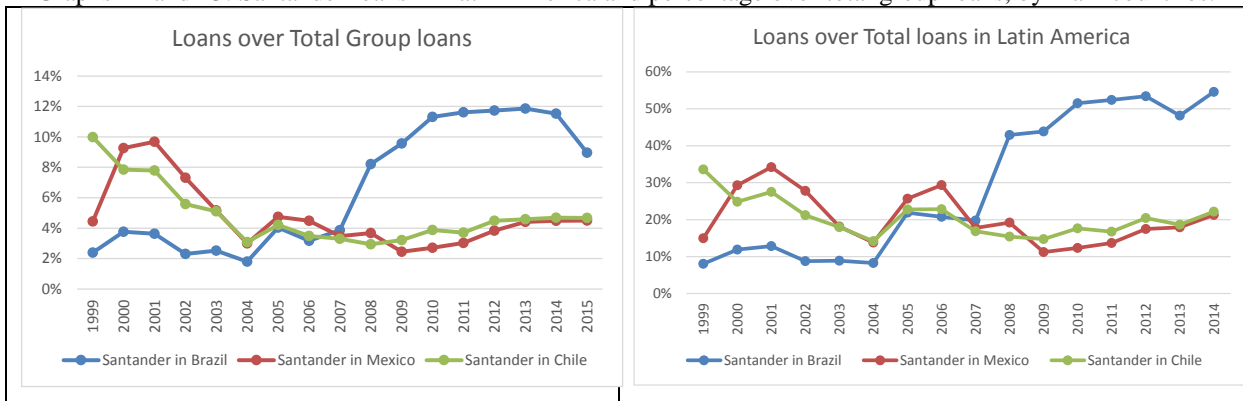
Source: Santander Annual Reports

Graphs 20 and 21: Santander deposits in Latin America and percentage over assets, by main countries.



Source: Santander Annual Reports

Graphs 22 and 23: Santander loans in Latin America and percentage over total group loans, by main countries.

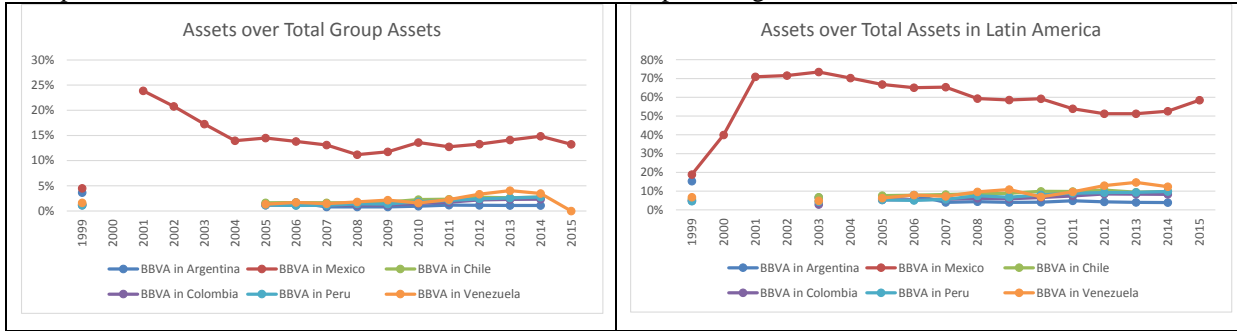


Source: Santander Annual Reports

In BBVA, the weight of *BBVA-Bancomer* over the global balance is very clear, although it has been tempered significantly between 2002 and 2005, from the moment that the bank has continued to strengthen its investments in Venezuela, Chile and Peru. As the following graphs show, the evolution of these variables is consistent with the weight of the Mexican subsidiary over the group.

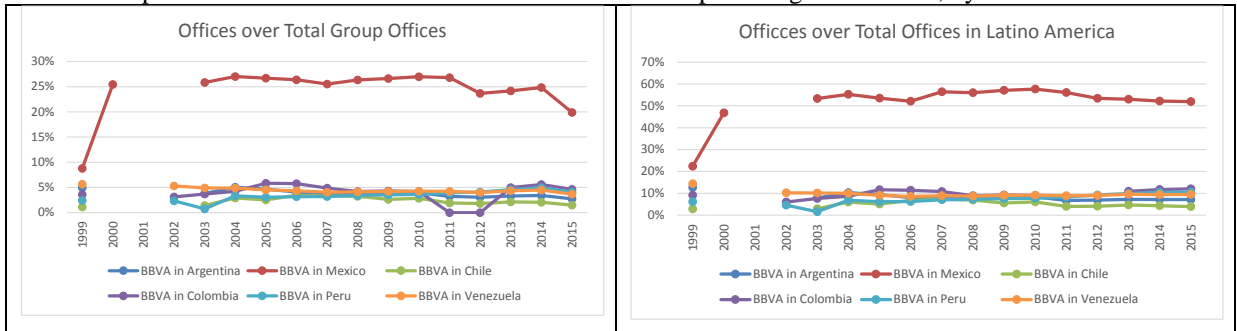


Graphs 24 and 25: BBVA total assets in Latin America and percentage over assets, 1999-2015.



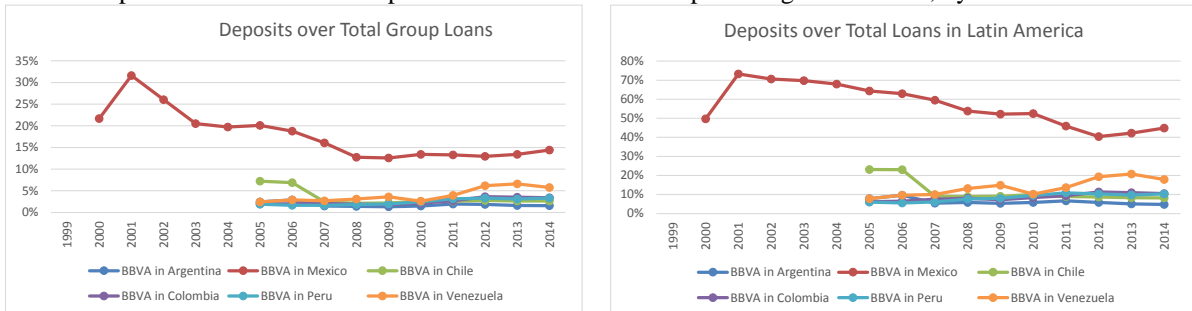
Source: BBVA Annual Reports

Graphs 26 and 27: BBVA offices in Latin America and percentage over assets, by main countries.



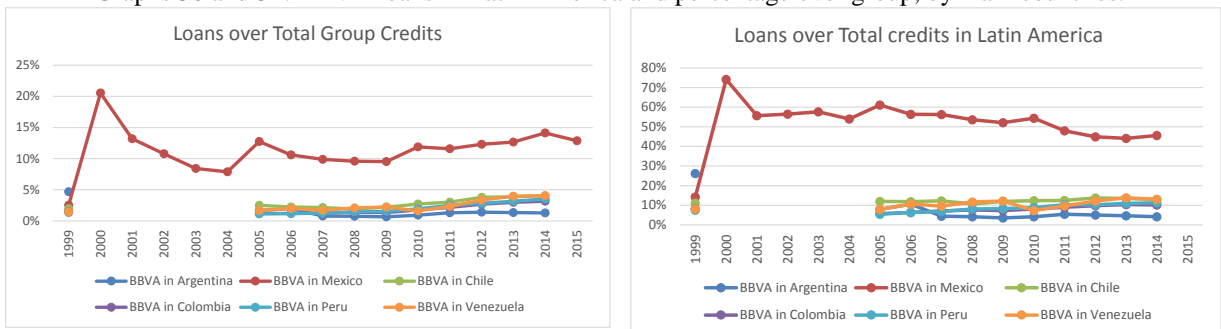
Source: BBVA Annual Reports

Graphs 28 and 29: BBVA deposits in Latin America and percentage over assets, by main countries.



Source: BBVA Annual Reports

Graphs 30 and 31: BBVA loans in Latin America and percentage over group, by main countries.

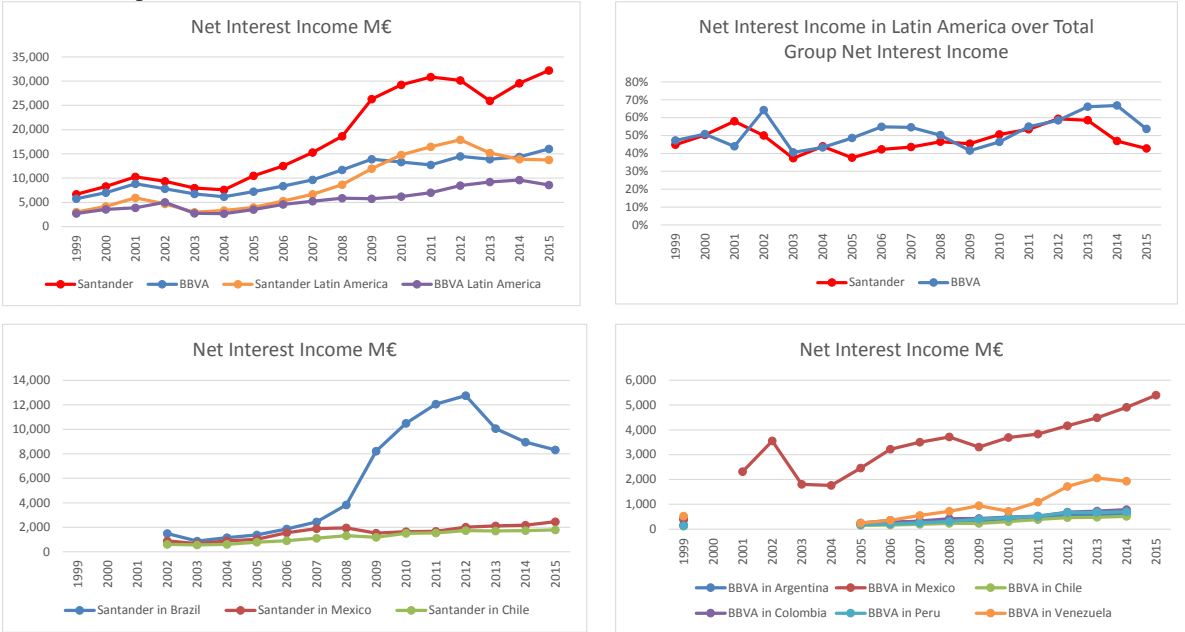


Source: BBVA and BBA-Bancomer Annual Reports

With regard to results and if they are measured in absolute values, comparing the net interest income, which measures the difference between financial incomes from loans granted and finance expenses from deposits received by the bank, Santander continues being the leader. In

fact the net interest income of Santander in Latin America is higher than this figure in the BBVA group for four years (2010-2013). However, it highlights the decrease of the net interest income of Santander in the area since 2012, especially in Brazil, compared to a moderate growth of BBVA.

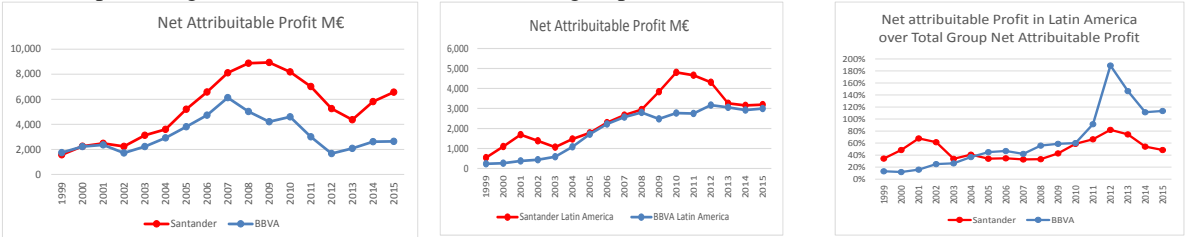
Graphs 32, 33, 34 and 35: Santander and BBVA, net interest income, 1999-2015.



Source: BBVA and Santander Annual Reports

On the other hand, the Net Profit Attributable in both groups shows how the American continent has had a less negative answer to the crisis. Therefore they have had a very positive effect on the group results, which have been particularly hard hit by the real state bubble in Spain. Provisions and accounting adjustments coming from this circumstance are misrepresenting the graph 38, which attributes an incongruous profit in Latin America for BBVA, higher than the whole group's.

Graphs 36, 37 and 38: Santander and BBVA total net attributable profit, in Latin America and percentage of Latin American over the total group, 1999-2015.

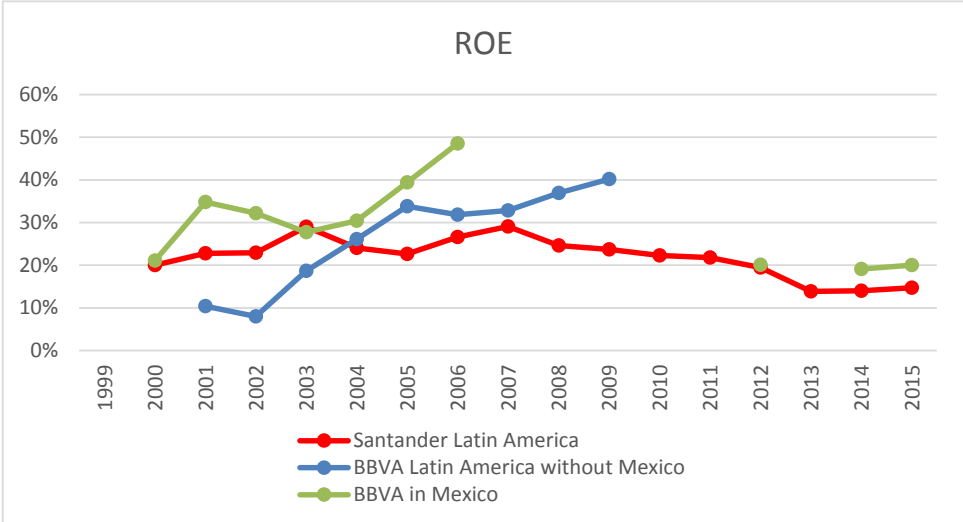


Source: BBVA and Santander Annual reports

Finally, the ROE, as measure of the return on equity, would show the most objective picture of the profitability of the investment in the long term. We still do not have the complete series

for BBVA, because of an erratic policy of publication of ROE in its Annual Reports. However, it is easy to conclude from the available data that the average profitability is really huge in the sub-continent for both groups, always about three times the average ROEs in Spain. Ultimately profitability figures are significantly better for BBVA in the available years, from 2003, and they show an apparent convergence for the last years.

Graphs 39: Santander and BBVA ROE in Latin America, 1999-2015.



Source: BBVA, Bancomer and Santander Annual Reports

**5. Conclusions**

Banco Bilbao Vizcaya Argentaria and Banco Santander have completed a major investment process in Latin America, which has allowed them to consolidate very powerful networks; they have given them the leadership in the banking sector in the major economies of Latin America.

This growth was mainly driven by the need to look for new markets outside Spain, following the deregulation and concentration processes in the banking sector in the 80s and 90s and in a context of highly saturated market. At that time, these firms concentrated an extensive experience and development.

In Latin America both groups found barely banked markets with high potential growth. Over there they have carried out a process of entry and growth through purchases, which have remained until the beginning of the crisis in 2007.

Santander has won the size battle in this process and has become a global systemic bank, leader in Latin America. Of course, mention should also be made of the BBVA assessment that is regarded as outstanding.

Overall, the investment has been very profitable in both cases, slightly higher in relative terms for BBVA during the period, but higher in absolute values for Santander. The Santander strategy has tended to take greater risks looking for higher market shares, which has outcome slightly NPL ratios.

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