2-21-1996

Canadian Banks to Acquire Shares In Mexico's Bancomer, Inverlat

LADB Staff

LADB Article Id: 55778
ISSN: 1054-8890

Canadian Banks to Acquire Shares In Mexico's Bancomer, Inverlat

by LADB Staff
Category/Department: Mexico
Published: 1996-02-21

In late February, two of Canada's largest financial institutions each formalized an agreement to purchase stock in a Mexican bank. In one case, the Bank of Montreal reached an accord to purchase a 16% share in Grupo Financiero Bancomer (GFB), the parent company of Mexico's second-largest bank, Bancomer. In the second, Bank of Nova Scotia formalized the purchase of a majority share in Grupo Financiero Inverlat (GFI). Inverlat, previously known as Comermex, is also among Mexico's five largest banks. Both transactions were completed with the help of the government's savings protection fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA). In recent months, President Ernesto Zedillo's administration has used funds from FOBAPROA and the temporary capitalization program (Programa de Capitalizacion Temporal, PROCAPTE) to rescue nearly a dozen troubled banks.

FOBAPROA played a significant role in the Bank of Nova Scotia-Inverlat transaction by acquiring a 100% share of GFI and then selling 16% of those shares to the Canadian institution for US$50 million. In addition to the purchase of the 16% share, Bank of Nova Scotia acquired US$125 million in eight-year bonds that can be converted into another 39% share in March of the year 2001. That will raise its total stake in Inverlat to 55%. Until that date, however, Inverlat will officially remain in the hands of FOBAPROA. Bank of Nova Scotia's acquisition of Inverlat was actually announced in late January, but the agreement was not formalized until this month (see SourceMex, 02/07/96). As part of the purchase agreement, Bank of Nova Scotia agreed to send four of its executives to manage day-to-day operations at Inverlat, which has 312 branches nationwide.

With branches or representative offices in 46 countries, Bank of Nova Scotia, also known as Scotiabank, is one of the Canadian banks with the most extensive international operations. In the other Canadian transaction, Bank of Montreal Canada's third-largest financial institution acquired a 16% share in Grupo Financiero Bancomer for between 3.2 billion and 3.6 billion pesos (US$424 million to US$477 million). According to sources close to the deal, the total investment by Bank of Montreal will be determined by the ultimate cost per share, which will be based on the value of the Mexican peso versus the US dollar at the time the transaction is finalized. In a prepared statement, Bank of Montreal president and chief executive officer Matthew Barrett said the two institutions expect to finalize all details related to the sale by the end of March. The transaction must still receive final approval from Mexico's banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV) and from Bancomer's stockholders.

For their part, Bancomer officials said the transaction is highly beneficial for the bank, since it will inject badly needed capital into Bancomer. The new funds will be used to reduce the bank's financial exposure from overdue debts and also increase the amount of funds available for loans. "With this transaction, we could become the largest financial group in Mexico," Bancomer director Ricardo Guajardo Touche told the daily newspaper La Jornada. Under the arrangement, Bank of Montreal

LADB Article Id: 55778
ISSN: 1054-8890

will receive eight of the 44 seats on Bancomer's board of directors. Additionally, Bancomer will have the option to acquire several million shares of Bank of Montreal's common stock within five years. By acquiring interest in the Mexican banks, Bank of Nova Scotia and Bank of Montreal will become the first two Canadian banks to establish full-service operations in Mexico. Both banks have operated representative offices in Mexico for several years, offering limited services such as consulting on export-import matters. "The point is, with North American free trade and the Mexican market opening up, both banks have international aspirations," said analyst Russ Robertson of the Arthur Andersen consulting group.

Indeed, the Bancomer deal extends Bank of Montreal's North American presence. It already operates in the US through its subsidiary, Harris Bankcorp. Bank of Montreal, Harris, and Bancomer are expected to coordinate their sales efforts soon through a three-way strategic alliance. "North America is fast becoming an integrated economy and our customers increasingly view North America as a single, unified marketplace," said Barrett. Ironically, Canadian banks had been notably absent from the lists of foreign financial institutions that received permits as part of the opening of the financial market, although Mexico had agreed to open the financial sector as part of the negotiations on the North American Free Trade Agreement (NAFTA).

Instead, most of the new permits, announced in late 1994 and early 1995, went to US-based banks or US subsidiaries of Japanese and European financial institutions (see SourceMex, 10/26/94 and 02/15/95). Officials from three other Canadian banks Royal Bank of Canada, Canadian Imperial Bank of Commerce (CIBC), and Toronto Dominion Bank said they have no immediate plans to establish full-service operations in Mexico, but did not rule out this possibility, given the limited scope of growth in Canada. "We are always considering expansion plans, but we don't have anything planned at the moment," said CIBC spokeswoman Anna Reylea. Bank of Montreal and Bank of Nova Scotia are only the second and third foreign banks to purchase a share in a Mexican financial institution. Late last year, Spain's Banco Bilbao Vizcaya gained a majority share in Multibanco Mercantil Probursa (see SourceMex, 06/07/95). That transaction also involved direct government assistance through FOBAPROA. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 19, reported at 7.55 pesos per US$1.00] (Sources: Agence France-Presse, 02/15/96; La Jornada, Excelsior, Reforma, 02/16/96; New York Times, 02/17/96; Reuter, 02/18/96)

-- End --