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Spanish Bank Announces Merger With Grupo Bancomer To Form Mexico's Largest Financial Institution

by LADB Staff
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Spain's Banco Bilbao Vizcaya Argentaria (BBVA) has agreed to merge its Mexican subsidiary with Grupo Financiero Bancomer (GFB). Officials for the two banks said the merger is expected to gain easy approval from the boards of directors and banking regulators in Spain and Mexico before June 2000. Under the merger agreement, BBVA and its Mexican subsidiary Grupo Financiero BBV-Probursa will inject about US$1.2 billion in capital into the company. In return, the Spanish bank will gain control of a 40% share in the merged institution and full control of its management operations. The Bank of Montreal, which had held a 16% share in Bancomer, is expected to remain a minority partner in the merged institution, which will be called BBVA-Bancomer. The Spanish-Mexican venture is expected to control a 26% share of the Mexican banking market and surpass Grupo Financiero Banamex-Accival as the country's largest financial institution. Company officials said BBVA-Bancomer will own assets of 340 billion pesos (US$36.4 billion), a credit portfolio of 240 billion pesos (US$25.6 billion), and deposits of 250 billion pesos (US$26.7 billion). Analysts said the infusion of capital from BBVA will help Bancomer erase its financial difficulties. "This capital infusion will also strengthen the balance sheet of Bancomer, covering 100% of past-due loans and also loan-loss provisions," said Jason Mollin, analyst at Dresdner Bank in New York. "They will be well-positioned to grow going forward. But the merger could be bad news for some Bancomer employees, since BBVA has already announced plans to reduce costs significantly. "We think it is possible to cut combined costs by around 30% in the three years to 2002. This is the bank's target," BBVA's chief Latin America financial officer Jose Sevilla told Reuters. Bancomer, Mexico's second-largest financial institution, last year hinted at a possible merger with Banacci, but the fusion never got beyond the discussion stages (see SourceMex, April 7, 1999).

Other foreign-Mexican bank mergers expected this year

The BBVA-Bancomer merger is the first of several joint ventures between foreign and Mexican banks anticipated this year. Hector Rangel Domene, president of the Asociacion de Banqueros de Mexico (ABM), said foreign banks would control as much as 40% of the Mexican banking market by the end of this year, compared with the current share of 21%. Banca Serfin, Mexico's third-largest bank, is expected to be the next financial institution to change hands. Three foreign suitors US-based Citibank, Britain's SBC Holdings PLC, and Spain's Banco Santander have already announced their intention to bid for Serfin. The government's savings- protection agency (Instituto de Proteccion al Ahorro Bancario, IPAB) assumed control of Serfin in July 1999 and launched the reprivatization of the bank in the first quarter of this year (see SourceMex, June 30, 1999, July 14, 1999, February 2, 2000). The Bank of Nova Scotia, meanwhile, is reportedly considering increasing its share in Grupo Financiero Inverlat to 55% from its current 10% stake. This would give the Canadian bank majority control of the Mexican institution. Bank of Nova Scotia chairman Peter Godsoe said he expected the transaction to be completed sometime in July. To facilitate the sale of Inverlat to the Canadian bank, the Banco de Mexico (central bank) in mid-March approved the transfer of 770 million pesos (US$8.23 million) in bailout money that had been set aside to shore up the
bank's finances. The funds will be managed through IPAB. Another financially troubled domestic institution that will change hands in the second half of this year is Bancrecer, Mexico's fifth-largest bank. The bank has been in the hands of IPAB since October 1999 (see SourceMex, 1999-10-20). Mexican bank Banorte has expressed strong interest in acquiring a controlling share of Bancrecer, but is expected to face strong competition from Spanish bank Santander and possibly from BBVA-Bancomer. IPAB, meanwhile, has hired German-US joint venture Fenix Administracion de Activos to manage part of Bancrecer's portfolio. The joint venture, comprising Germany's Deutsche Bank and US-based real estate investment company JE Robert, will handle about 51.4 billion pesos (US $5.49 billion) of Bancrecer's portfolio. The funds gained from Fenix's operations will offset the cost to IPAB and Mexican taxpayers of shoring up Bancrecer's books. Some banking-industry analysts said the Mexican institutions that do not merge with foreign companies will form joint ventures with other domestic banks. Banacci, in particular, is expected to move aggressively to forge partnerships with domestic competitors. "A natural acquisition for [Banacci] would be Banorte," said Laurence Madson, bank analyst at Warburg Dillon Read in New York. Rangel said the Mexican banking sector welcomes the increased foreign investment, which will help the sector emerge from the crisis it has faced since the devaluation of the peso. Rangel said the banking crisis caused domestic credit to tighten considerably in recent years.

**Poll shows strong public mistrust of Mexican banks**

But some studies show the banking sector is facing a strong credibility gap among the Mexican public after years of denying credit to potential borrowers. A public-opinion poll conducted in late February by Mexico City-based MUND Opinion Services showed a strong perception that banks hamper economic development. In the survey, 42% of respondents said banks are hurting economic development, compared with 37% who said the banking sector was promoting economic growth. Most respondents said they do not look to banks for personal or business loans. "This is a society that doesn't look to the banks as a way of advancing," MUND president Daniel Lund told The Dallas Morning News. "People deeply feel that the banks are a brake on the economy." The major opposition parties, particularly the center-left Partido de la Revolucion Democratica (PRD), have questioned the Zedillo administration's decision to pour millions of pesos into rescuing financially ailing banks. A recent report published by the daily newspaper La Jornada did little to dispel the notion that banks are only looking after their own interests and do not care about the Mexican economy. The report said Mexico's 10 largest banks attained profits of almost 12.59 billion pesos in 1999. At the same time, La Jornada pointed to a recent report released by the Banco de Mexico (central bank) showing that financing provided by Mexico's commercial banks has fallen by 72% over the past five years. A separate report published by the central bank in early February indicated that commercial banks provided less than one-fourth of all financing extended to private enterprises in the fourth quarter of last year (see SourceMex, February 23, 2000). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 15, reported at 9.35 pesos per US$1.00] (Sources: Novedades, 03/03/00; The News, 03/08/00; Spanish news service EFE, 03/07/00; Associated Press, 03/09/00; Agence France-Presse, Europa Press, 03/10/00; Los Angeles Times, 03/11/00; Reuters, 03/02/00, 03/09/00, 03/10/00, 03/12/00, 03/13/00; El Economista, El Universal, El Financiero, 03/03/00, 03/09/00, 03/10/00, 03/13/00, 03/14/00; Reforma, 03/03/00, 03/10/00, 03/13/00, 03/14/00; Excelsior, 03/08/00, 03/10/00, 03/13/00, 03/14/00; La Jornada, 03/03/00, 03/10/00, 03/15/00; The Dallas Morning News, 03/03/00, 03/11/00, 03/15/00)