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## **Grupo Financiero Banorte Consolidates Position as Mexico's Third-largest Bank through Merger with Mexico City-based Ixe**

*by Carlos Navarro*

*Category/Department: Economy*

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In early March, the Secretaría de Hacienda y Crédito Público (SHCP) approved the merger of Monterrey-based Grupo Financiero Banorte and Ixe Grupo Financiero, headquartered in Mexico City. The move is significant because both institutions are owned entirely by Mexican investors. Banorte, Mexico's third-largest financial institution, has staunchly resisted overtures from foreign banks ([SourceMex, Sept. 11, 2002](#)) and ([Feb. 4, 2004](#)). US-based Citigroup has controlling interest in Mexico's top bank, Grupo Financiero Banamex, while BBVA Bancomer, which ranks second, is owed by Spain's Banco Bilbao Vizcaya Argentaria.

The merger—which has also been endorsed by the government's anti-monopoly commission (Comisión Federal de Competencia, CFC) and the securities and banking regulator (Comisión Nacional Bancaria y de Valores, CNBV)—is expected to obtain easy approval from the two institutions' shareholders, who are scheduled to vote on the transaction at the end of March. Ixe's governing council publicly endorsed the merger at a March 15 meeting.

Banorte director Alejandro Valenzuela del Río, who will remain as director of the merged Grupo Financiero Banorte-Ixe, said he expected the transaction to become official by the beginning of April.

Analysts said the merger is very favorable for Banorte because it allows the Monterrey-based institution to incorporate Ixe's high-end customers to its customer base. Ixe, which currently operates 85 branches in Mexico City, places a strong emphasis on credit-card services for its wealthy customers.

Furthermore, the move puts Banorte in a position to attract some business clients who currently use rivals Santander and Inbursa. The latter institution, Mexico's fifth-largest bank, is part of the financial group controlled by billionaire Carlos Slim.

There is a small downside to the transaction. An analysis from the Swiss-based bank UBS said Ixe's lower profitability means Banorte would "have to capture meaningful cost synergies in the integration." One possible action would be to reduce Ixe's costs by as much as 36%, depending on the price-to-book (P/B) value at which the deal takes place.

Still, the resulting financial group would consolidate Banorte's position as the third-largest bank, with assets of 698 billion pesos (US\$57 million), a loan portfolio of 292 billion pesos (US\$24 million), and deposits of 312 billion pesos (US\$25.6 million).

Although Banorte-Ixe will be a single company, the two entities are expected to retain their identities. Each institution will maintain its existing branch network, which would allow Ixe to retain the premium Ixe brand. The combined entity will have 1,263 branch offices, more than 5,000 automated-teller machines, and nationwide coverage with operations in most market segments, the companies said.

The possibility of a Banorte-Ixe merger was already under discussion in Mexico's financial circles before the two entities made their intentions public last fall.

"If the agreement goes forward, we would expect the majority of the Ixe branches to remain open, with a good portion of them maintaining the Ixe name," analyst Daniel Abut wrote in a note to clients in October when the merger was first proposed.

Although Valenzuela del Río will remain as director, Banorte made another important change at the top. As of March 1, former Banco de México chief governor Guillermo Ortiz Martínez assumed the role of president of the administrative council from Roberto González Barrera, who had held the post since 1992.

"[Ortiz] is an individual who has in-depth knowledge about the banking sector," said González Barrera. "He has headed important agencies during key moments in history. He led the Secretaría de Hacienda during the privatization of Mexico's banks and was in charge of the Banco de México during one of the worst financial crises in our history."

In a report sent to the Mexican stock exchange (Bolsa Mexicana de Valores, BMV), Banorte said naming Ortiz to the post is intended to "strengthen the corporate governance" of the company and give the institution a "solid strategic direction."

Analysts agreed that this was a good move. "Without doubt, this is the most important development in Mexico's banking sector in the past 10 years," said Hector Moreno, a financial specialist at Instituto Tecnológico de Monterrey (ITESM).

## ***Banorte willing to finance Mexicana investors; airline has yet to resume operations***

A week before the SHCP approved the merger, Valenzuela raised the possibility that Grupo Financiero Banorte might be interested in financing new investors for Mexicana once the airline resumes operations. The airline announced at the beginning of the year that it was poised to resume operations by the end of January ([SourceMex, Jan. 5, 2011](#)) after filing for bankruptcy in August 2010 ([SourceMex, Aug. 4, 2010](#)).

As of early March, the airline had yet to restart operations, partly because of failed efforts by the investment-banking firm PC Capital to put together a viable investors' group to acquire controlling interest in the airline. The investment group that PC assembled was too diverse and financially fragile, said the business publication .

Despite those difficulties, Valenzuela del Río said Banorte would be willing to provide financial support to an investment group as long as it is able to pay Mexicana's current debt to the bank, estimated at about 250 million pesos (US\$20.5 million), and provide evidence that the airline would be turned into a viable business.

Still, it remains uncertain if and when Mexicana will resume operations. In mid-March, a group of federal senators from opposition parties urged Communications and Transportation Secretary Dionisio Pérez-Jácome to intervene so that operations could resume as soon as possible. "[The suspension of service] has directly affected more than 7,500 domestic and international travelers daily," said a statement from Sens. Yeidckol Polevnsky and Javier Castellón from the Partido de la

Revolución Democrática (PRD) and María de los Ángeles Moreno, Ramiro Hernández, and Joaquín Coldwell from the Partido Revolucionario Institucional (PRI).

There are some suggestions that, in lieu of selling the airline, the Mexican government should consider auctioning off the brand name and the routes to an existing company, including rival carriers Aeroméxico and Volaris. "This would allow an investor to acquire the brand name but not the infrastructure," said analyst Juan Antonio José, who follows the airline industry.

José's suggestion would not sit well with the union that represents Mexicana workers, who are trying to regain their jobs. The Sindicato Nacional de Trabajadores de Transportes, Transformación, Aviación, Servicios y Similares (SNTTTASS) is looking into the possibility of taking legal action against PC Capital for mishandling the purchase of the airline. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 16, reported at 12.19 pesos per US\$1.00]

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