

López-Morell, Miguel Angel; Bernabé Pérez, María Mercedes

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**Conquering the market:  
The expansion strategies of Santander and BBVA in Latin America**

Miguel A. López-Morell \*  
Universidad de Murcia

M<sup>a</sup> Mercedes Bernabé Pérez \*\*  
Universidad de Murcia

**Abstract:**

Three decades ago, and with very few precedents, Spain's two principal banking corporations began an intense process of expansion throughout Latin America. Not only did they compete with one other in this new market, but they also faced competition from domestic Latin American banks and other foreign banks. This paper analyses the key elements that encouraged these two banks to enter the Latin American market. It assesses their success or failure in each country they entered, and in the subcontinent as a whole. Finally, it examines the different strategies they used to achieve their aims.

**JEL Classification:** F3, F21, G21, N2, N26, N296

**Keywords:** Retailing Banks, Latin America, FDI, Global Banks, Bank Profitability

\* Universidad de Murcia, e-mail: mlmorell@um.es

\*\* Universidad de Murcia, e-mail: bernabe@um.es

## 1. Introduction

During these 30 years, both banks: Banco Santander (hereafter Santander) and Banco Bilbao Vizcaya Argentaria (hereafter BBVA), established themselves as the foreign banks with strongest investment in Latin America, surpassing even the long-standing United States ones. They consolidated their leadership in some countries, when they were not the stars of that what many authors now call the *bankarization* process. This project represents a still preliminary approach to the expansion of these two major Spanish banks in Latin America. Although there is some background, this process of expansion and settlement is a recent phenomenon that has unfolded mainly in the past three decades..

In short, our aim is to describe and analyse the factors that encouraged these entities to take this huge step towards to the American continent, and ask ourselves why Latin America, rather than other financial markets, has been the fundamental axis of their growth in the past two decades. How successful have their initiatives been? What strategy did they use to penetrate 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 wish to highlight how important Latin America has been for both corporations, in terms of level of participation in total assets, revenues, and employees of the respective groups.

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

From a long time, many banks have engaged in banking activities in foreign countries. Several authors (Tschoegl, 1987, 2002a; Boldt-Christmas & Jacobsen & Tschoegl, 2001; Cerruti, Dell`Araccia & Martínez, 2007) have analysed the different strategies recently used by global banks and whether they have proved to be successful. In relation to the key factors to their establishment, Tschoegl studies the cases of foreign banks in Japan (1988) and Norway (2002b). Elsewhere, Bátiz-Lazo, Blanco & Urionabarrenetxea (2007) and Jiménez & Narbona (2010) have focused on the advantages of Spanish banks in Latin America.

This major phenomenon of Spanish banks arriving in Latin America has been studied previously by many authors (Sánchez Peinado, 2001; Calderón & Casilda, 2002; Martín

Aceña, 2008; Sierra, 2007; Arroyo, Larrinaga & Matés, 2012). A series of commissioned corporate histories, written to celebrate the 150th anniversaries of these banks, were published around 2007 (Martín Aceña, 2007 and Guillén & Tschoegl, 2008 for Santander; and González (Dir.), Anes & Mendoza, 2007 for BBVA). A decade has passed since then, and thus we analyse a phenomenon that has is now fully consolidated, despite some ups and downs that may have constrained it. Indeed, some of the elements analysed are of a global nature, for example the complex development of the current crisis of the financial markets.

We highlight The impact that the uneven development of economies within Latin America has been influential 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 to extrapolate general conclusions.

It is important to highlight that, although Spanish bank investment in Latin America has been the most important investment, it has not been exclusive. Spanish multinationals such as technological and construction firms have invested in the region during the same period, (Sanchez Peinado, 2001; Special Issues Revista Historia Industrial (2007, n 40) and Revista de Historia de la Economía y de la Empresa (2014, n 8)).

Uriarte (2000), the first BBVA CEO, argued as follows the intention of the bank when investing in the continent: “The international strategy BBVA was founded on clear guiding principles: management control of the entities located in related countries for reasons of language or culture (which enabled the export of Know-How), located in areas of high growth potential and capable of providing high returns. The expansion in Latin America made sense in the light of these criteria.” The vision of this executive hardly differs from academics who have studied the phenomenon as a whole, who have highlighted several elements that tend to coalesce (Guillen & Tschoegl 2008; Sánchez Peinado 2001).

For Calderón and Casilda (2000) the key to the success lay in looking for size and competitiveness, outside Spain - a fully mature banking market tending to saturation. Mergers generated significant synergies in Spain that allowed resources to be derived to expanding markets. There, they could gain the best experience of their organizational and technological capabilities and of a suitable risk diversification in terms of profitability. This argument is shared by Martín Aceña (2009) who, according to Grubel (1977), concludes that the international expansion of Santander prevailed in finding new markets on the “client-

following". It also highlights important triggers, some of which we have already advanced, such as the earlier banking reform in Spain and the cultural ties with Latin America. This was also appreciated by Toral (2000), who stressed how the national competitive advantages that all the Spanish companies, especially banking, gained after the processes of previous liberalization in Spain before the nineties had supposed a fundamental learning experience for banks to compete in the best conditions.

The rest of the paper is structured as follows. The next section reviews the various stages in both bank's investment in Latin America and analyzes the strategies employed. This is followed by a comparative analysis of the various variables affecting the investment process in Latin America as a whole and in the particular national cases that stand out. The paper ends with some preliminary conclusions.

## **2. Investments stages**

### **2.1 Background**

It is complicated to say which of the two banking organisations started this American adventure first, Moreover, both companies have gone through complicated merger processes, since they have absorbed hundreds of other banks in the past years. Therefore, we must analyse history of some of them to discover their origins. We might not always be able to find a continuous 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 with a complete historical line up until now, although not a direct one. This is because, even though it started in 1876, following the national loan issued to finance the Cuban War, this Bank soon lost its fiscal privileges in the island. So, after Cuban independence in 1898, it left the Caribbean and operated exclusively in Barcelona (Rodrigo, 2000). *Banco Hispano Americano* was established in 1900, but was forced to close its subsidiaries in Latin America after the banking crisis of 1913. The *Hispano Americano* then left Latin America to set up 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 1960s, starting in 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 did not take hold until the mid-90s, when it started to purchase a number of subsidiaries (Tortella & García Ruiz, 1999).

In spite of this historical record, and the obvious cultural and economic proximity of Spain with Latin America, these initiatives did not actually take hold, so neither Santander or *Bilbao*

or *Vizcaya* banks considered the jump to Latin America as a strategic investment until much later.

Santander may have had the greatest interest in pursuing an American adventure, since it had a long commercial history with Latin America. For years, it had financed Santander traders who negotiated with the Caribbean during the second half of the nineteenth century. Even so, at that time it could only be considered a complementary activity which came from a small bank from Spain, and nothing more (Martín Aceña, 2008; Hoyo, 2015). However, a little after the Spanish Civil War, the bank's management team, led at that time by Emilio Botín Sanz (the grandfather of the current chairperson), decided to initiate direct ties with some of those countries with which he had had to act, for decades, through correspondents.

Thus, in 1947 *Banco de Santander* opened its first office in La Habana, thanks to a reciprocity agreement with *The Trust Company of Cuba*. Other offices in Mexico (1956), Caracas (1957) and Buenos Aires (1969) followed. The last of these were designed by the new Ibero-American department, opened by *Banco de Santander* in 1955. From then on, without haste, Santander took a qualitative step forward, by acquiring small bank entities, starting in Argentina. In 1963 they bought *Banco del Hogar Argentino* and in the next four years *Banco Mercantil de Rosario y de Santa Fe*, and *Banco Comercial e Industrial de Córdoba*. In, 1967, *Banco de Santander y Panamá* was founded, but Santander did not buy more banks in the following decade. Later on, Santander would make 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 all the purchases were long term. Between 1985 and 1987, 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 (Martín Aceña, 2007). Puerto Rico in 1989 was, by far, the most profitable among all the Santander subsidiary in both Latin America and Spain. With only 45 offices, it represented a pre-tax profit of 5,812 million pesetas (34.9 million euro) (Banco Santander Annual Report, 1989). Despite this, Latin America was still just a complementary 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 was set up in Paraguay, followed by another in Panama in the same year. Later, it opened branches in Nicaragua (1977), Chile (1978) and Argentina

(1980). The reality is that those branches from the old *Banco Exterior* were not very significant in the fusion of the BBVA later on. They were merely a network to simplify Spanish companies' transactions in Latin America. *Banco de Vizcaya* only joined the Latin America adventure from 1982, when it purchased *Banco Occidental* in Madrid, which was the owner of *Banco Comercial de Mayagüez*, in Puerto Rico, from 1979, which also joined BBVA's network. *Banco de Bilbao* opened only one office in Panama in 1983 (Arroyo, Larrinaga & Matés, 2012, González, (Dir.), Anes, & Mendoza 2007). Beyond this, the BBVA does not seem to have had any intention to invest further 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 in the decades before and after the turn of the millennium, and these led to an unprecedented internationalization process.

After years of deep intervention in the Spanish financial system, which date 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 been ongoing from the arrival of democracy to the present. The most important legislative milestones to explain this change were: *Ley de Bases y de Ordenación del Crédito* (1962), which while nationalizing 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>3</sup> (Martín Aceña and Titos (eds), 1999)

Once the liberalization of the sector in the late eighties and early nineties of the twentieth century had been resolved, a great number of mergers and acquisitions took place in Spain, more or less encouraged 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 double-headed structure of the Spanish financial system, where only *Banco Popular* has lagged behind, maybe due to its lack of an international profile and its current size.

The merger process was initiated by the Basque banks, *Bilbao* and *Vizcaya*. After tough competition in the Basque region and indeed throughout the country, they finished a process

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<sup>3</sup> For a general overview of the Spanish banking history see Gutiérrez & Martínez (dir.) 2014.

started by *Banco Bilbao* in 1988<sup>4</sup>. They combined the latter’s 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 euro in banking assets. The new group, chaired by Jose Angel Sánchez-Asiaín, from *Banco Bilbao*, and Pedro Toledo, from *Banco de Vizcaya*, took over the market leadership from *Banco Central* and broke the market balance among the seven large financial entities after a decade of relative *status quo*<sup>5</sup>.

In response to the Basque merger, the Madrid banks began a number of mergers and acquisitions, including a failed merger attempt between *Banco Central* and *Banesto* and BBV with Santander. The only success 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.

The Spanish State closed the Spanish banking national map in 1991, because it had built a larger entity, itself, based on the combination of all state-owned banks. Among these banks were: *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 were 57 entities. They all shared a single structure 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 (Martín Aceña & Titos (eds), 1999)<sup>6</sup>. Paradoxically , the first president of *Argentaria* was Francisco Luzon, who then became the person in charge of Santander’s business activity in Latin America (until 2012), while, his successor, Francisco González, co-chaired BBVA after the merger, and then alone since 2001.

<sup>4</sup> Bilbao had failed in its attempt to merge with Banesto in 1987.

<sup>5</sup> According to Martín Aceña (2007, p. 182), the Spanish banking market presented the following market share in two significant previous moments (in %):

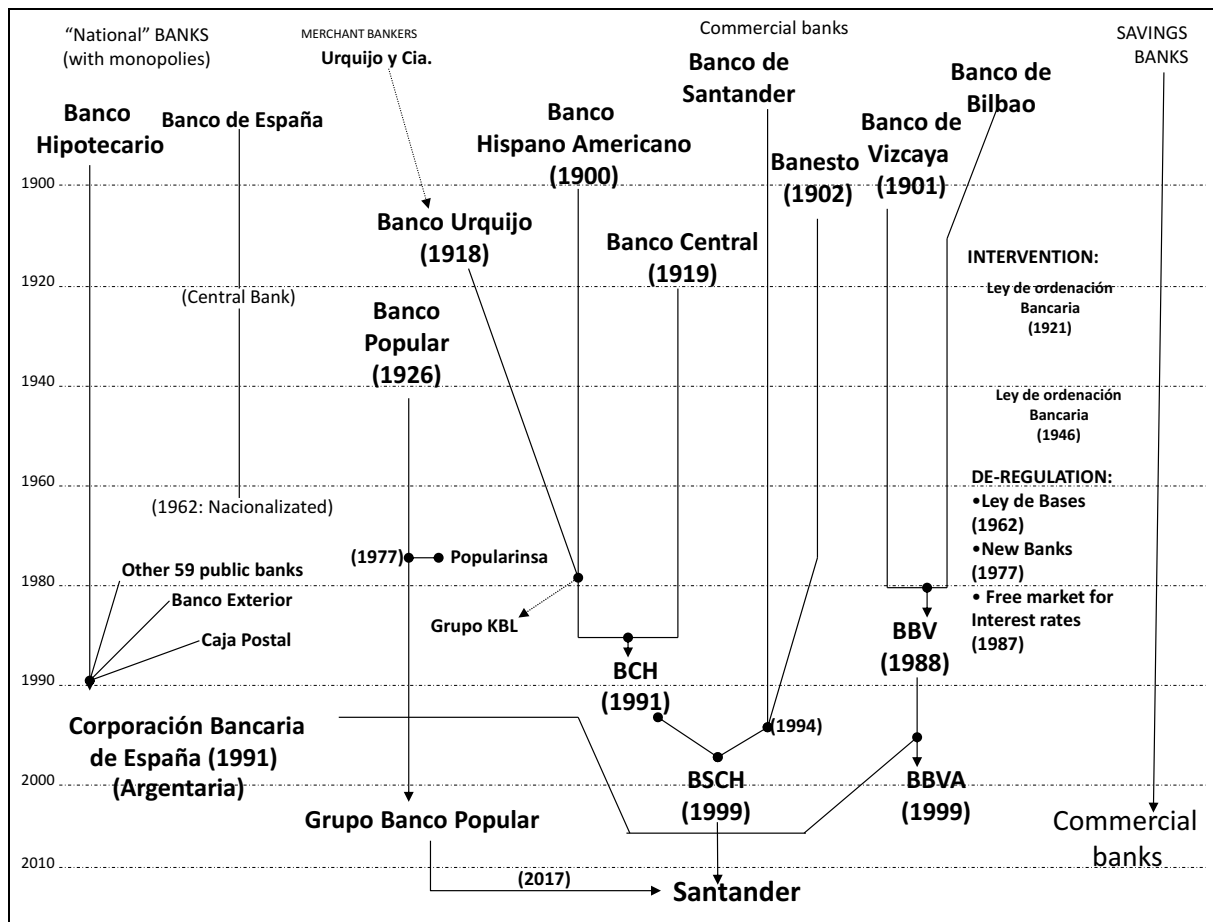
	1962	1985
Banco de Bilbao	8.0	8.0
Banco Central	10.7	9.9
Banesto	18.7	8.1
Hispanoamericano	14.4	7.1
Popular	4.9	3.6
Santander	5.7	6.4
Vizcaya	8.3	5.1

Source: Martín Aceña (2007), p. 182

<sup>6</sup> A summary of the structure of the banks incorporated into BBVA in Arroyo & Cruzado (2012).



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



Source: Own

At the same time as all these corporate operations (and, as we shall see, strongly influenced 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, following a strategic plan the bank called "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 of partial investment in emblematic financial entities, with the intention of increasing its shares gradually in order to gain control of them (Uriarte, 2000)<sup>7</sup>.

In Colombia, BBV bought an initial 40% of the *Banco Ganadero's* shares in 1995. In 1996, it became *BBV-Banco Ganadero* and BBVA consolidated its ownership when it acquired another 15% of the shares in 1998. In Peru, however, they decided to ally themselves with

<sup>7</sup> Uriarte, the then CEO of BBVA, insisted that he had chosen countries "that enjoyed greater political stability and that had few, sufficiently developed organized markets, [and that] from that moment on, his aim was to strengthen the position in these markets". Uriarte (2000), p. 62.

the local *Grupo Brescia* to finance equally the company *Holding Continental, S.A.*, Their intention was to acquire Peruvian state banks, through the privatization process opened up by the government in 1992. In 1995, the *Holding* acquired 60% of the capital of *Banco Continental* through auction. Before the year ended, the BBV Group raised its shares to 75.14% of the share capital of *Banco Continental* through *Holding Continental, SA.*. This allowed them to take full control the bank and set up *BBV Banco Continental* in 1998 (Arroyo *et al*, 2012).

BBV decided to make its biggest investment in Argentina in 1996 when it decided to take control of the important *Banco Francés del Río de la Plata*, founded in 1886. The strategy chosen this time was an indirect one, by acquiring the firm OTRA, the major shareholder of *Sud America Inversiones*, and owner of 30% of the capital of the bank. Soon after that, the *Banco Francés* began to grow, which was to BBV's advantage, when it finalized its merger with *Banco de Crédito Argentino* in 1997, and with the insurer *Grupo Consolidar Argentina* in 1999.

The expansion of *Banco Bilbao Vizcaya* (1997-1998) concluded in Venezuela, Chile and Brazil. In 1997, it entered Venezuela and acquired 40% of *Banco Provincial*, This made it the main shareholder of the main bank of the country, and in a good position to expand its quota when the time came. In September 1998 it acquired 44 % of capital of the Chilean *Banco Hipotecario de Fomento Nacional* (BHIF). In Brazil, however, its game was more subdued; in August 1998 the BBV took control of a smaller bank: *Banco Excel Económico* (Arroyo *et al*, 2012). By the end of 1998, BBVA had 19.8 % of its assets in Latin America.

Meanwhile, Santander resumed its adventure in Latin America with equal or greater force than its rival. In 1995 it acquired *Banco Interandino* and *Banco Mercantil* in Peru; these 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*, until it had 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, it purchased the *Banco Mexicano*, which changed its name to *Banco Santander Mexicano*. In Colombia it bought 55% of *Banco Comercial Antioqueño's* shares, and renamed it *Banco Santander Colombia*. It also bought the main finance company of consumer credit in the country: *Invercrédito*. In Argentina, Santander bought 35% of *Banco Río de la Plata*, the fifth largest bank in the country, which 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 Río*. Finally, also in 1997, Santander bought the Brazilian *Banco Geral do Comércio* from the Camargo

Correa group, which allowed it 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, with more than the total assets of all the Spanish banks, with 24% (Martín Aceña, 2009).

Finally, the BCH made the lowest investment of all, but nevertheless a significant one. Its strategy was also different, since it was based on a holding investor, *O'Higgins Central Hispano* (OHCH), in agreement with the Chilean *Luksic* group, which sought to take control of shareholdings more than management (Sierra, 2007). On this basis, in 1995 the holding was made with the control of *Banco de Santiago* and in 1996 it took control of *Banco del Sur*, also in Chile. In 1996, OHCH acquired *Banco Asunción*, in Paraguay, *CH Banco* in Uruguay and Argentina's *Banco Tornquist*. The same strategy was applied in 1997 with the *Bitel* (Mexico) and 1998 in the *Banco de Santa Cruz* (Bolivia) and *Banco de Galicia* (Argentina) (Martín Aceña, 2009).

So, by 1998, the three major Spanish banks had positioned themselves as the most active in the South American continent, challenging the American banks, although not without risks. In mid-1998, the markets punished BBV and Santander for their excessive exposure to Latin America with an unprecedented linear decrease (Calderón & Casilda, 2000) in the stock market. However, the financial entities did not stop their investments, even though their merger processes had ceased in Spain.

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

The process of banking concentration in Spain reached its peak in 1999, surprisingly the same year of 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 one. Santander had never in previous decades been higher than fifth 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 the upper hand. 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 BCH ones, maintaining a system of co-chairs between Emilio Botin-Sanz de Sautuola and Jose Maria Amusátegui until 2002, when the latter retired. Angel Corcóstequi, from BCH, was the vice chairman and CEO. This formal balance was dismantled with the early retirement of both executives from BCH, in 2001 and 2002, with stratospheric compensations

(43 million euro for Amusátegui and 108 million for Corcóstegui)<sup>8</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. Besides in some way the group also avoided the confusion generated by the initials with the British giant HSBC.

In the struggle to regain the leadership of the Spanish banking map, the BBV group accelerated its drive to regain its dominance and merged, in late 1999, with the public conglomerate *Argentaria*, which had just completed its privatization process. In principle, the union was presented 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 comprising all the BBV and *Argentaria* board members. However, the process of taking control differed from that of Santander, as the oldest directors were finally excluded. In early 2002, the bank announced a possible transfer of the presidency to Gonzalez; however, another case of corruption brought before the courts, this time due to some improper pension benefits of members of the former board of directors of BBV, made Ybarra step down earlier and with him many of the members of the board from the Basque group; so from December 2001 Francisco Gonzalez became sole president of BBVA and José Ignacio Goirigolzarri, the new CEO.

Both groups had played high. However, at the time of the merger, the two companies were at a stalemate, with a slight advantage for 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 no less than 90% of the market share in the Spanish retail banking, with the only counterpoint of the Spanish Savings Banks<sup>9</sup>. Meanwhile, Santander (as such since 2007) and BBVA had put Spain on the international banking map as never before.

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<sup>8</sup> The Spanish Supreme Court studied the possible illegality of these payments, but finally the case was dismissed.

<sup>9</sup> These years savings banks started a growth process that led to control of 60% of the banking quota in Spain. However, from 2008 to 2012 the saving banks all but disappeared, transformed into commercial banks.

Table 1: BBVA and Santander big figures at the end of the merger process (euro)

<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	Offices	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 portfolio 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 mergers 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 largest banking networks in the continent, with unlimited growth prospects in sparsely banked economies<sup>10</sup>, where Spanish banks reached 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 this must be added a notable 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 for BBVA (managing 19,800 million USD) compared to the 4.1 million of BSCH (with 6,019 million USD) (Calderon *et al*, 2009).

<sup>10</sup> According to Sierra (2007), at the beginning of the 90's only 40% of the adult population in Latin America held a bank account. In Spain the figure stood at 99%.

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 USD	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 (Probusa)	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 *et al*, 2000

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 USD	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 *et al*, 2000.

## 2.4. Consolidating the networks

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

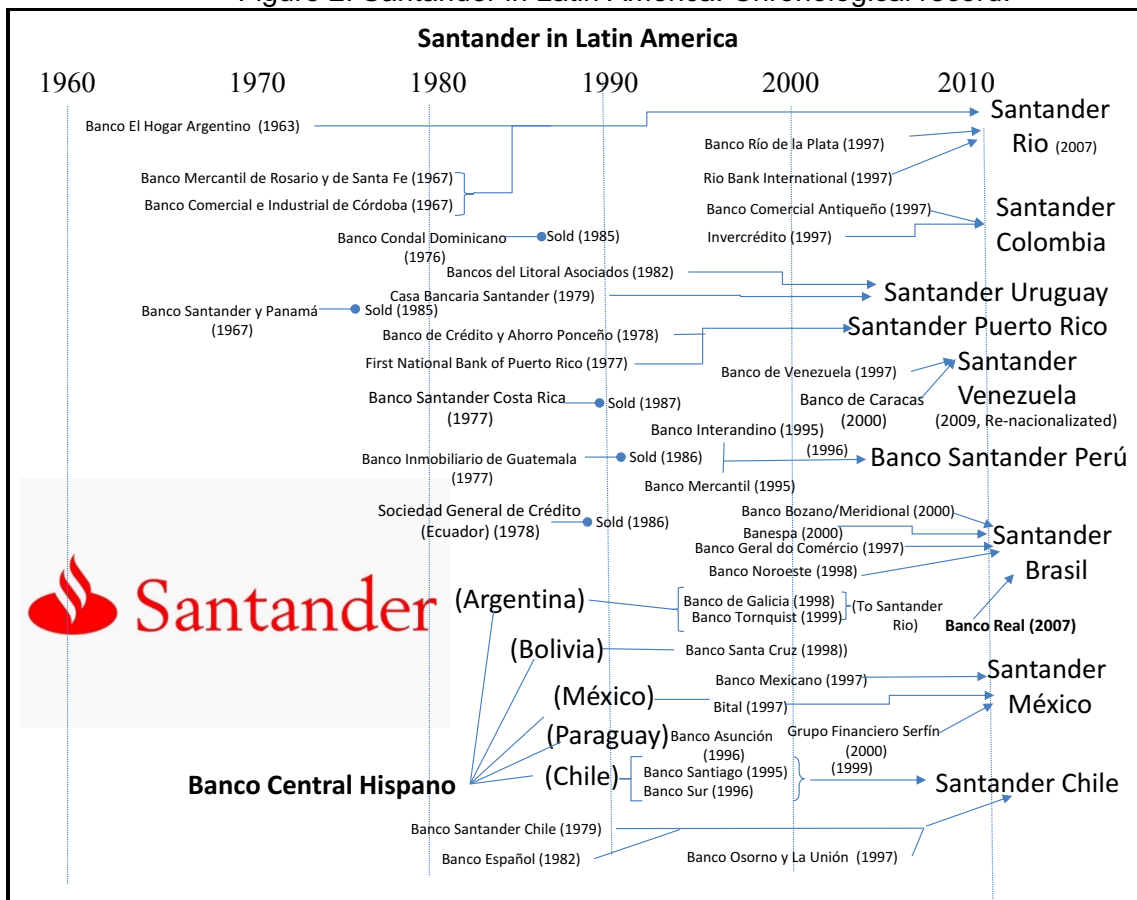
The bet of Santander for Brazil concluded in 2000 with the purchase of *Banco Bozano Simonsen*, *Banco Meridional* and, especially, *Banco do Estado de Sao Paulo (Banespa)*, a particularly active and efficient bank, which cost the bank 5,018 million euro. At that time, Santander became the third bank in Brazil, with 7.1% of total bank assets and 5.6% of the country's deposits (BSCH Annual Report 2000). 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 the Royal Bank of Scotland, Santander and Fortis, so 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 (Santander Annual Report 2007).

At the same time, Santander strengthened its positions in other countries with its significant presence. The bank increased its participation in certain banks and acquired other new ones. In Argentina the shareholding control of *Banco Rio* was extended to 80%, which merged with *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% (Martín, 2009; BSCH Annual Report, 2000).

Any significant disinvestment can only 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 euro (Santander Annual Report 2008). 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 Santander was compensated with 755 million euro (1.1

billion dollars)<sup>11</sup>. It is striking that BBVA has maintained its investment there, with no problems in a certainly identically unfavourable socio-political context.

Figure 2: Santander in Latin America. Chronological record.



Source: Own elaboration.

BBVA's great leap was in Mexico, where the group has a strong commitment to achieving 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's* significant participation in the *Probursa* group, which had grown from just 1% in 1991 to 20% in 1993 and 75% in 1995. Added to this was the purchase in 1996 of *Banco de Oriente* and *Banca Cremi* to create BBVA-Probursa. This subsidiary grew significantly in its four years of existence, with an aggressive retail trade policy. However, the fundamental value for BBVA of this investment was to enable it to be conveniently positioned in the market to gain control of the twice-nationalized *Bancomer*, formerly *Banco de Comercio*, and the bank with by far the largest and best network across the country (Del Ángel, Gustavo (2012); González *et al*, 2007)

<sup>11</sup> Santander had invested 430 million in Venezuela in 1997 and 2000, so the bank had a gain of 325 million euro, although Santander had claimed 110 million more from 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.



In July 2000 the BBVA board made a friendly offer to *Bancomer* shareholders 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 the control of *Bancomer* since 1998. Consequently, the sum of *Bancomer*, *BBV-Probursa* and *Banca Promex* supposed 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, 36,349 employees, a network of 2,276 offices and 4,057 ATMs (BBVA Bancomer Annual Report, 2000; González *et al* 2007)<sup>12</sup>.

Investments in other countries were more one-off affairs. In 2005 *Granahorrar*, a Colombian mortgage lender, was bought at auction for 364 million euro (BBVA Annual Report 2005). 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 (Arroyo *et al*, 2012).

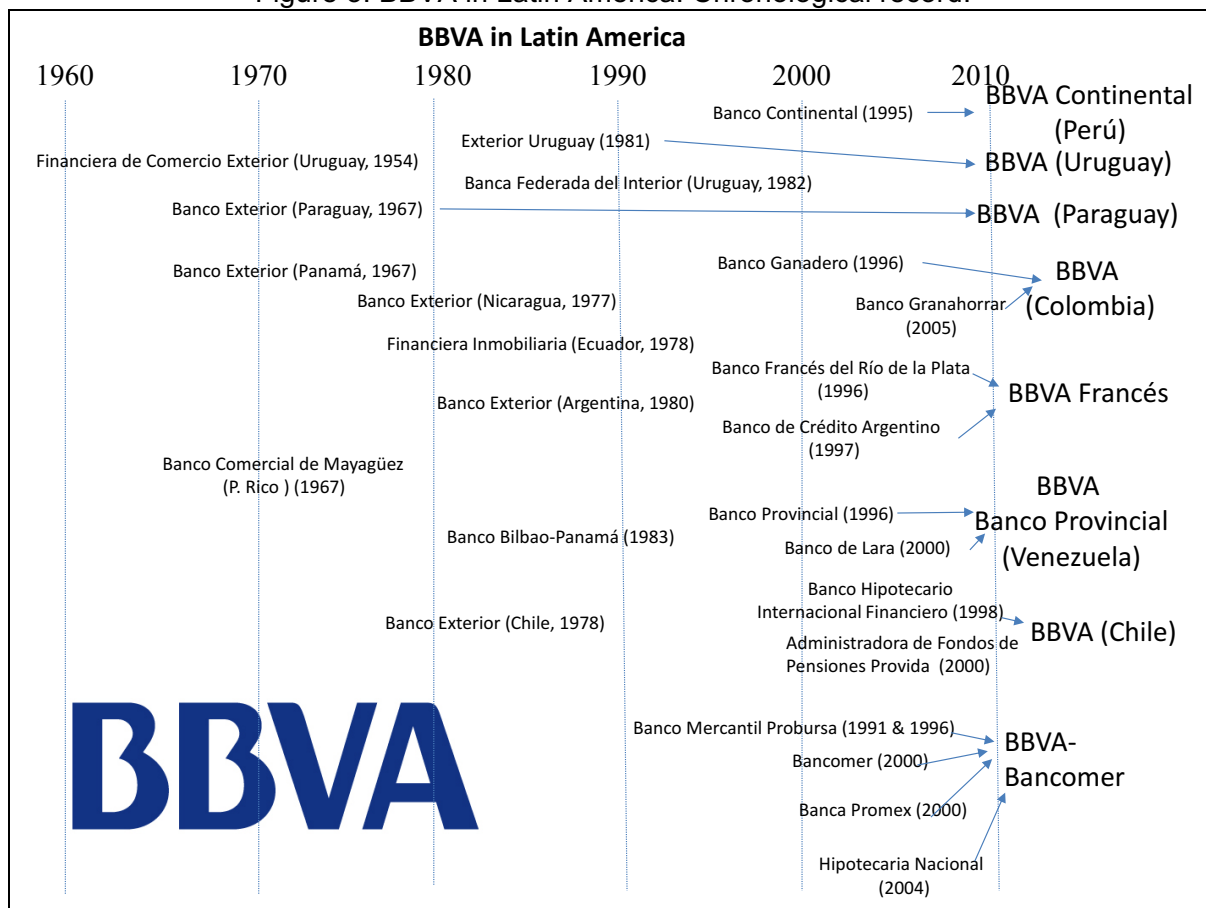
The other side of the investment process was the abandonment of investments in territories where its presence was practically testimonial, as was the case of Puerto Rico and Panama, whose assets were sold in 2012 and 2013. In the first sale, for 500 million dollars (about 385 million euro) to the financial group *Oriental Financial Group Inc.*, BBVA recognized losses of 15 million euro (BBVA Annual Report 2012), while its Panama assets were sold to *Leasing Bogota SA* for 645 million dollars, which meant gains of 230 million euro (BBVA Annual Report 2013). More significantly, if possible, was its withdrawal in 2012 from the pension fund businesses in Mexico, Colombia, Chile and Peru, which were sold for 4,000 million euros, with capital gains of 1,765 million<sup>13</sup>. Finally, the bank went through 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 (BBVA Annual Report 2002).

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<sup>12</sup> BBVA took full control of Bancomer In 2004.

<sup>13</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.

Figure 3: BBVA in Latin America. Chronological record.



Source: Own elaboration.

In short, the growth of Santander and BBVA has been marked by two major stages, with the second, which starts from 1994-96, standing out and which can be said to end with the onset of the global crisis of 2007. Since then, only divestments have taken place, as we shall see. This has not influenced the amount of the assets of the two groups in a region that has not ceased to grow..

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 ones which were nationalized some years ago. Also in both cases, the Spanish network has ended up imposing its internal structures and corporate image on all acquisitions since, although, in some cases the reference to absorbed historical banks remains, the brand initials have been imposed in all markets, so unifying corporate image in logos, offices, brand image, advertising and social networking.

The result is a well established position in the continent which surpasses the traditional predominance of US banks in the area since 1999<sup>14</sup>. Since then, the sum of the subsidiaries of Santander grants occupies, without question, the first place among Latin American banks, with a significant presence in Chile, Argentina, Mexico and Brazil. BBVA lies second, leading the Mexican market, with a strong presence in Peru, Venezuela, Uruguay and Argentina. Both groups have improved their ranking in most countries in the period, as shown in the following table.

Table 4: Santander (S) and BBVA (B) in Latin America Banking Ranking, 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: ¿	B: 2nd
Venezuela	S: 3rd	B: 1st	S: 3rd	B: 4th	S: -	B: 3rd
Colombia	S: 6th	B: 6th	S: 12th	B: 3rd	S: ¿	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: ¿	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, a detailed analysis of the direct influence of the investment process in their respective economies and, in particular, in its financial system is pending. But, in general, although the banking structure already existed on a smaller scale, it appears that the establishment of BBVA and Santander networks 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. Comparative analysis of the process of banking investment in Latin America for Santander and BBVA

After two decades of continued and major developments of the Spanish banking investment in Latin America, it is possible to analyse the phenomenon in perspective from a quantitative point of view. This analysis will help us to reach some notable conclusions. We analyse the

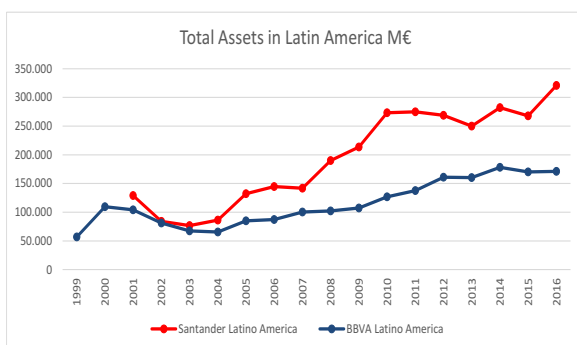
<sup>14</sup> According to the 1998 CEPAL report on foreign direct investment in Latin America and Caribe in 1997 the first foreign bank in Latin American, by assets, was Citibank, with 23,483 million dollars (established in Brazil, Argentina, Chile, Colombia, Peru and Venezuela), followed by Santander, with 19.913 million. Banco Bilbao Vizcaya was the 5<sup>th</sup> in the list, with 16,920 million and BCH was 11<sup>th</sup>, with 5.569 million.

evolution of the main variables (assets, loans, deposits, number of offices and employees, net interest income, net attributable profit, Roe and efficiency) in BBVA and Santander from a comparative perspective, focusing on Latin America.

Overall, it is important to note that although both banks started from a totally equally position, when the big mergers started in 1999, the general evolution in both groups has differed hugely. After 17 years, a basic assessment of the main figures confirms that Santander Group has almost doubled the BBVA Group, thanks not only to its growth in Latin America, but also to its aggressive policy of purchasing assets in Europe, especially the absorption of Abbey in 2004. Santander should be considered in the global context as a systemic bank and one of the most dynamic in the world; the first in market capitalization in the euro zone. Its total assets have rocketed from 256,000 in 1999 to € 1,339,000 M in 2016. On the other hand, BBVA has multiplied its size 3.2 times from 238,000 in 1999 to € 731,000 M in 2016, with a very significant increase in 2014 and 2015; this process places BBVA well above other historical financial entities in the old continent or others that have disappeared during the latest crisis.

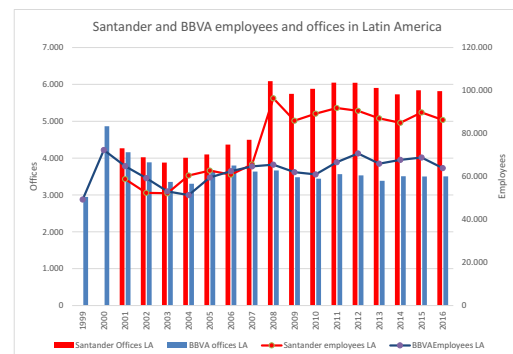
Although the growth of Santander has also been consistently higher in Latin America, as we can see in Graph 1, the sub-continent has weighed more in the balance-sheet of BBVA than in the case of Santander (Graphs 5 and 6), especially since *Bancomer* joined the group, and despite their significant divestments 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.

Graph 1



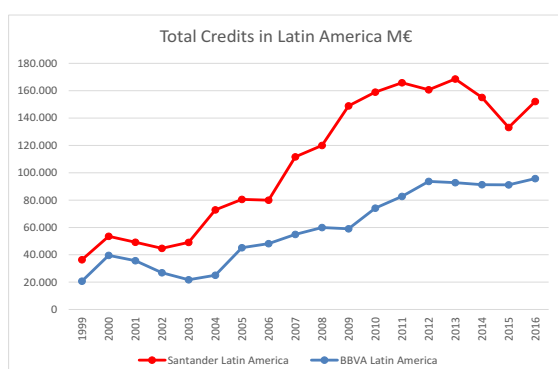
Source: BBVA and Santander Annual Reports

Graph 2



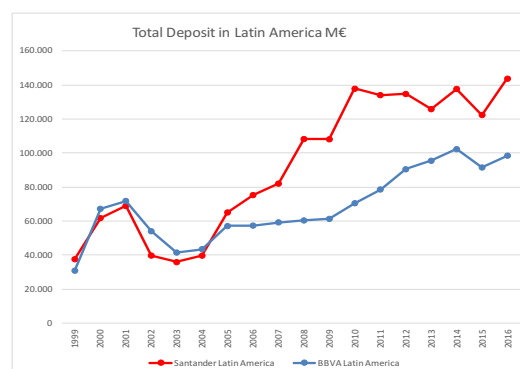
Source: BBVA and Santander Annual Reports

Graph 3



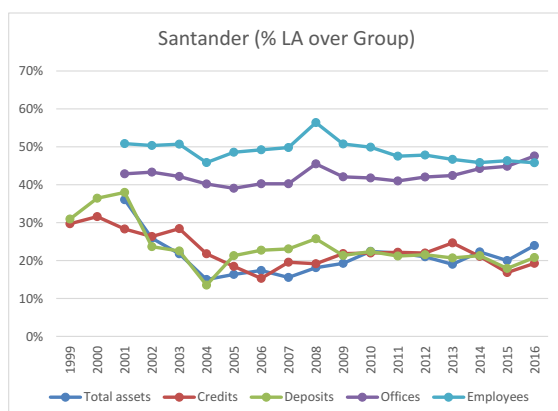
Source: BBVA and Santander Annual Reports

Graph 4



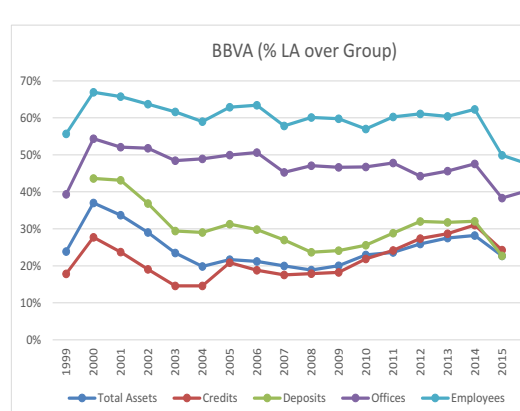
Source: BBVA and Santander Annual Reports

Graph 5



Source: BBVA and Santander Annual Reports

Graph 6



Source: BBVA and Santander Annual Reports

Figures for offices and number of employees hardly differ from the growth of assets, although growths are logically lower. However, it should be noted that the number of employees in the group in Latin America accounts for more than 60% of staff in BBVA and half of the staff in Santander (see Graphs 2, 5 and 6). This position can only be explained partly by the geographical dispersion and the low productivity of the staff in relation to the rest of the group, which must be balanced with a lower remuneration policy.

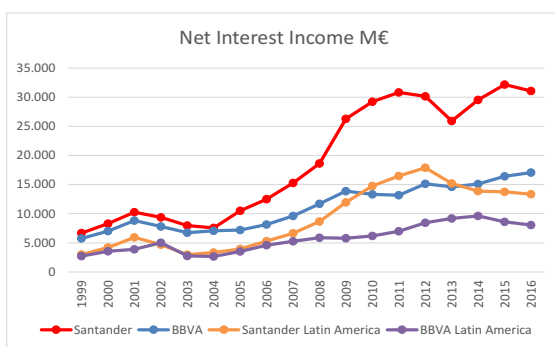
The interpretation of the structures of the banking assets and liabilities is similar, but with nuances (see Graphs 3 to 6). It highlights how the loan investment has grown in greater volume in Santander than in BBVA, expanding its loans well beyond its deposits. This policy implies a higher and growing level of risk by Santander group in Latin America, triggering an NPL<sup>15</sup> ratio nearly double that of its rival, as shown in Graph 13.

<sup>15</sup> Unpaid loans.

Considering these structures as a consequence of the process of investment in Latin America by BBVA and Santander, the analysis of their results show how important Latin America has been for both groups, as well as some notable differences.

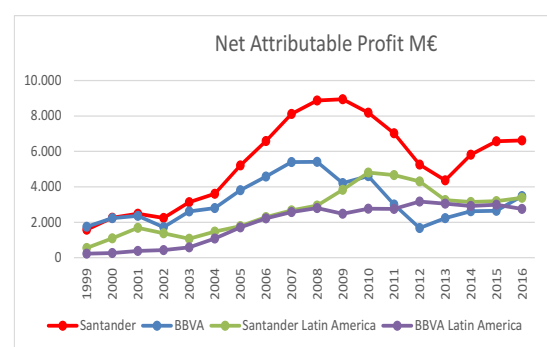
With regard to results measured in absolute values, if we compare the net interest income (see Graph 7), Santander continues to be the leader. In fact, the net interest income of Santander in Latin America is higher than this figure in the BBVA Group for four years (2010-2013). However, the graph also highlights the decrease of the net interest income of Santander in the area since 2012, compared to a moderate growth of BBVA.

Graph 7



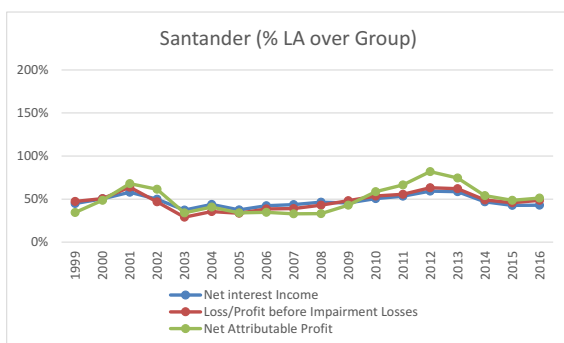
Source: BBVA and Santander Annual Reports

Graph 8



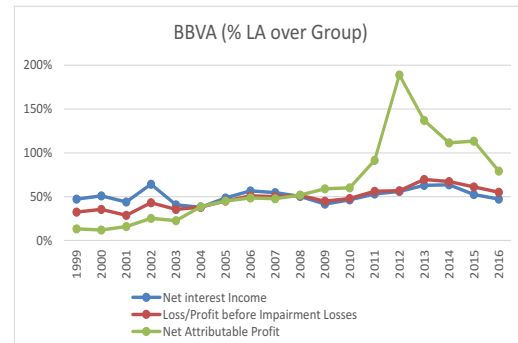
Source: BBVA and Santander Annual Reports

Graph 9



Source: Santander Annual Reports

Graph 10

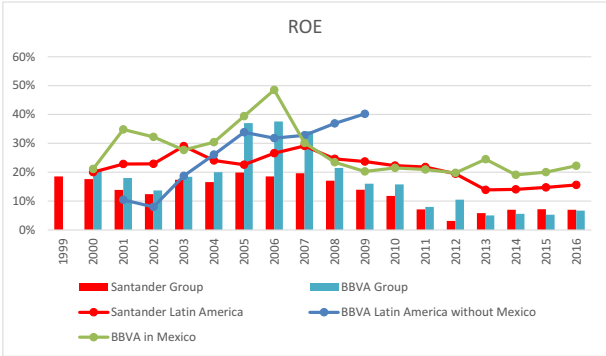


Source: BBVA Annual Reports

On the other hand, the Net Profit Attributable (Graph 8) in both groups shows how the American continent has had a less negative response to the crisis. Therefore, this investment has had a very positive effect on the groups' results, which were hit hard by the real estate bubble in Spain. Provisions and accounting adjustments arising from this circumstance, lead to a paradox in graphs 8 and 10, which attributes a profit in Latin America for BBVA that is higher than that for the whole group.

In relation to ROE<sup>16</sup> (return on equity, see Graph 11) it is easy to conclude from the available data that the average profitability is really huge in the sub-continent for both groups, up to three times the average ROEs in their groups, and particularly in the case of Spain, where ROE has significantly been reduced as a consequence of the deep financial crisis in the country. Ultimately, profitability figures are significantly better for BBVA in the available years, from 2003, although they seem to converge for the last years.

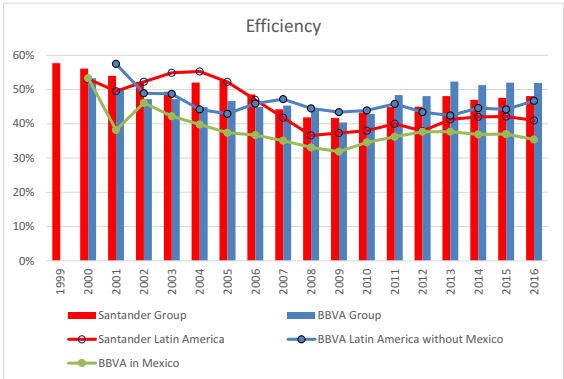
Graph11



Source: BBVA and Santander Annual Reports

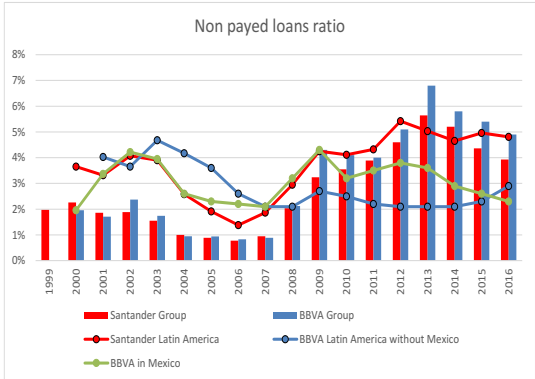
BBVA and Santander in Latin America have also improved their level of efficiency over the period, showing better values than their whole groups. In the case of the non paid loans from clients, Latin America branches also show better figures toward the end of the period studied, when BBVA reached the best performance since the beginning of the crisis in 2008.

Graph 12



Source: BBVA and Santander Annual Reports

Graph 13



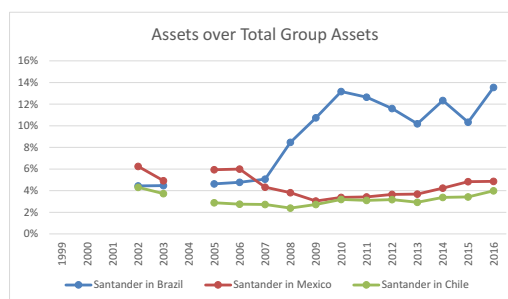
Source: BBVA and Santander Annual Reports

Moreover, if we analyse the networks separately, we see the strong commitment in both groups by specific economies where they have concentrated the majority of their assets.

<sup>16</sup> We still do not have the complete series for BBVA, because of an erratic policy of publication of ROE in its Annual Reports

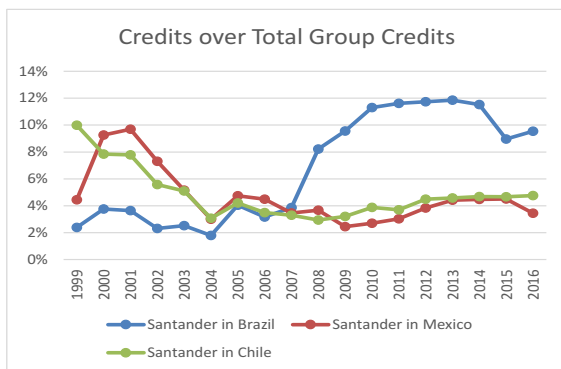
Santander focused its investments in Brazil. This extraordinary growth appears in the balance sheet with the acquisition of *Banco Real* (2007). Thus the assets in this country clearly exceed 10% of the total assets of the Santander Group since 2009 and represent more than a half of the bank's assets in Latin America, although it has transferred a small part of that percentage to Mexico and Chile in the last two years. In the same way, Brazil concentrates most of the credits and deposits (which represent around 12% of the total of the Group), as well as the number of employees and offices (see Graphs 14 to 18). Again, this network repeats the trend to double the percentage of offices and employees (25%-30%) in relation with the average percentage of credits and deposits.

Graph 14



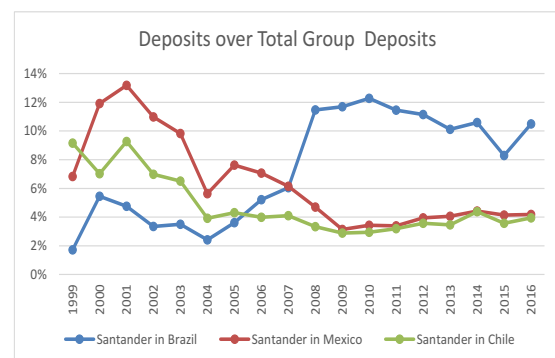
Source: Santander Annual Reports

Graph 15



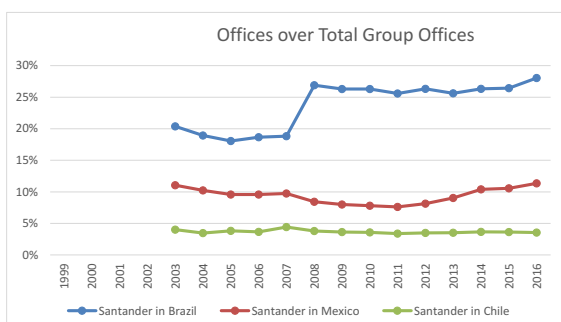
Source: Santander Annual Reports

Graph 16



Source: Santander Annual Reports

Graph 17



Source: Santander Annual Reports

Graph 18

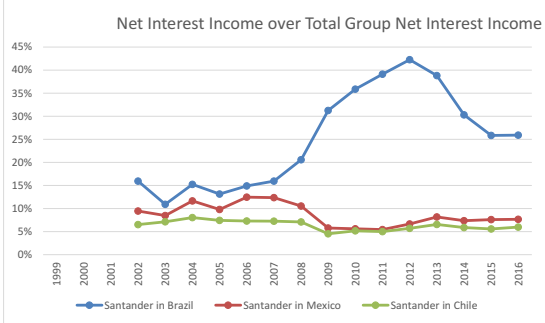


Source: Santander Annual Reports



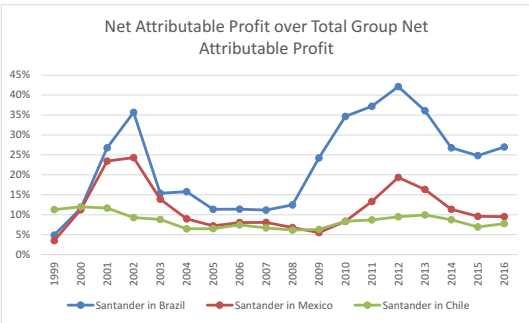
In terms of results (see Graphs 19 and 20) Brazil again stands out with around 40% of both net interest income and net attributable profit of the whole Santander Group between 2011 and 2013. At the beginning of the 2000s we find similar results for net attributable profit in the case of Brazil, and also notable profits in the Mexican case.

Graph 19



Source: Santander Annual Reports

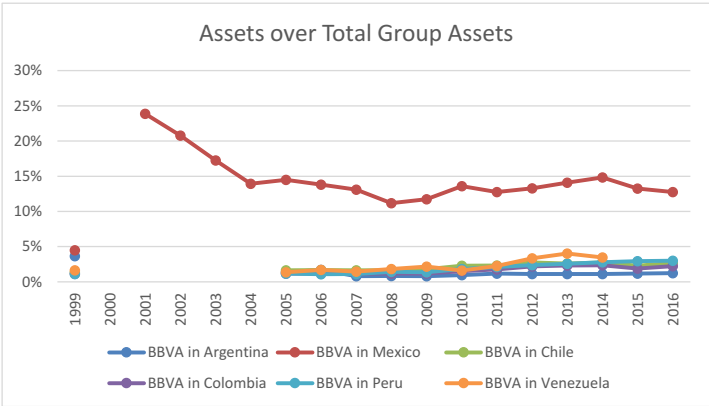
Graph 20



Source: Santander Annual Reports

In the BBVA Group, the weight of *BBVA-Bancomer* in the overall balance is even greater than Brazil in the case of the Santander Group, with over 15% of total assets of the whole group in 2014 (Graph 21). The fact that the bank strengthened its investments in Venezuela, Chile and Peru reduced the overall weight of its investments in Mexico significantly between 2002 and 2005. As the following graphs (Graphs 21-25) show, the evolution of these variables is consistent with the weight of the Mexican subsidiary in the BBVA Group. Graphs 22 to 25 also show how other national networks like Colombia and Argentina start to grow from 2012.

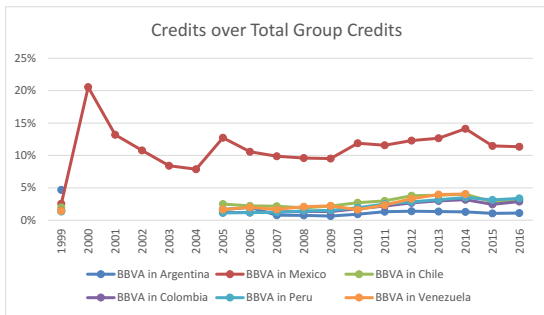
Graph 21



Source: BBVA Annual Reports

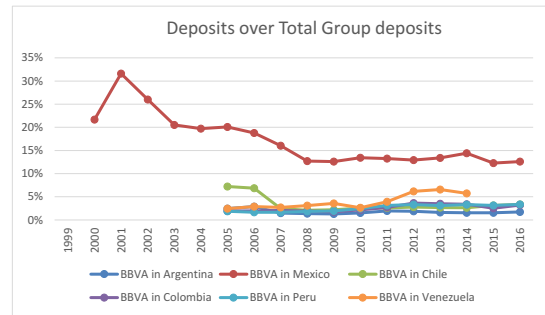


Graph 22



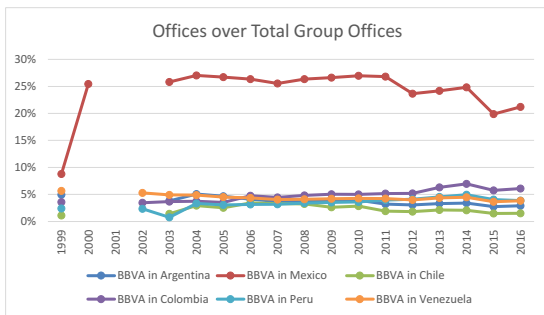
Source: BBVA Annual Reports

Graph 23



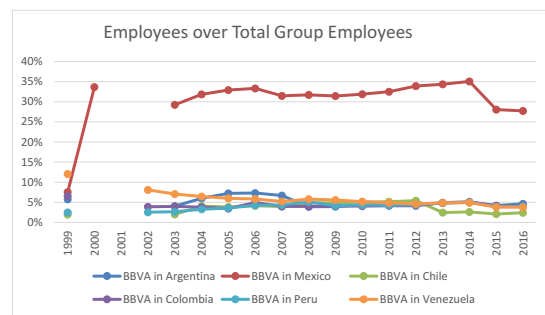
Source: BBVA Annual Reports

Graph 24



Source: BBVA Annual Reports

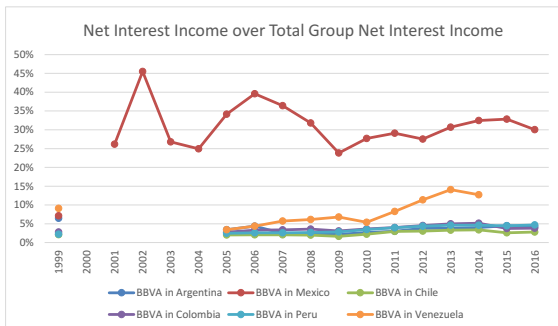
Graph 25



Source: BBVA Annual Reports

The BBVA network in Latin America is more stable than Santander’s in terms of net interest income and net attributable profit during the period. It is confirmed that the net attributable profit is higher in Latin America than in the BBVA group from 2012 to 2015. This is basically due to the behaviour of this variable in Mexico, with values from 108% in 2012 to 80% in 2015 over the total BBVA group.

Graph 26



Source: BBVA Annual Reports

Graph 27



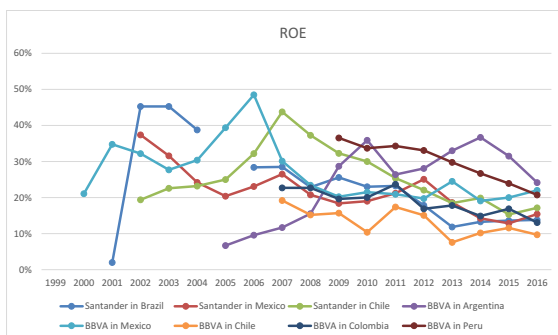
Source: BBVA Annual Reports

Graph 28 shows the evolution of ROE for both groups in the different countries considered. At the beginning of the process Santander in Brazil, which reached 45% in 2002, stands out,

but then starts to go down until 2016, with a value of 14%. Similarly, Santander in Mexico had a ROE higher than 42% in 2002 and then followed the same descending trend to 15% in 2016. On the other hand, BBVA in Mexico reached its best values for ROE in 2006 (48.5%), and thereafter started to decrease to values of around 22% in 2016. In the case of BBVA in Peru, ROE was 36.54% in 2009, and then fell to around 21% in 2016. The lowest values for ROE in BBVA Latin America are found in Chile and Colombia, with maxima of 17% and 23% in 2011, respectively, and minima of 9% and 13% in 2016.

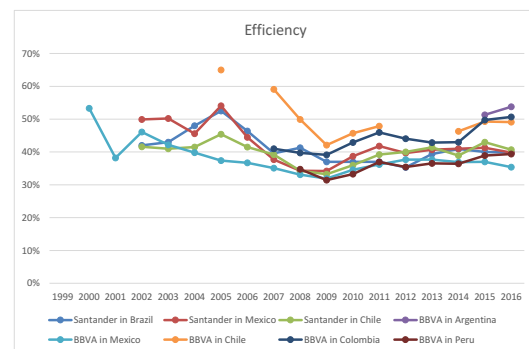
In terms of efficiency, Graph 29 shows how Santander reached its best figures in 2009 in Mexico (34.2%) and in Chile (33.2%). Afterwards, these began to grow, and even exceeded 40%. In the case of BBVA, the highest levels of efficiency are in Mexico, which in general is the most efficient subsidiary, and again reached the best value in 2009 (31,9%), and Peru (31,45% in 2009). From this year on, these values deteriorate. In Chile and Colombia, figures have always been higher than 40%.

Graph 28



Source: BBVA and Santander Annual Reports

Graph 29



Source: BBVA and Santander Annual Reports

#### 4. Preliminary conclusions

Banco Bilbao Vizcaya Argentaria and Banco Santander have carried out a major investment process in Latin America which has allowed them to consolidate very powerful networks. These have given them leadership in the banking sector in the major economies of Latin America. The 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 1980s and 1990s and in a context of a highly saturated market.

In Latin America both groups found barely “bankarized” markets with high potential growth. There, they carried out a process of entry and growth through purchases, which continued 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, although BBVA’s progress can also be considered outstanding.

Latin America has represented a great opportunity for both groups to develop a large scale process of foreign investment at a moment when the Spanish banking market was showing symptoms of saturation.

Overall, the investment has been very profitable and efficient in both cases, slightly higher in relative terms for BBVA over the whole period, but higher in absolute values for Santander. The Santander strategy has tended to take greater risks in the search for higher market shares, which has led to slightly higher NPL ratios.

## **Data**

Santander data are drawn from the Santander Annual Reports from 2000 to 2016 as well as from the book *1857-2007 Banco Santander 150 Años de Historia*.

In the case of BBVA our data are drawn from the BBVA Annual Reports from 2002 to 2016, Consolidated Annual Accounts and Management Reports, and the book *BBVA 150 Años, Ciento Cincuenta Bancos*. In addition, some data for the case of Latin America BBVA banks are collected from the Annual Reports: BBVA Bancomer Informe Anual 2015 and 2016 (Mexico), BBVA Francés Informe Anual 2015 and 2016 (Argentina), BBVA Chile Memoria Anual 2015 and 2016 (Chile), BBVA Continental Memoria Anual 2015 and 2016 (Peru) and BBVA Informe Anual Colombia 2015 and 2016 (Colombia). When necessary, figures denominated in foreign currencies have been converted to euro at the end-of-year exchange rate. Data from Bancomer for ROE from 2004 to 2014 were provided by Gustavo del Angel.

For both banks, figures are expressed according to the Bank of Spain Circular 4/1991 until 2003. From 2004, figures are expressed according to Bank of Spain Circular 4/2004, amended by Bank of Spain Circular 6/2008, elaborated in accordance with International Financial Report Standards (IFRS). Data are expressed according to this from 2006. Data from Latin America Annual Reports are also prepared according to IFRS.

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