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### Featured Q&A *With our Board of Advisors*

**Q** The CEO of Bradesco, Brazil's biggest private bank, raised concerns in October that the government is allowing state-run Banco do Brasil to take over smaller government-owned banks without submitting them first to public auctions. Does Bradesco's concern have merit? What do you expect Bradesco and other private banks will be able to do about it? Will Lula's administration give in to pressure from the private sector?

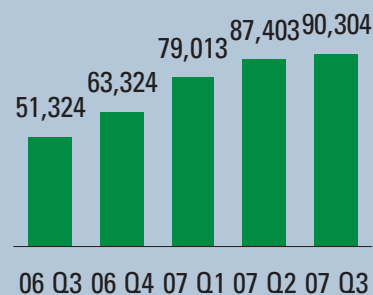
**A** Board Comment: **Jeanne Del Casino:** "The planned takeover by Banco do Brasil (BB) of several government-owned banks is a departure from the public auction process the Brazilian government has utilized in the past to sell state banks and, as such, it prevents a truly competitive sale process. More critical is the competitive advantage that is being granted to Banco do Brasil to incorporate such banks, as BB will now be able to achieve dominance in several markets, particularly with respect to the attractive payroll business of civil servants. As BB's growth has been organic to date, the recent actions may now be seen as strategic to ensure the bank's leadership in the market. Although such moves only add a modest share to BB's already large national market position, they further increase the concentration of the banking business in government hands. We view this trend as negative to the Brazilian banking system because the government may not necessar-

ily be the best catalyst for competition. From that perspective, the private banks should indeed be concerned about the administration's goals with regard to BB. Moreover, we are concerned that corporate governance may be put aside in the execution of the takeovers as well as in their resulting operations, which becomes an important risk consideration. We believe that the Lula administration would consider, but may not give in to, pressure from the private sector, as its social agenda could be furthered by reinforcing the presence of government-owned entities in the Brazilian banking sector."

*Continued on page 6*

### FEATURED CHART

**Credicorp Net Profit**  
(in \$US thousands)



Credicorp Ltd., Peru's largest financial holding company, on October 29 posted a \$90.3 million third-quarter profit, up 76 percent from the same period last year. See story on page 3.

*Data: Credicorp*

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## NEWS BRIEFS

**Jan-Sept Profits in Chilean Banking Sector Fell 1.7 Percent**

Chile's banking sector recorded a 1.7 percent decline in profits for the first nine months of the year compared with the same period last year, the Banking and Financial Institutions Superintendency said October 22, according to Reuters. The superintendency said total loans in the banking system rose 14.3 percent in the 12-month period ended in September.

**Brazil's Bovespa Holding Raises \$3.7 Billion in IPO**

**Bovespa Holding**, the company that owns Brazil's largest stock exchange, raised 6.63 billion reais (\$US 3.7 billion) in its initial public offering on October 24, making it the country's largest equity sale in at least three years, Bloomberg News reported. In the last three years, at least nine stock exchanges around the world have gone public, including the **New York Stock Exchange**, bringing the total number of bourses under public ownership to 23.

**Peruvian Regulator Okays Santander, Deutsche Bank Ops**

Peru's banking regulator on October 24 gave Spain's **Santander** permission to start operations in the country and gave Germany's **Deutsche Bank** preliminary approval to expand, Reuters reported. The regulator said new banks will give borrowers and people who do not have checking accounts more choices at a time of growing credit and economic growth of about 8 percent a year. If Deutsche Bank gains final approval to open up in Peru, the country would have 15 different banking groups, according to Reuters.

**Financial Services News****Banorte Looking to Buy Another Bank in Texas**

**Banorte**, Mexico's fifth-largest bank, confirmed October 29 that it is eyeing another bank acquisition in the United States, Reuters reported. "We are trying to buy another bank in Texas," Banorte President Roberto Gonzalez was quoted as telling reporters at a business summit. Last November, Banorte completed a \$259 million acquisition of Texas-based **Inter National Bank (INB)**. Through INB, Banorte now offers mortgages to American retirees looking to buy homes in developing resort communities in Mexico

Independencia will be the third company to go public this year in Mexico and only the second microlender to list shares. Earlier this year, Mexico's **Banco Compartamos** became the first microlender in the world to go public. Its shares are up 38 percent since its successful \$407 million IPO in April. Independencia plans to use the estimated sale proceeds of 1 billion pesos to fund more lending and expand its branch network, among other goals. The deal is being placed in Mexico by local brokerage firm **GBM Grupo Bursatil Mexico** and internationally by **Credit Suisse**. The stake owned by controlling shareholder Jose Luis Rion, president of

“We are trying to buy another bank in Texas.”

— Roberto Gonzalez

as well as dollar-denominated loans to Mexican immigrants in the United States hoping to invest in a house back in their home country. With higher lending to consumers and businesses in Mexico, Banorte recorded a 9 percent increase in its third-quarter net profit. The bank said October 25 that its net earnings rose to 1.712 billion pesos (\$US 157 million) from 1.573 billion pesos in the year-earlier period.

**Mexican Microlender Independencia Plans Initial Public Offering**

Mexico is about to see a second microlender go public this year, Dow Jones News reported on November 1. **Financiera Independencia SAB**, a multiple-purpose finance company with about 695,000 clients, plans to raise up to 3.26 billion pesos (\$US 305.6 million) through an initial public offering on the local stock exchange the week of November 5-9. Independencia plans to list up to 20 percent of the company, or 136 million shares plus an over-allotment of 17.7 million shares, in primary and secondary offerings in Mexico and abroad. The company values the shares at 24 pesos each, putting the company's value at 16.32 billion pesos.

the board, will drop to 54.9 percent from 68.8 percent if the over-allotment option goes forward, and the stake owned by **HSBC**, which last year acquired a 19.99 percent stake for an undisclosed amount, will drop to 18.68 percent.

**BANK FACTS****Financiera Independencia SAB**

- \* Number of Offices: 124
- \* Number of Clients: 695,000
- \* Net Loans: 2.52 billion pesos

Source: Dow Jones News

**Volkswagen to Launch Bank in Mexico**

German automaker **Volkswagen** announced October 24 it plans to launch its own bank in Mexico to increase financing for car purchases and boost sales. **Volkswagen Bank Mexico**, which is still awaiting final approval from Mexico's National Banking and Securities Commission, plans to launch in the next few months and expects to have 94,000 clients by the end of next year, the Associated Press reported. The bank will start with initial capital of \$38 million and

work out of Volkswagen dealerships, offering deposit accounts, and financing and investment portfolios without charging commissions, according to the AP. Initially, all transactions will be performed by phone, after which customers will be able to use the Internet for banking operations. **Volkswagen Bank**, a unit of **Volkswagen Financial Services**, has existing operations in 27 countries, mainly in Europe. Burkhard Breiing, head of Volkswagen's worldwide financial services area, said the new banking arm would help boost sales in Mexico, Reuters reported. Volkswagen has lost market share to cheap models from rival automakers **General Motors** and **Nissan Motor**.

### Former Baninter Execs Convicted for Role in Bank's 2003 Collapse

Three former executives of the Dominican bank **Baninter**, including the bank's former president, were convicted on October 21 for their roles in the May 2003 collapse of the bank, the Associated Press reported. Ex-Baninter President Ramon Baez Figueroa was found guilty of concealing information from the government as part of a massive scheme to defraud the bank of some \$2.2 billion, sentenced to 10 years in prison, and fined \$1.9 million. The bank's financial advisor, Luis Alvarez Renta, was convicted of money laundering, fined \$18,000 and sentenced to 10 years, while sentencing for former bank vice president Marco Baez Coco, who was convicted of fraud, is scheduled for November 16. Baez Figueroa and Alvarez Renta said they would appeal their sentences. Two other defendants were acquitted on all charges. The scandal helped trigger the Dominican Republic's 2003 financial collapse, which was marked by a plunging peso, 30 percent annual inflation, and increased poverty. The International Monetary Fund helped bail out the Caribbean nation with a \$600 million loan package.

### Banco Panamericano Seeks to Raise up to 1.02 Bn Reais in IPO

Brazil's **Banco Panamericano** could raise as much as 1.02 billion reais (\$US 573 million) in an upcoming initial public offer-

## Special Announcement

### Jeanne Del Casino Joins the Financial Services Advisor Board



The *Financial Services Advisor* is pleased to announce that Jeanne Del Casino, vice president and regional credit officer for Latin American banks at **Moody's Investors Service**, has joined the Board of Advisors.

Del Casino is responsible for ratings on banks in Chile, Peru, Central America, and the Caribbean. As regional credit officer, she also supports the development and implementation of new rating methodologies and analytic initiatives, while also coordinating analysis among the Latin American banking analysts.

Before she joined Moody's, Del Casino was a banker for 16 years in the international banking division of **Chemical Bank** and in the US financial institutions division at **Deutsche Bank**. Del Casino holds an AB degree from Vassar College and a PhD from the University of Pennsylvania.

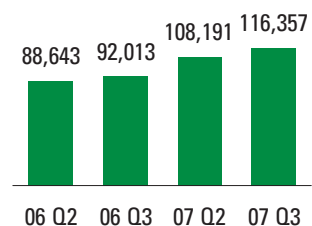
### Peru's Credicorp Reports 76 Percent Increase in Q3 Profit

**Credicorp Ltd.**, Peru's largest financial holding company, on October 29 posted a \$90.3 million third-quarter profit, up 76 percent from the same period last year, the Associated Press reported. Credicorp, whose main holding is **Banco de Credito** (BCP), Peru's largest bank, said net interest income rose by one-third to \$161 million in the third quarter. Credicorp also runs investment and insurance businesses. Banco de Credito said October 26 that its January-September profit jumped to 717.6 million soles (\$US 238 million), a 44 percent increase over the same period a year ago, Reuters reported. For the third quarter, net profit reached 224.3 million soles from 156.4 million soles a year ago. Growing credit portfolios and a construction boom are helping to boost bank profits in the Andean nation. In other BCP news, the bank said that Chief Executive Raimundo Morales will be replaced by Walter Bayly, currently head of planning and finances, in April 2008.

### Brazil's Bradesco Posts 1.85 Billion-Real Third-Quarter Profit

**Bradesco**, Brazil's largest private bank, on November 5 reported a 1.85 billion-real (\$US 1.05 billion) third-quarter profit, up 15 percent from a year ago, Reuters reported. The bank's loan portfolio grew 26.5 percent in the third quarter from a year ago to 116.4 billion reais. Lending to small- and medium-sized companies rose 32.1 percent, while consumer loans grew by 26.9 percent. The bank had 317.64 billion reais in total assets at the end of September.

#### Bradesco Loan Portfolio (in millions of reais)



Data: Bradesco

ing, Bloomberg News reported October 29. The Sao Paulo-based lender, controlled by Brazilian media magnate Silvio

Santos, plans to sell 67.99 million voting shares at about 12.50 reais to 15 reais each, Panamericano said in a statement.

## Remittances News

### Western Union to Start Offering Mobile Money Transfers

**Western Union** announced October 18 that it will start offering money transfer services through mobile phones starting in the second quarter of 2008. The money transfer giant said it has teamed up with the GSM Association (GSMA) to develop a commercial and technical "mobile wallet" platform that mobile operators can deploy so that users can make small-denomination transfers. "Mobile networks now cover more than 80 percent of the world's population and 3 billion people have a mobile phone, creating an unprecedented opportunity to extend the benefits of financial services to the majority of the world's families for the first time," Rob Conway, CEO of the GSMA, said in a [press release](#). Thirty-five of GSMA's 700 operators plan to participate in nearly 100 countries around the world. The program is being led by a steering committee made up of representatives from mobile operators **Bharti, MTN, Orange, Orascom, Smart, Telenor, and VimpelCom**. "Mobile banking/payment/commerce has significant potential for Latin America and other developing regions that don't have as advanced, legacy infrastructure (whether it's financial, telecom, post, etc)," Tuong Nguyen, a senior analyst for mobile devices and consumer services at **Gartner Dataquest**, told the *Financial Services Advisor* in March. "It's especially suitable for regions like Latin America where mobile penetration is significantly higher than wireline (phone banking) and Internet (e-banking)," he explained. Western Union CEO Christina Gold predicted the service would contribute to the company's revenue growth after three to five years.

## Political News

### Alvaro Colom Wins Guatemala's Presidential Election

Alvaro Colom, a center-left businessman and former vice economy secretary who

## In Focus

### *Citibank to Tap Elite Credit Card Market with Aeromexico Purchase*

**Citibank's** recent purchase of struggling Mexican airline **Aeromexico** could help it expand into the lucrative airline credit card market, analyst Guillaume Corpart Muller told the *Financial Services Advisor* on October 24.

In the United States, Citibank has been a long-time partner of **American Airlines**, offering a Citibank AA MasterCard and a debit version of this tool, said Corpart Muller, who is Mexico country director for Miami-based consulting firm **InfoAmericas**.

Citibank's Mexican unit, **Banamex**, "could capitalize off the knowledge and experience built up with [its] American Airlines partnership and gain early traction with Aeromexico, turning it into the Mexican success of the AA card," Corpart Muller said. Aeromexico is currently partnered with **American Express**, which offers an elite Aeromexico-branded card.

"Now that Citibank (Banamex) owns Aeromexico, it will considerably gain from the elite positioning, complementing its own credit card portfolio with a high-value tool," explained Corpart Muller.

He explained that Banamex could reinforce its position within the commercial market by targeting Aeromexico business travelers with commercial cards, small business cards, lodge cards, and airline cards.

"Returning to the consumer products, as Citibank developed a debit version of the AA card, we may eventually see an Aeromexico debit card—something new for the Mexican market (a debit product with a rewards program tied into it)," Corpart Muller predicted.

“Now that Citibank (Banamex) owns Aeromexico, it will considerably gain from the elite positioning.”

— Guillaume Corpart Muller

promises to defeat surging violent crime in Guatemala by increasing social spending and reducing poverty, defeated conservative former army general Otto Perez Molina in the Central American country's presidential election on November 4. Results from 97 percent of the vote showed Colom with a six percentage point lead over Perez Molina, who conceded defeat, the Associated Press reported. The 56 year-old Colom, making his third run for the presidency, said his defeat of Perez Molina was a rejection of Guatemala's "tragic past," in which some 200,000 people died during a bloody 36-year civil war that ended in 1996, according to

Reuters. Many of the dead were Mayan Indian peasants killed in army-led massacres. Perez Molina, who had promised a "strong hand" against growing violence in Guatemala, pledged to be part of a "constructive opposition." Guatemala has one of the world's highest murder rates, and this year's election season was the most violent since the civil war, with more than 50 political candidates or party officials murdered since campaigning began last year. With some 30,000 police and soldiers on alert during voting on Sunday, there were no reports of serious incidents, according to the Associated Press. Colom will take office on January 14.

## Venezuelan National Assembly Approves Constitutional Reforms

Venezuela's National Assembly on November 2 approved reforms to the country's Constitution that would allow, among other things, President Hugo Chavez to seek continuous re-election. In the 167-member pro-Chavez Assembly, 160 lawmakers voted in favor of the 69 proposed constitutional reforms, which now go to a vote in a December 2 popular referendum. The opposition and some dissidents in Chavez's coalition say the reforms are anti-democratic and put the country on the path toward authoritarianism. Besides the proposal to abolish presidential term limits, the reforms would enshrine socialist concepts in the Constitution, reduce the minimum voting age from 18 to 16, and increase the number of signatures required to trigger a presidential recall vote, according to the Associated Press. Faced with possible defeat in the referendum, Chavez said Wednesday he plans to break them up into separate blocks for piecemeal voter approval. Chavez's decision to abandon a plan to hold a single take-it-or-leave-it vote on all of the reforms comes amid growing resistance to some of the proposals, including the decision by the Podemos party, which has backed Chavez since he took office in 1999, to oppose the reforms. On November 5, Chavez's former defense minister called the plan to rewrite the Constitution a "coup," according to Bloomberg News. Raul Isaias Baduel, who stepped down as defense minister in July, called the proposed reforms a threat to democracy and urged voters to reject them in a December 2 referendum. "The constitution should limit and control powers, not the opposite," Baduel was quoted as telling reporters. "They're taking power away from the people without cause. They will be carrying out a coup." Tens of thousands of Chavez supporters marched in Caracas in support of the reforms on Sunday, just days after student-led protesters demonstrated in the Venezuelan capital against the reforms. Chavez called the students "clowns" and accused them of trying to destabilize the country, Bloomberg News reported.

## POLITICAL & ECONOMIC BRIEFS

### Cristina Fernandez to Succeed Her Husband as Argentina's President

In at least a partial endorsement of her husband's policies, Argentines elected First Lady and Senator Cristina Fernandez de Kirchner president on October 28. Fernandez called her victory "a triumph for all Argentines" in a speech to her supporters. She will succeed her husband, Nestor Kirchner, and will have to take on challenges left behind by him, including accelerating inflation, wage increase demands by labor unions, and energy shortages.

### House Committee Approves US-Peru Free Trade Agreement

The US Congress' House Ways and Means Committee on October 31 unanimously approved a free trade agreement with Peru, setting the stage for a full vote on the trade pact in the House the following week. The 39-0 vote came after the Bush administration earlier this year bowed to Democrats' demands and agreed to include labor and environmental protections in the deal. The Senate is expected to vote on the trade agreement in the coming weeks following its approval by the Senate Finance Committee on October 4.

### Vote on US-Colombia FTA Unlikely This Year—Colombian Minister

Colombian Trade Minister Luis Guillermo Plata said October 25 he did not expect the US Congress to vote on a free trade agreement with his country before the end of the year, Reuters reported. The Democratic-controlled Congress, which has said it wants to see Colombia take steps to protect labor unionists from violence before considering a free trade deal, will likely only vote on a free trade agreement with Peru before going to recess in mid November, Plata said.

### Mexico to Spend \$7 Billion on Counterdrug Program

Mexico confirmed October 23 it will spend \$7 billion to fight powerful drug cartels, a day after US President George W. Bush asked lawmakers to grant \$1.4 billion in counterdrug aid to its southern neighbor. Mexico's ambassador to the US, Arturo Sarukhan, said Mexico plans to spend the money over the course of three years to combat the lucrative drug trade, local daily *El Universal* reported. The plan, which the governments have dubbed the "Merida Initiative" after the city where Bush and Mexican President Felipe Calderon first discussed it, has generated heat on both sides of the border, with Mexican and US lawmakers complaining they weren't consulted on its details.

### Colombia's Uribe Says He is Open to Third Straight Term

Colombian lawmakers said November 1 that President Alvaro Uribe told them during a meeting the day before that he would run for a third four-year term if a "catastrophe" occurs and his coalition fails to unite around a strong candidate to succeed him, Reuters reported. Polls show he would win if allowed to seek a third term.

### Chile to Counter British Claim for Antarctic Territory

The Chilean government said October 22 it would claim an extended portion of the Antarctic seabed to counter a similar claim made the previous week by Britain, the Associated Press reported. Foreign Minister Alejandro Foxley said Chile was planning to file a claim similar to Britain's to extend its Antarctic territory.

*Editor's note: read Q&A analysis on the news above and other political and economic developments in the daily [Latin America Advisor](#).*

**Featured Q&A***Continued from page 1*

**A** **Board Comment: Jan Smith:** "It is unlikely the Brazilian government will give in entirely to the private-sector concerns voiced by banks such as Bradesco. There are both political and pragmatic reasons for doing so. On a political level, there is a precedent of curtailing jobs once government banks are privatized, and this plays badly for a socialist government. Government bank employees

“There is also sound financial sense in keeping the banks under the government fold.”

— *Jan Smith*

are not shy about striking and negotiating, as noted by Caixa Economica's recent strike. Furthermore, the sale of these assets would likely only favor the largest privately owned banks, of which Bradesco is clearly one. This would increase public opinion that believes the government is selling out to the private sector. More pragmatically, opening to public bid could potentially strip the financial marketplace of competitiveness, because smaller private banks would be left out of the equation, tilting the balance toward duopolistic control of the market. There is also sound financial sense in keeping the banks under the government fold. Many publicly owned banks are growing above 20 percent and also improving efficiency. Often they are

the first to invest in solutions, such as EMV cards, to then make the product accessible to the private sector."

**A** **Guest Comment: Aloisio Lemos:** "There is a clear political involvement in this issue, because it deals with government-owned banks (state and federal). In principle, I agree that a model that is more open, and probably more profitable for the sellers, would lead to a broader tender and would be viewed better by the market. The large private banks—national and foreign—have shown great interest in growing by acquiring other institutions. The past already shows this and it seems to me that the sector's consolidation process has not ended yet, making more deals possible going forward. The targets for acquisition could be state banks, if the opportunity were there, or private banks, normally small-cap ones."

**Jeanne Del Casino** is a member of the Financial Services Advisor board and Vice President and Regional Credit Officer for Latin American Banks at Moody's Investors Service in New York.

**Jan Smith** is a member of the Financial Services Advisor board and Managing Director at InfoAmericas in Miami.

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## The Inter-American Dialogue's Financial Services Advisor

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The Inter-American Dialogue's **Financial Services Advisor** is published biweekly from 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553

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