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THE ROOTS OF SPANISH BANKING INTERNATIONALISATION: *BBVA* AND *SANTANDER*

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LOS ORÍGENES DE LA INTERNACIONALIZACIÓN DE LA BANCA ESPAÑOLA: *BBVA* Y *SANTANDER*

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RESUMEN

Desde la década de los noventa, los bancos BBVA y Santander han experimentado una profunda transformación y han pasado de ser dos de los grandes bancos españoles a ser dos de los grandes bancos mundiales. Aunque el proceso de internacionalización de ambas entidades se intensificó en los años noventa, algunos de los bancos que con posterioridad formaron el BBVA y el Banco Santander tuvieron una historia previa de internacionalización. Este trabajo tiene dos objetivos. En primer lugar, explorar por qué los bancos españoles se internacionalizaron y por qué se expandieron fundamentalmente en América Latina. En segundo lugar, examinar cómo los bancos españoles se internacionalizaron y cuáles fueron las diferentes estrategias adoptadas. Para ello, el trabajo analiza los orígenes de la expansión internacional y explica los cambios que motivaron la fuerte expansión a partir de los años noventa.

Palabras clave: España, historia financiera, bancos, globalización, entrada al mercado.

ABSTRACT

Since the 1990s, BBVA and Banco Santander have undergone a huge transformation; they have gone from being two of the largest Spanish banks to two of the world's biggest. Although the internationalisation process intensified from the 1990s on, some of the banks that were merged to form BBVA and Banco Santander had a previous history of internationalisation. This paper addresses two main issues. Firstly, we explore why Spanish banks internationalise and why Latin America has been the main region of expansion for these two banks. Secondly, we examine how Spanish banks internationalise and how BBVA and Santander adopted different internationalisation strategies. To that end, the paper examines the roots of international expansion and explains the main changes occurring in the 1990s that encouraged the internationalisation process of both banks.

Keywords: Spain, Financial history, Banks, Globalisation, Market entry.

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THE ROOTS OF SPANISH BANKING INTERNATIONALISATION: *BBVA* AND *SANTANDER*[*]

1.- Introduction

Since the 1990s, *BBVA* and *Banco Santander* have undergone a huge transformation; they have gone from being two of the largest Spanish banks to two of the world's biggest. The literature on Spanish banking internationalisation has centred on two main issues: a) the reasons for Spanish banks' internationalisation, and b) the different internationalisation patterns they have exhibited (Martín-Aceña, 2008, 2010; Sierra, 2007; Kindelán, 2008; Parada et al., 2009; Arroyo et al., 2012; López-Morell and Bernabé, 2018, among others). Although there are some cross-country studies focusing on different aspects of banking internationalization, case studies could be very helpful in providing greater insights into the general results obtained by cross-country studies (Mulder and Westerhuis, 2015). The aim of this paper is twofold: Firstly, it summarises the roots of this expansion and the main changes occurring in the 1990s that encouraged the internationalisation process of both banks. Secondly, the paper explains why Latin America has been the main region of expansion for these two banks and examines their different internationalisation strategies. We have also calculated a number of indicators measuring the international activity of these two banks. In particular, we calculated the volume of foreign activities relative to total assets (the intensive margin) and the branching expansion of these two banks abroad (the extensive margin). Although we focus on the period of major internationalisation occurring from 1990 onwards, we adopt a long-term perspective to study the previous history of internationalisation. We assess the international position of both banks when they started their international race, adopting a historical and long-term approach in order to disentangle the main differences in banking performance of *BBVA* and *Banco Santander* before and after their internationalisation.

The structure of the paper is as follows. Section 2 presents the main factors identified in the literature as drivers of bank internationalisation, and discusses why the Latin American region has been the main target of Spanish bank expansion until very recently. Section 3 summarises what we know about the internationalisation of *BBVA* and *Santander*: the pattern of Spanish banks' penetration around the world and the different internationalisation strategies employed by these two banks. The conclusions are presented in Section 5.

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2.- Why do Spanish banks internationalise?

2.1.- Why banks internationalise

As Mulder and Westerhuis (2015) point out, banks have had an international presence ever since the Middle Ages. In the nineteenth century, there was a process of banking globalisation led by some of the big merchant houses such as Barings, JP Morgan and Rothschild, during which time these banks increased their foreign presence, mainly in the colonies. However, foreign banking investments declined in the interwar period and the process of banking internationalisation only re-emerged in the 1970s, before accelerating in the 1990s (Focarelli and Pozzolo, 2005).

When analysing the banking internationalisation process, it should be noted that financial products have different characteristics from manufactured products. For example, financial services and products are information intensive. In order to evaluate their operations, banks need to collect abundant data about their clients/customers and the local markets. Banks do not incur physical transportation costs in offering their products and services, but they do need to invest in some fixed costs, for example in offices (Buch and Lipponer, 2006). A bank that decides to expand into other countries has to face certain costs related to the cultural, political, fiscal and economic differences which mean that it has less knowledge about the host market than local competitors do, and coordinating its activity becomes more complex. However, this international expansion also has some benefits. There are a number of key advantages of banking internationalisation frequently cited by the literature. The first is that it enables banks to grow beyond the limits of the home market and achieve economies of scale and scope (Tschoegl, 2004). As Grubel (1977) suggests, banks not only try to serve their corporate clients/customers that move abroad in search of new business (the follow-the-client motive) but also go abroad to capture new clients in countries with underdeveloped financial systems and a low level of financial intermediation (an offensive expansion). Banks seek out new markets that are more profitable or offer higher margins (Aliber, 1976). Moreover, there is a two-way relationship between size and internationalisation: banks expand into other countries in order to grow; and large banks are much more international than small ones, because they have a larger and more international customer base, involved in activities that are typically international (Focarelli and Pozzolo, 2005). The second advantage is risk diversification. Banks attempt to diversify their portfolio internationally and to use foreign markets to compensate for the fluctuations in their home markets. Thirdly, internationalisation allows banks to exploit the resources and capabilities that they have developed in their local markets in other emerging markets at a relatively low cost (Mulder and Westerhuis, 2015). A final advantage is that moving abroad helps banks to respond to the challenge of domestic rivals (a defensive expansion); in this case, the internationalisation strategy depends on the behaviour of competitors (Grubel, 1977).

Following Lane and Milessi-Ferretti (2008), there are certain elements that have acted as push factors in banking globalisation processes, such as capital account liberalisation, financial deregulation, falling communication costs, financial innovation, and trade and financial integration[1]. Empirical research about the main drivers of banking internationalisation finds that the size of the home country and the level of economic and financial development are two key determinants of banking internationalisation: countries which have a more saturated home market and which have made most progress in financial development have a higher level of banking internationalisation (Lane and Milessi–Ferretti, 2008; Mulder and Westerhuis, 2015). Other noneconomic aspects, such as linguistic and cultural similarities, are also correlated with the internationalisation pattern of banks because they lower the information costs (Buch, 2003; Focarelli and Pozzolo, 2005). Most of the research on the factors that encourage banks' entry into foreign markets is based on cross-country evidence and shows that economic, political and regulatory conditions are crucial to an understanding of the pattern and timing of banking internationalisation (Barth et al., 2001; Clarke et al., 2003; Cerutti, Dell'Ariccia and Martínez-Peria, 2007). However, it is also important to consider some specific case studies to obtain evidence about how local conditions in the host countries could act as incentives for attracting foreign banking investments.

To conclude, banking internationalisation is motivated by multiple factors (economic, political, regulatory…) and, as the internationalisation process theory maintains, it is a dynamic process (Cattani and Tschoegl, 2002). Therefore, and as this paper attempts to show for *Banco Santander* and *BBVA*, the incentives for banks to internationalise are multiple and change over time.

2.2.- Why Spanish banks internationalise and why they do so in Latin America

To analyse the main factors behind the international expansion of Spanish banks, it is necessary to draw a general picture of the main phases of Spanish bank internationalisation and thereby explore the changing drivers that have operated in each of these phases. In his study of the *Santander* expansion, Martín-Aceña (2010) made a distinction between the pre-1980 period and the period from 1980 onwards. In a paper about the *BBVA* and *Santander* international expansion, López-Morell and Bernabé Pérez (2018) differentiated between the pre-1980 period, the 1990s and the twenty-first century. Sierra (2007) identified two separate periods: a) from 1900 to 1992 and b) from 1993 to 2007. For the most recent banking globalisation period, Parada et al. (2009) distinguished between the late 1980s, the 1990s and from 1999 onwards. Each of these phases has different characteristics and, as we explain in the following pages, the drivers that have influenced Spanish banking globalisation have historically changed alongside the shifts in the international and external conditions. In order to study the timing of Spanish banking expansion, we differentiate between the pre- and post-1986 periods.

Banco Santander and *BBVA* are the result of previous mergers. In 1988, *Banco Bilbao* and *Banco Vizcaya* merged to create *BBV*. In 1991, *BBV* merged with *Argentaria*, a state-owned

[1] In particular, for the most recent globalisation period, the literature highlights the creation of monetary unions such as the euro area as a factor driving international banking expansion (Lane and Milessi-Ferretti, 2008).

bank[2] and formed *BBVA*. That same year, *Banco Central* and *Banco Hispano* merged to create *BCH* and in 1994, *Banesto*, a bank that had been subject to an intervention by the Bank of Spain following a crisis, was sold to *Banco Santander*. In 1999, *Banco Santander* merged with *BCH* to create *Banco Santander Central Hispano* (BSCH), which changed its name in 2007 to *Banco Santander* (Santos, 2014). Although this paper focuses on the internalisation process of *Banco Santander* and *BBVA*, we also examine the history of some of the banks that were merged to form these two big banks.

2.2.1.- *Pre-1986 period*

In the pre-1986 period, particularly the period up until 1970, Spanish banks extended their activities abroad through representative offices, but these offices did not deal with local clients. In this phase, Spanish banks followed their clients abroad to reduce the risk of losing their clients' business to host country banks (the follow-the-client motive). This strategy enables banks to exploit their long-term bank–client relationships and the market for information about their clients, via an external market (Focarelli and Pozzolo, 2005). In this period, emigration (in this case, remittances by Spanish emigrants) was also a driver of Spanish banking internationalisation (Sierra, 2007). At the beginning of the twentieth century, Spanish emigration to South America grew at a rate of about 12 per cent between 1900 and 1913, with Argentina, Brazil, Cuba and Uruguay being the main destinations (Sánchez Alonso, 1995). The total number of migrants from 1882 to 1930 was 3,471,755, although a very high proportion later returned home (2,114,496 migrants) (Sallé, 2009). This emigration, however, came to an end with the First World War and especially with the Spanish Civil War. However, during the Civil War and the years immediately after, migration for political reasons (the migrants known as "*exiliados*") was significant and Latin America was again the main destination, particularly Mexico, the Dominican Republic and Chile (Abellán, 1983)[3]. There was also a new wave of emigration to Latin America from 1946 to 1958, in this case motivated by economic conditions, with Argentina (35.1 per cent of total migrants) and Venezuela (32 per cent) being the most attractive destinations, followed by Brazil (10.9 per cent). The total number of migrants in this period was estimated at more than 560,000 (Sallé, 2009). As a consequence of these flows of migrants, remittances from Latin America were significant and acted as a main attraction factor for some Spanish banks; in particular, as we show later on, for *Banco Santander* (Martín Aceña, 2007).

In general, in the pre-1986 period the volume of investment abroad was low, banks took small risks, and profits linked to these foreign operations did not represent a high percentage of

[2] *Argentaria* was the bank created from the merger of all stated-owned banks, with the exception of the Bank of Spain: namely, *Banco Hipotecario de España*, *Banco Exterior de España*, *Banco de Crédito a la Construcción*, *Banco de Crédito Local de España* and *Caja Postal*.

[3] Mexico was the country that received the most "*exiliados*" with more than 21,000 migrants between 1938-1948. Other traditional emigration countries such as Argentina, Cuba, Brazil and Uruguay were reluctant to accept the entry of Spanish refugees, although Argentina also took in a substantial number (Sallé, 2009).

total profits. There were two main benefits of investing abroad for those banks that were involved in the internationalisation process: firstly, to provide a service to their clients; and secondly, to use the experience accumulated in the international markets in the later expansion stages. As we explain below, it was only in the case of *Banco Santander* that the acceleration of internationalisation from the late 1960s to 1986 could be considered an exploratory phase in search of new markets.

An important question is why Spanish banks did not adopt a stronger international strategy during this period. Firstly, Spanish internal conditions did not favour overseas expansion. Throughout most of this period (especially after the Spanish Civil War), the Spanish banking sector had barriers to entry, was strictly regulated and had a relatively low level of competition. In this context, banks achieved high rates of profitability and interest margins and thus were not incentivised to look for new markets[4] (Pons, 2001; Pueyo, 2003).

Another possible determinant of financial expansion is trade integration. As Lane and Milessi- Ferretti (2008) indicate, trade openness and financial integration go hand in hand. Until the 1960s, Spain was a closed economy and the low level of commercial integration did not stimulate foreign banking activity (Table 1). However, although we can assume that an increase in trade openness helps generate international financial flows and shapes the pattern of internationalisation, this relationship is not so clear cut for the Spanish case.

Table 1
Rate of openness of the Spanish economy, 1900-1980

1900	23.6
1930	13.3
1940	4.1
1950	7.3
1960	14.8
1970	21.8
1980	27.8

Source: Tena (2005)

As we observe, Spanish banking investments abroad concentrated in Latin America. However, from 1900 to 1984, this region's share of total Spanish trade fell in comparison to other regions (Table 2). As shown in Section 2, in their early years some Spanish banks, such as *Banco Hispano Colonial*, *Banco Hispano Americano* and *Banco Santander,* were linked to Latin America and the ex-colonies (serving the *indianos* or Spaniards who made their fortune across the Atlantic (Tortella and García Ruiz, 1993) but later on this market lost its commercial interest. After the Civil War, there was a notable fall in the Spanish openness rate and a significant reduction in the share of exports to Latin America, from 8.96 per cent in 1931/35 to 4.40 in 1941/54. There was, however, an increase in the share of Latin American imports, especially from Argentina due to the relationship between the Franco regime and the Perón government and the imports of cereals, meat and other products to tackle the severe shortages

[4] The average rate of profitability of Spanish banks in nominal terms between 1960 and 1975 was around 20 per cent, near 12 per cent in real terms according to Pueyo (2003) data and deflated with the Maluquer (2013) price index.

during these years. When the Spanish economy improved its openness rates, Latin America did not increase its share in Spanish trade, either in imports or in exports. In this sense, the banking expansion pattern after the Spanish Civil War was not closely correlated with trade.

Table 2
Trade with Spain by Regions (Exports and Imports), 1900-1984
(%)

Exports	**1900/04**	**1931/35**	**1941/45**	**1951/55**	**1961/65**	**1971/72**	**1980/84**
Common Market	77.0	66.54	61.82	50.13	55.66	44.47	48.86
US	2.50	8.11	8.24	12.13	10.87	15.82	7.20
Latin America	11.50	8.96	4.40	10.90	8.12	9.50	5.23
Imports	**1900/04**	**1931/35**	**1945/48**	**1951/55**	**1961/65**	**1971/72**	**1980/84**
Common Market	56.80	39.89	25.78	40.20	41.37	42.97	31.39
US	11.80	16.67	13.10	17.06	18.04	15.78	12.59
Latin America	3.70	6.86	22.60	7.32	8.95	8.49	11.24

Source: Tena (2005)

A final issue regarding internal conditions is related to the size of firms. As Canals (1991) and Cardone-Riportella and Cazorla-Papis (2001) mentioned, the small size of Spanish firms influenced earlier international expansion[5]. Only when Spanish banks had reached a sufficient size did they have enough financial resources to operate in international markets.

Secondly, external conditions did not stimulate Spanish banking investment overseas. On the one hand, until the 1980s most of the possible receiving countries (such as those in Latin American) had barriers to entry that deterred foreign investment and major interventions in their financial systems. From the 1940s until the 1980s, most Latin American countries had very interventionist banking regulations, including Argentina[6]and Brazil, among others. Moreover, it should be borne in mind that until the 1990s the state-owned banks in Latin America held more than 50 per cent of total banking assets[7] (Tovar, 2007) and that during the 1980s Mexico decided to nationalise the banking sector (1982-1990). In this context, the incentives for foreign banks to enter into the region were weak. On the other hand, the economic and political instability of this region during most of the period may also have acted as a limiting factor for Spanish banks, in particular the economic difficulties of Latin America countries in the 1970s and the "lost decade" of the 1980s (Batiz-Lazo, Blanco and Urionabarrenetxea ,2007). In fact, during the 1980s there were systemic banking crises in Argentina, Chile, Colombia and Uruguay, and there was also banking distress in Ecuador, Bolivia and Mexico (Morris et al., 1990). Despite these problems, *Banco Santander*, which opened its first subsidiaries in the

[5] As Guillén and Tshoegl (2008) affirm, in 1985 the largest bank in Spain (*Banco Central*) ranked 100th in the world and it was about one-fourth the size of Deutsche Bank.
[6] In Argentina in 1946 private bank were nationalised, then later de-nationalised during the "*Revolución Libertadora*" before being re-nationalised again in 1973 (Rapaport, 2010).
[7] In any case, there were substantial differences among countries. For example, whereas in Brazil the share of state-owned banks in 1994 was 48 per cent, in Chile it was only 14 per cent (Goldstein and Turner, 1996).

1940s, 1950s and 1960s (in Cuba in 1947, Mexico in 1956, Brazil and Venezuela in 1957, Argentina in 1963 and Panama in 1967), substantially increased its activity in Latin America during the 1970s (Dominican Republic in 1976, Costa Rica in 1977, Guatemala in 1977, Puerto Rico in 1977, Ecuador in 1979 and Uruguay and Chile in 1979). As we show later, it was in the 1980s that all these problems forced *Banco Santander* to restructure its presence in the region. The bank's main presence in the pre-1986 period was in Puerto Rico, followed by Chile and Panama. However, the banks that later on formed *BBVA* did not have a significant presence in Latin America, with the exception of Panama (1982).

2.2.2.- 1986 onwards

From the mid-1980s, the Spanish banking sector experienced profound changes. These transformations boosted its internationalisation process: the total assets (in real terms) of *Banco Santander* in the Latin American region increased at a cumulative annual growth rate of 16.43 per cent from 1985 to 1999 and 14.53 from 1999 to 2007 (data from Tables 3, 4 and 6)[8], while the growth rate for the *BBVA* group was 12.13 per cent from 1999 to 2007 (data from Tables 3 and 14).

Table 3
Total Assets of the Latin American investments of *Banco Santander* and *BBVA* in 1999
(million $)

Country	*Santander* Assets Total	*Santander* Assets %	*BBVA* Assets Total	*BBVA* Assets %
Argentina	9,175	18.24	9,259	21.52
Brazil	9,357	18.60	5,000	11.62
Chile	9,709	19.30	2,960	6.88
Colombia	2,086	4.15	3,526	8.20
Mexico	9,808	19.50	8,556	19.89
Peru	951	1.89	2,864	6.66
Puerto Rico	6,468	12.86	3,580	8.32
Uruguay	740	1.47		
Venezuela	2,008	3.99	4,186	9.73
Total in Latin America	50,302	100	43,026	100

Source: Calderón and Casilda (2000)

Several factors facilitated this international expansion. The Spanish banking system underwent a process of domestic de-regulation in the late 1980s. As mentioned above, until the 1970s competition among Spanish banks was limited. Interest rates were regulated and banks used other mechanisms to compete, such as free commissions or opening more branches. Moreover, during the Franco period regulation limited the entry of foreign banks. Banking liberalisation started in the 1970s with the elimination of interest rate controls, branching liberalisation, the abolition of the compulsory investment coefficients. As a result, competition intensified. This process was first accelerated by Spain joining the EEC in 1986 and later by its membership of the euro area, because Spain had to adapt to European regulations. In 1989,

[8] Deflator from Maluquer (2013).

there was a complete liberalisation of interest rates and commissions, a number of stock market reforms were introduced and new measures were passed to regulate pension funds. The entry of foreign banks was liberalised, although these banks faced serious difficulties in expanding because of the large number of branches of Spanish banks. Moreover, competition not only increased among banks but also between banks and saving banks (Caminal et al., 1990; Salas and Saurina, 2003). The problem was that this increased competition took place in a saturated banking market (see Table 4), highlighting an evident need to look for new markets.

Table 4
Banking penetration in Spain, 2000

	Population aged 18 and over with current account (%)	Clients per branch ('000)
Spain	95	1
Argentina	35	8
Brazil	48	19
Chile	50	8
Mexico	35	13
Peru	37	27

Source: PwC (2011)

The above-mentioned increase in competition had a clear effect on the net interest margins, which decreased by 40 per cent between 1997 and 2006: clearly a greater fall than the 24 per cent reduction in the same period in the euro zone countries or 27 per cent drop in the EU-15. In any case, this substantial fall in the net interest margins occurred because they were initially higher in Spain than in other countries; even after the fall, in 2006 the margin in Spain was the 5th highest in the EU-15 after Austria, Portugal, Italy and Greece (Fernández de Guevara and Maudos, 2007)[9].

This increase in competition triggered a necessary reaction from Spanish banks, which were forced to adopt a more market-oriented business strategy to increase their profits. The first banking reaction to this competitive environment was to increase bank size through mergers. As mentioned above, the result was the creation of big banks such as *BBVA* in 1991 or *Banco Santander Central Hispano* (*BSCH*) in 1999. Secondly, in addition to competition, Spanish banks lost some traditional sources of revenues as a consequence of the adoption of the euro, such as currency trading or currency exchange commissions. Moreover, in a context of continuous changes in household saving habits, banks were forced to offer new products other than deposits, such as investments, pension funds or, later on, very complex financial products such as the derivatives that increased the cost of funds and had a negative impact on profitability. Thus, banks developed a process of financial innovation with new products and new business (insurance, etc.) and tried to find other source of revenues, such as commission for services rendered, or reallocation of loan activities to more profitable sectors (Saurina, 2012). They also tried to save costs by restructuring their branch networks (Casilda, 2016).

[9] The average net interest margin from 1990 to 1994 was 3.1 per cent in Spain whereas it was 9.2 per cent in Argentina, 8.3 per cent in Colombia, 8.1 per cent in Venezuela and 6.8 per cent in Brazil (Guillén and Tschoegl, 1999).

Lastly, they invested in R&D in order to increase efficiency by introducing new services (cash machines, phone banking,…) and also to manage data, information, risk and marketing. *Banco Santander* led the way in these new strategies by offering the Super Account, which was launched in 1989 with a massive advertising campaign, and which paid 11 per cent interest — more than double the interest rate paid by other banks at that time (Parada et al., 2009)[10].

However, the main reaction of Spanish banks to this increasing competition was international expansion. We should bear in mind that by this time the Spanish banks had become big enough to start a process of internationalisation. In this sense, the merger processes facilitated Spanish banking's international expansion. For example, Parada et al. (2009) consider that the acquisition of *Banesto* by *Banco Santander* in 1994 put the resulting bank in a good position to expand overseas. Although Spain is in Europe and the other European countries are its main trading partners—even more so after Spain joined the EEC and later the EU—the main receiving region for Spanish banks' investment abroad was Latin America. In some countries, such as Colombia and Chile, *Banco Santander* and *BBVA* have a large presence (Table 5).

Table 5
Latin America: importance of foreign banks in selected countries, 1998

	Total Assets (million $)	**% foreign ownership of assets**		***BVVA* and *Santander* (% of total foreign banks)***
		Share of equity	**Effective control**	
Argentina	160,363	43.2	51.5	39
Brazil	627,395	19.2	21.4	6
Chile	108,546	39.4	35.9	46
Colombia	30,945	21.5	28.8	59
Mexico	117,160	19.0	16.0	33
Peru	22,074	39.8	58.5	38
Venezuela	22,430	32.4	40.2	34

(*) Total assets of banks with Spanish ownership as a percentage of total assets of all banks in the country with foreign ownership.

Source: Calderon and Casilda (2000)

Moreover, *Banco Santander* and *BBVA* have consolidated their presence in Latin America over the past two decades. In this period, the number of foreign branches and subsidiaries represented between 50 per cent and 70 per cent of the total network (Table 6).

[10] As Parada et al. (2009) explain, *Banco Santander* also developed a system for better monitoring credit risk that allowed prompt identification of bad debts, and the bank made an extraordinary effort to strengthen its retail businesses, for example, by encouraging clients to make direct deposits of their wages and by identifying its clients' needs though information about their spending and income patterns.

Table 6
***BBVA* Group branches**

	2000	2005	2010	2015
Total branches	8,946	7,410	7,361	9,145
Spain	3,864	3,578	3,024	3,811
America (*)	4,865	3,658	4,193	4,171
Rest of world	217	174	144	1.163
% America	54.4	49.4	57.0	45.6

(*) Latin America and USA

Source**:** *BBVA* Annual Reports

Several factors explain why Latin America has been the main focus of Spanish banking investments, especially after 1986. Firstly, as mentioned, Spain and Latin America have a common history with a former colonial period and historical trade relationships. Moreover, previous emigration to Latin America was also a determinant of Spanish banking interest in this region. Secondly, there are additional cultural factors that imply some affinities in patterns and habits, as well as a common language. These similar habits and a shared language allow Spanish banks to sell identical or very similar products, to use the same marketing approaches, to transfer know-how, and to facilitate the mobility of employees (Cardone-Riportella and Cazorla-Papis, 2001; Casilda, 2016). Thirdly, as we have shown in this subsection, in the post-1986 period and especially at the turn of the century, certain market conditions made Latin American countries favourable to Spanish banking expansion:

a) Potential growth of the region: after the lost decade of the 1980s, the Latin American region experienced a relative improvement in terms of growth (see Table 7). Although the growth rates were not sustained and there were differences among countries, they came in marked contrast to the situation in the previous period (Minda, 2007).

At the turn of the twenty-first century, economic conditions in Latin America were more favourable, with more positive expectations. This was the case at least until 2010, when this economic dynamism came to a halt. This growth was accompanied by greater macroeconomic stability and, in particular, double-digit inflation rates following periods of hyperinflation. Expectations were also positive about the expanding middle class. Latin America witnessed significant population growth, with a very young population, unlike developed countries with their aging populations (Calderón and Casilda, 1999). In this context, Spanish banks focused on the mass market (lower- and middle-income segments), in contrast to other foreign banks such as Citybank, which concentrated on the upper-income market (Guillén and Tschoegl, 2000).

Moreover, the region had a very underdeveloped financial system with considerable potential for expansion of bank branches and introduction of financial products. The percentage of the population with a savings account, credit card, or personal loan was very low. At that time, the banking penetration rate was 95 per cent in Spain and 35 per cent on average for Latin America (see PwC 2011 and Table 4). This also implied a relatively low level of competition in the Latin America banking sector (Guillén and Tschoegl, 2007). Moreover, there were some profitable business niches such as the mortgage market or pension fund management, since some Latin American countries have adopted private pension systems [11](PwC, 2011).

Table 7
Growth rates of per capita GDP in Latin America and the Caribbean region
(%)

Country	1980-1990	1990-2000
Argentina	-3.87	4.22
Bolivia	-2.22	1.08
Brazil	-0.26	1.46
Chile	1.28	4.79
Colombia	1.35	0.87
Costa Rica	-0.94	1.75
Ecuador	-1.17	-0.85
El Salvador	-1.66	2.30
Guatemala	-1.21	0.84
Jamaica	1.72	-1.05
Mexico	-0.43	1.78
Nicaragua	-3.00	-2.42
Panama	-0.69	1.96
Paraguay	1.01	-0.58
Peru	-3.13	2.47
Uruguay	-1.00	2.81
Venezuela	-1.36	-0.80
Average Latin America	-0.74	0.98
World	0.98	1.32

Source: Heston, Summers and Atten (2002), Penn World Tables

b) Latin American governments, which had restricted the entry of foreign capital in previous decades, changed their position and considered the entry of foreign banks as an important instrument to tackle the shortage of financing and also to promote the modernisation and development of their financial systems.

c) As a consequence of the package of measures linked to the Washington Consensus, a process of deregulation and liberalisation took place in the Latin American countries. As Moguillansky and Studart (2004) remark, between 1985 and 1995 there was a "first generation" wave of reforms resulting in the liberalisation of interest rates and fewer barriers to entry, among other measures. These reforms also included the privatisation of the state-owned banks (Chile 1985-89, Mexico 1991-92, Argentina 1994, Brazil 1998-99…). In this sense, case studies can provide interesting insights into how banking privatisation facilitated the entry of foreign banks in those years and the differences in terms of banking privatisation among Latin American countries. For example, Brazil had a less intense privatisation process than other countries in the region and the two largest banks in terms of assets, *Banco do Brasil* and *Caiza Economica Federal*, were still public in 1995 and even in 2015, respectively (Cortés and Marcondes, 2016). However, it is clear that the growing presence of *Banco Santander* in Brazil started with the privatisation process. In 2000, Banco Santander acquired 33 per cent of a state-owned bank,

[11] In fact, in 2010 *BBVA* had a 69.3 per cent market share in the Ecuadorian pension fund system, 52.8 per cent in Bolivia and 30.3 per cent in Chile (Hernansanz and Sebastian, 2000).

Banco do Estado de Sao Paulo, and in the following years Brazil became the Spanish bank's main foreign market. In the same vein, it was after the process of privatisation that foreign banks such as *BBVA* acquired the largest Mexican banks (*BBVA*, 2008).

This de-regulatory process also coincided, however, with the withdrawal of the US banks from the Latin American market, partly due to the impact of prudential limits on bank exposure to specific risk in some countries such as Brazil, Argentina and Mexico. Later on, there was a wave of "second generation reforms" that were introduced in the second half of the 1990s as a consequence of the problems of instability that emerged in those years. These reforms were mainly introduced to strengthen the mechanisms of control and supervision and to facilitate new areas of banking activities and operations. These regulatory changes encouraged the entry of foreign banks in Latin American (Correa, 2004).

Finally, although the situation differs substantially among countries, the banking de-regulatory process in the 1980s coincided with a rule of law movement that increased legal certainty. Although legal reforms failed on many fronts and the general progress was modest, a governance index (which includes rule of law, the expropriation risk and the repudiation of contracts by government, among other variables) shows a fall in the index from 1985 to the late 1980s but a recovery from 1990 to 1995 in countries such as Argentina, Chile, Ecuador and Peru (Loayza and Palacios, 1997).

d) In terms of diversification, the Latin American region was a complementary area: whereas the Spanish economic cycle is highly correlated with that of the euro zone, it was negatively correlated with Latin America. A clear example of this complementarity is the positive evolution of Spanish banks' profits in Latin America after the 2008 crisis, a crisis which negatively impacted the Spanish market.

e) The pattern of internationalisation was also influenced by a price factor: the valuations of European banks were much higher than those of Latin America. Therefore, buying Latin American banks was a cheaper way to increase their size than buying European ones (Guillén and Tschoegl, 2000).

f) The Latin American region offered increasing returns: the net interest margins were considerably higher than in Spain. For example, from 1990 to 1994 they were above 5 per cent (5.1 per cent in Mexico and 9.2 per cent in Argentina) and only 3 per cent in Spain (Goldstein and Turner, 1996)[12]. According to the *BBVA* Research department, the cost of a 1 per cent share of deposits in Spain in 1999 was \$2,263 million, not very far off the equivalent cost in Germany (\$2,285 million), whereas in Argentina it was \$196 million, \$172 million in Chile and \$205 million in Mexico.

g) The Latin American region was not only the main destination of banking investments but also a key target of other sectors. The first big Spanish investment in Latin America was by *Telefonica*, followed by *Iberia* (via privatisations), while other firms such as *Endesa*, *Iberdrola* and *Repsol* also expanded in this region. The massive entry of multinationals into Latin America

[12] The countries with the highest interest margins between 1990 and 1994 were Argentina (9.2), Colombia (8.3) and Venezuela (8.1), followed by Brazil (6.8), Chile (6.1) and Mexico (5.1) (Goldstein and Turner, 1996).

during the 1990s acted as an incentive to the banks that followed them to provide financial services (Minda, 2007).

h) The entry into Latin American countries provided a stepping stone to other countries. Firstly, it allowed Spanish banks to gain greater size in order to compete in the international arena. Secondly, it offered a geographical advantage in that it facilitated the later expansion in the US market, particularly in Hispanic-majority areas (where many people, moreover, knew the Spanish banks from their countries of origin).

Table 8
Biggest foreign banks in Latin America by assets, 2000
($ million)

Bank	Origin	Argentina	Brazil	Mexico	Chile	Colombia	Venezuela	Total	%
BSCH	Spain	26,130	28,682	20,100	30,200	1,376	2,556	109,044	**33.99**
Citibank	US	10,429	8,798	42,590	6,350	1,137	686	69,990	21.81
BBVA	Spain	9,174	5,004	37,300	4,900	2,811	3,700	62,889	**19.60**
BankBoston	US	11,350	9,315	358	6,800	108		27,931	8,71
HSBC	UK	5,016	9,126	15,202				29,344	9,15
ABN-AMRO	Netherlands	2,801	15,581	154	2,900	110	95	21,641	6.75
Total		64,900	76,506	115,704	51,150	5,542	7,037	320,839	100.00

Source: Hernanzanz and Sebastian (2000)

After the Great Recession, there was a reduction in the global flows of capital. The number of foreign banks around the world dropped from 1,445 in 2009 to 1,368 in 2013, with a reduction in all groups of countries regardless of the level of income (*BBVA*, 2016). In fact, the presence of foreign banks in some regions has not reached the pre-crisis level. There has also been a reduction in international loans (Álvarez, García and Gouveia, 2016; Claessens and Van Horen, 2014). In comparative terms, foreign investment in Latin America has better withstood the impact of the crisis. As Ichiue et al. (2016) affirm, the fall in the international activity of banks can be traced back to the new regulations after the 2008 crisis. These new regulations have mainly affected capital requirements, which can explain the restructuration of the international position of Spanish banks, mainly *BBVA*, in geographic areas where profitability was not high enough to ensure the required capital ratios. The disinvestments in Asia are a good example of this. In general, the general trend has been a reorganisation process, identifying countries that offer the most profitable opportunities and exiting the less attractive countries (because of low profitability or political and economic risks).

3.- The pattern of Spanish bank penetration around the world: *BBVA* and *Santander* internationalisation strategies

In his study of banking internalisation strategies for the period 1980-2003, Slager (2005) distinguishes five groups of banks according to the strategies they implemented. He includes *Banco Santander* and *BBVA* in the same group[13] of banks with accelerating internationalisation strategies, that is, banks that initially started their internationalisation process by opening

[13] The five groups are: accelerating internationalisation, moderate internationalisation, imploding internationalisation, retreating internationalisation and established internationalisation.

branches in major economic and financial centres and in a second step expanded their international activities through foreign bank acquisition**.** However, as shown in this section, a more detailed analysis of these two case studies reveals that their strategies have changed over time and that they have implemented different patterns of international expansion.

3.1.- Pre-1986 period

As Martín-Aceña (2010) indicates, in the pre-1986 period the most internationalised Spanish bank was *Banco Santander*. *Banco Hispano Colonial*, created in 1876 and absorbed by *Banco Central* in 1950, was also linked to Latin America in its early years, particularly with Cuba, but after Cuban independence, the bank operated exclusively in Barcelona (Rodrigo, 2001). *Banco Hispano Americano,* established in 1900, indicated in its deed of constitution that the aim of the bank was financing Latin-American trade. Indeed, businessmen with ties to the ex-colonies (the *indianos* or Spaniards who made their fortune across the Atlantic) were involved in the founding of the bank (Tortella and García Ruiz, 1993). In fact, Basagoiti[14], who was one of the founders and the longest-serving president of the bank, had textile companies and shares in many Mexican firms in sectors such as railways, the steel industry and tobacco. In 1902, *Banco Hispano Americano* opened a branch in Havana and brokered most of the commercial Mexican-Spanish business (Tortella and García Ruiz, 1993). In 1903, the bank entered Argentina and made an agreement with *Banco de Comercio;* this new bank adopted the name of *Banco de Comercio Hispano Argentino*. In 1905, this bank contributed half of the capital to establish *Banco de la Provincia de Buenos Aires* and five years later this bank bought shares in *Banco Hipotecario* and consolidated its position in the Argentinian market. Emigrants were also important clients of this bank, channelling almost 500 million *pesetas* per year through migrant remittances (Tortella and García Ruiz, 1993). However, the Mexican crisis in 1913 put an end to the Latin American ventures of *Banco Hispano Americano.* Although the bank had only 5 per cent of its portfolio in Mexican assets, there was a bank panic and it had to be rescued by the Bank of Spain with a loan of 12 million *pesetas*. After that, its relationship with the Latin American market started to decline. It was not until the 1960s that the bank opened some offices in Caracas and Mexico D.F (1962), Buenos Aires, Rio de Janeiro, Bogotá and San José (1966) and Lima (1969) (Tortella and García Ruiz, 1993).

The only bank with a more extensive trajectory in Latin America in this period is *Banco Santander*. As Martín-Aceña (2010) explains, the founding of *Banco Santander* in 1857 involved local merchants and businessmen with trade connections with America. However, in its beginnings the bank was very modest with a conservative policy, and its activity was focused on Spain rather than overseas. It was not until the 1940s that *Banco Santander* once again turned its attention to Latin America.

The banking strategy of Banco Santander has been strongly marked by the leadership

[14] As Marichal (2017) indicates, Basagoiti was part of a “privileged migration”: Spaniards that arrived in Mexico from 1850 to 1880 and managed to make a fortune, creating multiple firms in various sectors of the Mexican economy. Included in the list of the main shareholders in the founding years of *Banco Hispano Americano* were not only Basagoiti but also other *indianos* such as Zaldo, Ibañez, De Teresa y Miranda and Noriega. This elite was defined by Haber (1989) as merchant financiers.

of the Botín family. Emilio Botín-Sanz de Sautuola was managing director of *Banco Santander* from 1934 (and President of the company from 1950). According to Martín-Aceña (2010), Emilio Botín made his first visit to the Americas in the 1940s. He realised that the Spanish expatriate communities and, in particular, remittances, were a business niche. Moreover, in a tightly controlled and regulated market, the possibility of opening a branch abroad gave the bank the opportunity to freely operate in foreign currency and circumvent the Spanish exchange controls (Martín-Aceña, 2010). In this case, the objective of the bank was not only the follow-the client motive but also to achieve a dominant position in remittance collection (Acta Banco Santander 7/09/1955). The bank opened several representative offices (which were not opened to the local population) and signed partnership deals with overseas banks[15]. In 1955, *Banco Santander* opened an Ibero-American department and from that moment on its presence in Latin America was reinforced with the acquisition of a number of small banks such as *Banco de Hogar Argentino* (1963), *Banco Mercantil de Rosario y Santa Fe* (1967), *Banco Comercial e Industrial de Cordoba* (1967). It also founded *Banco Santander y Panamá* in 1967.

In 1955, the bank also opened a representative office in London. There were two main motivations for opening an office in London. On the one hand, the United Kingdom was one of the main destinations of Spanish exports. On the other hand, London was one of the main international financial centres and operating in the City allowed *Banco Santander* to obtain information about the financial and foreign exchange world markets (Martín-Aceña 2007).

In the mid-1960s, *Banco Santander* signed an agreement with the Bank of America to create *Bankinter*. The bank was the result of the easier entry into the Spanish banking system linked to the 1962 Banking Law, which was the first step in the liberalisation of the Spanish financial system after a long period of isolation. One of the remarkable aspects of this new bank was the introduction in Spain of certain financial products, such as the certificates of deposits that appeared in the US financial market at the beginning of the 1960s to mobilise fixed-term deposits. These products were more liquid and allowed a marked increase in customer deposits at the beginning of the 1970s (from 2,750 million *pesetas* in 1970 to 8,388 million in 1972) (Bankinter, 2015). Through this international alliance with an American bank, *Banco Santander* gained not only substantial profits but also international contacts. It also facilitated access to foreign currency and provided its executives with a more cosmopolitan vision of the banking business (Martín-Aceña, 2007)[16].

Finally, in the late 1970s *Banco Santan*der created or acquired 10 banks in nine different Latin American countries: *Banco Condal Dominicano*, which was renamed *Banco de*

[15] It reached an agreement with the Trust Company in Cuba and opened its first representative office in Havana in 1947. The main objective of the commercial business between *Banco Santander* and the Trust Company of Cuba was to intermediate in the documentary credits in favour of Spanish exporters, attracted not only by the commissions but also by the relationships with the benefiting firms (Martín Aceña, 2007). In 1949, Botín opened a new section in the Madrid office specialising in foreign operations. In 1951, the bank forged a partnership with *Banco Internacional de Mexico* and opened a representative office in 1956. In 1957, it signed an agreement with *Banco Intercontinental do Brazil* and opened representative offices in Caracas (in 1957) and Buenos Aires (in 1969) (Martín Aceña, 2010).

[16] As part of a previous agreement, when foreign banks were allowed to enter into the Spanish banking sector, the Bank of America entered Spain as *Banco Comercial para America*. For more information about the relationship between the *Banco Santander* and the Bank of America see Martín Aceña (2007).

Santander Dominicano (1976); First National Bank of Puerto Rico, which was renamed *Banco de Santander-Puerto Rico* (1977); *Banco de Crédito y Ahorro Ponceño* (1977); *Banco Santander Costa Rica* (1977); *Banco Inmobiliario* in Guatemala (1977); *Sociedad General del Crédito* in Ecuador (1979), *Casa Bancaria* and *Banco del Litorial Asociados* in Uruguay (in 1979 and 1982 respectively); *Banco Santander Chile* (1979); and *Banco Español Chile* (1982) (Martín-Aceña, 2010). In the 1970s, the bank initially focused on Central America and the Caribbean before later going into Ecuador, Uruguay and Chile. It is worth mentioning the strong momentum behind the international expansion of *Banco Santander* in the 1970s and first half of the 1980s, despite the economic instability of the Latin American region in those years. This expansion coincided with (and probably took advantage of) the reduction in US banks' presence in the region, although after 1985 these banks played an active role in the loan restructuring committees working to salvage some of the Latin American loans (Slager, 2005). As Martín-Aceña (2010) indicates, after each acquisition the bank restructured the local banks and introduced the "*Santander* management system", which basically consisted of a comprehensive revision of risk management procedures, a revision of the balance sheet and the injection of new capital to enhance the solvency of these institutions. In 1984, a specialised unit, *Santander* Investment, was created, which was able to obtain a license to operate in New York and was very active in the 1990s. This wholesale banking subsidiary not only opened branch offices in various countries but also hired local staff with an in-depth understanding of their local markets in order to identify, analyse and purchase local banks (Parada et al., 2009).

Table 9
Total assets and net profits of the Latin American investments of *Banco Santander* in 1985 ($million (*))

Banks	**Total assets**		**Net profits**	
	Total	**%**	**Total**	**%**
***Santander* Puerto Rico**	1,119	8.92	13.2	12.92
***Santander* Español-Chile**	729	5.81		
***Santander* Panamá**	486	3.88	2.5	2.45
***Santander* Uruguay**	130	1.04	2.2	2.15
***Santander* Guatemala**	102	0.81	0.2	0.20
***Santander* Argentina**	71	0.57	0.7	0.68
***Santander* Ecuador**	50	0.40	0.7	0.68
***Santander* Costa Rica**	8	0.06	0.3	0.29
Sub-total Latin America banks	2,695	**21.49**	15.4	**15.07**
Santander Spain	10,071	80.32	80.4	78.67
Total Santander Group	12,539	100.00	102.2	100.00

(*): The exchange rate of the peseta to the dollar in 1985 was 170.

Source: Martín-Aceña (2010), from *Banco Santander* Annual Report 1985

According to Martín-Aceña (2010), in 1985 the Latin American subsidiaries represented around 20 per cent of total *Banco Santander* assets; *Banco Santander-Puerto Rico* was the most profitable, contributing 13 per cent of the overall net profits of the group (Table 9). In this period (1970-1985), in addition to following its clients, *Banco Santander* tried to increase its international market share by capturing new clients and exploring new opportunities in markets that had a long-term relationship with and "cultural proximity" to Spain, which allowed the bank to easily transfer the capabilities acquired in the home market.

The international trajectory of *BBVA* (and the banks that had previously merged to form *BBVA*) is more recent than that of *Banco Santander*. *Banco Exterior de España* (*BEX*)—part of *Argentaria* which merged with *BBV* in 1999—was founded in 1928 to promote foreign trade. However, the bank had serious problems as a consequence of the fall of *Banco de Cataluña* and the difficulties faced by *Banco Central*[17] (both of which held shares in *BEX*). Before the Spanish Civil War, *BEX* was not very active; after the war, it acted as a state bank even though it was a private institution. In the 1940s, the bank focused its foreign activity in the North of Africa and it purchased the *Banco Español* in Paris, the *Banco Español* in London and also bought a branch that the *Banco Español* in Paris had in Casablanca. Moreover, during the 1940s, the Franco government used *BEX* as an instrument to operate in Uruguay and Argentina (Arroyo et al., 2011). In 1946, it opened a subsidiary in the US under the name Interchange Commercial Corporation.

During the 1950s and 1960s *BEX* increased its presence in foreign markets by opening subsidiaries in Germany, Morocco and the United Kingdom. In 1967, the bank opened a branch in Panama (1961)[18] and later on in Nicaragua (1977), Chile and Ecuador (1978), Argentina (1980) and Uruguay (1981). In 1977, *BEX* acquired Century National Bank and Trust Company and in 1980 EXTEBANK in New York (PwC, 2011).

With respect to *Banco Bilbao*, its large-scale international expansion started in the 1980s with an increase in its presence in Latin America. Before that, its international presence was limited to the opening of a branch in Paris in 1902 and in London in 1918 (Arroyo et al., 2011). In both cases the main activity of the bank was the buying/selling of foreign exchange and providing assistance to exporters, merchants and diplomats in those countries (González, Anes and Mendoza, 2007). *Banco Bilbao* and *Banco Vizcaya* only entered the Latin American region in the 1980s—*Banco de Bilbao* with the opening of an office in Panama in 1983 and *Banco de Vizcaya* with the purchase of *Banco Occidental* in 1982, since that bank had been the owner of *Banco Comercial de Mayaguez* in Puerto Rico since 1979 (Arroyo et al., 2011)[19]. It was, however, in the 1990s that the bank made its largest investments abroad, both in America and Europe.

Therefore, in the pre-1980 period, the main reason for Spanish banks to invest overseas was "to follow-the-client", that is, to provide its clients with the necessary services to carry out their operations abroad. However, in the case of *Banco Santander*, the bank also engaged in internationalisation operations to explore new markets. As Cattari and Tschoegl (2002) explain, seeking out new growth opportunities abroad may represent a search for new investment options. The change from an expansion strategy based on representative offices in the 1940s, to other costlier means of expansion in the 1960s and 1970s, involving the organic growth of the firm by buying local banks, is evidence of the exploratory nature of this phase for *Banco*

[17] For more information about *Banco Central* difficulties in the 1920s see Tortella and García Ruiz (1993).
[18] This branch was the origin of the *BEX S.A* de Panamá (1968) that was transformed into the *Argentaria Banco Exterior* in 1998 and with the name of *BBVA Paraguay* from 2000 (Arroyo et al 2011).
[19] When *Banco Vizcaya* took charge of *Banco Comercial de Mayaguez,* it moved the central services of the bank from Mayague to San Juan.

Santander. The other Spanish banks had a limited presence abroad in this period.

3.2.- Post-1986

In the mid-1980s, two events stand out in the *Banco Santander* history: a) in 1986 Emilio Botín took over from his father (Emilio Botín-Sanz de Sautuola) as president of *Banco Santander*; and b) as a consequence of the banking instability in the region, *Banco Santander* started reconsidering its Latin America strategy. As not all initiatives in the previous expansion period had succeeded, the *Banco Santander* redefined its strategy from 1986 on by selling four entities in Costa Rica, Guatemala, Ecuador and Panama, and concentrating its activity in Argentina, Uruguay, Chile and Puerto Rico. As a result, in 1990, *Banco Santander* had only five subsidiaries and the proportion of assets had fallen from 21 per cent in 1985 to only 9 per cent (Martín-Aceña 2010). External factors reignited the expansion of *Banco Santander* in the region. The recovery of the Latin American region in the 1990s and the process of deregulation and privatisation linked to the application of the Washington Consensus measures opened up broader business opportunities. As an internal factor, as mentioned above, the purchase of *Banesto* in 1994 put *Banco Santander* in a good position to undertake its international ventures. Moreover, at the beginning of the 1990s, even before *Santander* had acquired *Banesto*, *Banesto* implemented a new IT platform called *Partenón* that was ahead of its time in the banking world.

As Busquets et al. (2010) explain, *Partenón* was crucial for *Santander*'s expansion because *Grupo Santander* decided to implement this IT platform throughout the wider company. Before that, as a consequence of its aggressive expansion strategy, *Banco Santander* faced increasing operational complexity and the bank decided to outsource all IT operations to Andersen Consulting. However, the bank was not happy with the deal and in 1995 decided to look for a new IT provider (Busquets et al., 2010). *Partenón* was a single database that allowed Santander's staff to easily access detailed customer information from another division, resulting in more efficient operations, more secure loan management, and greater commercial capacity.

In the second-half of the 1990s, *Banco Santander*, led by Santander Investment, accelerated its expansion in Latin America with the acquisition of *Banco Interandino* and *Banco Mercantil* in Peru (1995), which formed *Banco Santander Perú*; controlling 70 per cent of capital of *Banco Osorno y la Union* in Chile (1996); acquiring *Banco de Venezuela* (1997), *Banco Mexicano* (1997), *Banco Comercial Antioqueño* (1997), which was renamed *Banco Santander Colombia*, and the Colombian consumer finance company *Invercredito* (1997); controlling 35 per cent of the capital of one of the largest Argentinian banks, Banco Rio *(*1997*)*; acquiring *Banco Geral do Comércio* from the Camargo Corréa group (1997), taking a controlling interest in *Banco Noroeste* in Brazil (1998); and acquiring the total remaining shares of *Banco Santander Brasil*, which later on merged with *Banco Noroeste* in 1999. As a consequence of this expansion, Latin American investments rose from 9 per cent of total assets in 1990 to 24 per cent in 1998, representing 30.6 per cent of total profits (Martín-Aceña, 2009). From 1994 to 1998, *Banco Santander* invested €5 billion into the Latin American region (Parada et al., 2009).

The first difference with respect to the previous phase is that the bank also explored the

European market in two areas: continental Europe and the UK. Its first European acquisition was CCBank, a consumer finance unit, in Germany (1987) and *Totta and Acores* and *Credito Predial Portuges* in Portugal in 1999. After 1999, *Banco Santander* again pushed its expansion in Latin America, as a consequence of the merger between *Banco Santander* and *Banco Central Hispano* (*BCH*). *BCH* constituted an investment holding, *O'Higgins Central Hispano* (*OMCH*), in collaboration with the Chilean group *Luksic* in 1993 (*El País* 06/06/1993). This agreement was broken with the merger with *Banco Santander* (Sierra, 2007). During the 1990s, *BCH* acquired *OHCH* Chilean Holding Company in 1993, *Banco de Santiago* in 1995, and *Banco Sur* and *Banco Tornquist* in Argentina in 1996. The same year, in1996, *OHCH* took control of *Banco Asunción* in Paraguay and *CH Banco* in Uruguay. In 1997, *BCH* acquired *Bital* in Mexico and in 1998 *Banco de Santa Cruz* in Bogota and *Banco de Galicia* in Argentina (Martín-Aceña, 2010). With the merger, *Banco Santander* (*BSCH* at that time) achieved a majority presence in some countries such as Chile. The second difference with respect to the previous phase was the acquisition of big banking groups: in 2000 *BSCH* acquired *Banespa* and *Grupo Meridional* in Brazil, *Banco Serfin* in Mexico, and *Banco Santiago* in Chile. *BSCH* also increased its stake in *Santander Mexicano,* and in 2002, *BSCH* and *Serfin* merged under the name of *Santander-Serfin*. Thanks to these acquisitions, *Banco Santander* secured a leading position in Brazil, Mexico and Chile. In Venezuela, it announced a bid for the *Banco de Caracas*. *Banco Santander* also increased its stake in *Santander Colombia* and *Banco Rio* in Argentina (Martín-Aceña 2010).

As a result of all these operations, in 2000 *BSCH* was the leading bank in Latin America with a presence in 16 countries, 72,241 employees, 4,638 branches, 10.3 per cent of total deposits and 9.9 per cent of all loans. Most of its business was concentrated in Mexico, Brazil, Chile and Puerto Rico (Sierra, 2007). However, at the beginning of the twenty-first century there were several problems in Argentina (with the *corralito* in 2001), Venezuela[20], Brazil and Uruguay. The bank tried to maintain its position and to reduce risk; for example, it created a special $1.3 billion fund to convert the entire book value of its Argentine banks. Economic as well as political instability drove *Banco Santander* to adopt measures such as the sale of *Banco Santa Cruz* in Bolivia when in 2005 Evo Morales won the election (Parada et al., 2009).

Before the 2008 crisis, *Santander* Group had 15.5 per cent of its assets in Latin America and obtained 29.42 per cent of its profits from this region. Brazil was the most profitable country (10 per cent of profits, see Table 10), followed by Mexico.

In 2008 President Chávez announced the nationalisation of *Banco de Venezuela*, the Venezuelan bank owned by *Grupo Santander* and in 2009 *Santander* sold the bank to the Venezuelan government by $ 1,050 million.

Table 10
Total assets and profits of the Latin American investments of *Banco Santander* by country in 2007
(€ million)

Country	**Assets**	**Net attributable Profits**	
	Total	Total	%
Argentina	n.a	188	2.08
Brazil	46,931	950	10.49
Chile	24,931	543	5.99
Colombia	n.a	15	0.17
Mexico	39,495	654	7.22
Puerto Rico	n.a	1	0.01
Venezuela	n.a	179	1.98
Total in Latin America	141,985	2,666	29.43
Santander Group	912,915	9,060	100

Source: Martín-Aceña (2010), from *Santander* Annual Report 2007

The main feature of the post-1986 phase was the expansion in the European markets. The bank used various entry mechanisms: acquisitions, strategic alliances, share exchanges, etc. As the barriers to entry were greater in European than in Latin American countries, it adopted a selective (opting for geographically close markets such as Portugal, the UK, Germany, and to a lesser extent France, Belgium and Italy) and defensive strategy (Sierra, 2007*).* Moreover, it specialised in consumer finance, a niche that was considered easier than other segments of the European banking business (Parada el al., 2009). *Banco Santander* entered the UK, France, Italy and Germany through four alliances with big European banking groups: Bank of Scotland, *Société Générale*, *San Paolo-IMI* and Commerzbank. In the case of Italy, the bank waited for the right opportunity and only when the *San Paolo—IMI* bank announced its merger with *Intesa* in 2006 did the *BSCH* decide to consolidate its presence in the Italian market (Parada et al., 2009). The bank consolidated its entry into the Portuguese market with *BCI* and later on with *Banco Totta and Predial* (Sierra, 2007). The commitment to European expansion was especially clear in the case of *Banco Santander's* acquisition of Abbey National (a leading UK mortgage provider) in 2004. The previous alliance with the Bank of Scotland (1988) gave the bank the necessary understanding of the UK market and Abbey National, represented a crucial investment opportunity for *BSCH* and a successful entry into the British market. Francisco Gómez Roldán, a *Santande*r CEO was chosen by Emilio Botín to lead Abbey; he was charged with transferring Santander's practices to this bank, making a special effort to establish a new sales culture and improve operating efficiency. Another key challenge was to change Abbey's IT system, which was very complex and made it difficult to consolidate customer data. Although Abbey made some important efforts to improve its IT system at the beginning of the 2000s, the Abbey-*Santander* merger resulted in the implementation of the *Partenón* platform, increasing the bank's overall efficiency (Busquets et al., 2010). Thanks to *Santander*'s restructuring plan for Abbey, in just one year this bank reduced its costs by £224 million (€324 million) (López-Morell and Sebastián, 2008).

The acquisition in 2007 of ABN AMRO, the third-largest bank in the Netherlands, underlined *Banco Santander's* firm commitment to European expansion. ABN AMRO was acquired by a consortium of the Royal Bank of Scotland Group, Fortis and *Banco Santander*, known as RBS Holdings B.V. The problems that hit RBS and Fortis after the 2007 crisis led the Dutch government to intervene and nationalise Fortis in 2008 and split ABN AMRO's Dutch assets from those owned by RBS, which were taken over by the UK government through its bail-out of the British bank.

As part of the ABN AMRO acquisition, *Banco Santander* secured *Banco Real* in Brazil and *Antonveneta* in Italy. The Brazilian operation resulted in the formation of ABN's Brazilian subsidiary, which made the Spanish lender the third largest bank in Brazil whereas the Italian operation failed and was sold to *Monte Dei Paschi* (Parada et al., 2009).

The most recent internationalisation strategies of *Santander* focus on the US and Asia. The expansion in the US started in 2005 with the acquisition of Sovereign Bank (Pennsylvania), one of the 20 largest banks in the US (Kindelan 2008). According to the 2016 *Banco Santander* Annual Report, its business concentrates on commercial activities through *Santander* bank and consumer finance through *Santander* Consumer USA. The bank has increased its number of branches, mainly in the Northeast. It has 5,200,000 customers and the profits from the US represent 5 per cent of total profits. *Santander*'s future agenda involves entering the Asian market. To date, it has a limited number of branches (for example in Hong Kong, Shanghai and Singapore) and three representative offices in Peking, Seoul and Tokyo (*Santander Nota de Prensa* 2012) and a 7.2 per cent stake in the Bank of Shanghai (*El Economista* 2nd February 2016).

Table 11
Total profits of the *Santander* Group by country in 2017
(€ million)

Country	**Net attributable profits**		**Total Assets**
	Total	%	
Spain	1,180	13	350,798
Santander Consumer Finance	1,254	14	101,734
Poland	300	3	32,171
Portugal	440	5	48,202
Continental Europe	2,953	35	569,424
United Kingdom	1,498	16	361,230
Argentina	359	4	
Brazil	2,544	28	161,690
Chile	586	6	50,355
Total South America	4,284	47	290,818
Mexico	710	8	58,203
US	408	4	114,388
Total operative areas	9,143	100	
Total Santander Group	7,253		1,444,305

Source: own elaboration based on *Santander* Annual Report 2017

In 2017, Brazil was still the most profitable country for *Santander* Group with 26 per cent of their profits. Table 11 shows the distribution of profits by country; comparing these results with the results for 2007, we observe that Latin American profits (as a percentage of *Santander* Group profits) have increased from 29.43 to more than 40 per cent. Results of the first quarter of 2008 show, however, a considerable fall in the British market (with a 23 per cent drop in profits relative to the last months of 2017) whereas the Brazilian and US profits increased (*El Economista* 24th April 2018).

Since the 1990s, the internationalisation of *BBVA* has focused on four geographic areas of expansion: Latin America, the US, Europe and Asia[21], in order of importance. The larger size of the *BBVA* after the mergers during the 1980s and 1990s, along with the new business opportunities emerging due to globalisation and economic liberalisation, were the main factors behind this internationalisation process.

As mentioned above, Latin America was the first area of expansion for *BBVA*. In the 1990s, its business expansion in Latin America grew (excluding Mexico). The bank bought *Banco Continental de Perú*, a bank that had been privatised by the Peruvian government three years earlier (although in the 1960s it was part of the *Chase Manhattan Bank* group). By volume of assets, this was the first big operation of the *BBVA* group, acquiring 75 per cent of the local bank. Thanks to this operation, by the end of the 1990s *BBVA* was the second national bank in term of branches, banking resources and stock market capitalisation (González, Anes and Mendoza, 2007). In the following years, *BBVA*'s portfolio participation in *Continental* grew to 90 per cent. After this investment, the bank turned its attention to Colombia through the acquisition of *Banco Ganadero de Colombia*, the first Colombian firm quoted on the New York Stock Exchange. In 1996, *BBVA* controlled 40 per cent of *Banco Ganadero* with an investment of $330 million. Its stake increased over the following years to the point where it controlled 95 per cent of the Colombian bank, the second biggest in the country. In 2004 it adopted the name *BBVA Colombia* and extended its business areas: in 2005 *BBVA Colombia* acquired a mortgage bank (*Granahorrar*) at auction. In terms of deposits and loans, *BBVA*'s investment in Colombia has been one of the most profitable and long-lasting in the Latin American region[22].

In 1996, *BBVA* also bought 30 per cent of *Banco Francés de Argentina*—a bank that had its roots in the *Banco Francés de Rio de la Plata* founded in 1886,—investing a total of $375 million. Later on, *BBVA* also acquired *Banco de Crédito Argentino* and *Grupo Consolidar*, a financial entity specialised in life and retirement insurance. After these acquisitions, *BBVA* was the controlling shareholder of *Banco Francés* (holding more than 70 per cent of its shares), one of the three largest banks in the country in terms of deposits and loans and one of the main operators in insurance and pensions. In the 1990s, *BBVA* also invested in Venezuela and Chile. In Venezuela, the bank acquired 40 per cent of *Banco Provincial de Venezuela* in 1997, and raised its stake to 55 per cent in 2002, with a total cost of $700 million. *BBVA Banco Provincial* was the second largest bank in the country and the largest in terms of branches and ATMs. However, from 2004 onwards, the strong regulatory pressures of the Venezuelan government heightened the uncertainty in the country, resulting in negative consequences for the bank in terms of business and profits. Despite its difficulties, the continuous threats of expropriation and the financial sector's risk exposure, *BBVA* has declared it has no intention of leaving the

[21] See González, Anes and Mendoza (2007), *BBVA* (2008), López-Morell and Bernabé (2016), Arroyo, Larrinaga and Matés (2012) and PwC Report (2010).

[22] González, Anes and Mendoza (2007) and *BBVA* (2008).

country (the last such declarations were made by Francisco Gonzalez, executive chairman of *BBVA*, in February 2018, in *El Nacional*).

Table 12
Presence of *BBVA* in Latin America in 1999
($ millions)

Country	Domestic bank	% property	Position in the domestic banking system	Value of assets	Year of entry	Purchase price
Argentina	BBVA Banco Francés	60	3	8,859	1996	980
	Corp Banca Argentina	100	20	400	1999	85
Brazil	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 (Probursa)	67	5	8,556	1995	365
Peru	Banco Continental	39	3	2,864	1995	156
P. Rico	BBVA Puerto Rico	100	3	3,580	1979	
Uruguay	Banco Francés	58			1995	
Venezuela	Banco Provincial	51	1	4,186	1997	432

Source: Calderón and Casilda (2000), López-Morell and Bernabé (2018)

BBVA's first phase of expansion in Latin America came to a close in Chile, with the acquisition in 1998 of 44 per cent of *Banco Hipotecario de Fomento Nacional* (BHIF), founded in the nineteenth century in Valparaíso. *BBVA* invested a total of $350 million in 1998 and 1999. The new bank (*BBV Banco BHIF* until 2003, and simply *BBVA* from then on) has subsidiaries in different business areas such as financial consulting, mortgages, insurance, stock market, car purchase and investment funds. In fact, the bank collaborates with the Chilean pension system[23].

Table 13
***BBVA* Group: number of employees**

	1992	1993	1994	1995	1996	1997	1998	1999
Employees in foreign branches	2,158	2,302	2,442	5,765	13,814	31,938	39,805	52,050
Total employees	29,967	29,253	28,543	31,349	38,788	56,749	64,034	90,360
%	7.2	7.9	8.6	18.4	35.6	56.3	62.2	57.6

Source: *BBVA*, Annual Reports

To sum up, Latin America, and specifically Mexico, has been the main focus of *BBVA*'s international strategy. Since the end of the 1990s, a growing proportion of financial and human resources have gone abroad in terms of employees in subsidiaries and foreign branches (Table 13), mainly to Latin America (Table 14).

[23] During the 2000s, *BBVA* increased its activity in the pensions sector in Latin America generally, not only in Chile.

Table 14
***BBVA* Group: number of employees by region**

	2000	2005	2010	2015
Total employees	108,082	94,681	104,755	137,968
Spain	33,733	31,154	27,295	32,903
America (*)	72,314	61,604	72,664	80,100
Rest of the world	2,035	1,923	4,796	24,965
% America	66.9	65.1	69.4	58.1

(*) Latin America and USA

Source: *BBVA*, Annual Reports

The most important investment made by *BBVA* in Latin America in the 1990s was in Mexico, because of its size and also its results. It was a difficult entry, given the banking nationalisation in Mexico in the 1980s. In 1991, *BBVA* acquired a minority share in *Probursa*, and five years later this stake had grown to 70 per cent. *BBVA* also acquired some minor banks such as *Banco de Oriente* and *Banca Cremi*, and created the *Bancomer*[24] financial group. As we can see in Table 15, in 2007 Mexico represented more than 70 per cent of total *BBVA* profits. In 2008, there was a merger between *BBV Probusa* (the main shareholder of *BBV-México*) and the financial group *Bancomer*. Starting out with 56 per cent of *Bancomer*, by 2009 *BBVA* held 99.97 per cent of *Bancomer* shares, and *BBVA-Bancomer* became the leading Mexican banking institution.

Table 15
Total assets and profits of *BBVA*'s Latin American investments by country in 2007
($ million)

Country	Assets	Net attributable profits	
	Total	Total	%
Argentina	4,798	177	6.94
Chile	8,835	103	4.03
Colombia	5,922	122	4.78
Mexico	65,556	1,880	73.70
Panama	n/a	23	0.90
Paraguay	5.650	18	0.70
Perú	n/a	70	2.74
Uruguay	n/a	6	0.23
Venezuela	7,156	128	5.02
Other	n/a	24	0.94
Total in South America	34.690	671	26.30
Total South America and Mexico	100,246	2,551	100

Source: BBVA Annual Report, 2007.

Tables 15 and 16 show the market share evolution of *BBVA-Bancomer* from 2008-2010 to 2016, revealing a very high but stable market share (even with a decreasing trend in terms of deposits and credits). Despite this, *BBVA* in Mexico also holds a leading position in insurance,

[24] For more information about *Banco de Comercio S.A.* (*Bancomer*) from its origin in 1932, see González, Anes and Mendoza (2007) and Del Ángel (2012).

pension funds, investment funds and remittances, with market shares above 25 per cent in all these business operations.

Table 16
Evolution of *BBVA-Bancomer* in Mexico, 2010-2016

	Market share %	Ranking	Market share %	Ranking
	2010		**2016**	
Total assets	21.4	1	22.2	1
Total deposits	24.6	1	21.9	1
Total credits	25.9	1	23.5	1
Branches	15.9	1	14.7	1

Source: *BBVA*, annual reports

Table 17
***BBVA-Bancomer*, number of employees, 2008-2016**

	2008	2010	2014	2016
BBVA Bancomer	27,092	27,114	29,38	31,058
Foreign branches and representative offices	30	29	28	24
Total	27,122	27,143	29,415	31,082

Source: *BBVA*, Annual Reports

To sum up, in its first step of internationalisation *BBVA* focused on the Latin American region, with a pattern based on strategic alliances with local partners, through which it was generally able to obtain a majority shareholder position. This strategy has allowed *BBVA* to build a recognisable franchise on a global scale, to integrate the local business in the strategic direction of the global group and to transfer the organisational capabilities (operations management and technology) of *BBVA* to the newly acquired firms. *BBVA*'s leading position in Mexico has acted as a catalyst for its expansion in the rest of the continent. However, the results have varied and have not always been fruitful. For example, *BBVA*'s attempts to enter the Brazilian market have not been successful. Whereas *Santander* has achieved a dominant and stable position in Brazil, *BBVA* has recorded losses since its entry in 1998 and has only operated in the wholesale market. Despite this, and with the exception of Brazil, as seen in Table 15, the *BBVA* Group is present in most Latin American countries (Mexico, Argentina, Chile, Venezuela, Peru, Uruguay and Puerto Rico) as a bank, as well as in the insurance and pension sectors.

Table 18
Distribution of the Mexican banking sector, 31st December 2016
(%)

	Total	***BBVA Bancomer***	***Banamex***	***Santander***	***Banorte***	**HSBC**	**Scotiabank**
Assets	100	**22.25**	13.05	**15.78**	11.98	7.59	4.43
Deposits	100	**21.86**	14.70	**14.38**	12.37	7.03	5.74
Credits	100	**23.45**	13.81	**13.63**	13.07	6.41	5.81

Source: *Comisión Nacional Bancaria y de Valores*, Mexico

BBVA has also expanded in other regions such as the US, Europe and, to a lesser extent, Asia. It had an early entry into the US in the 1980s through the opening of branches of *BBV* and *Argentaria* in New York and Miami, basically operating as corporate and private banking. However, the most important expansion into the US took place after its consolidation in the Mexican market, due to its accumulated knowledge of the Hispanic market. The close and privileged relationship between Mexico and the US, mainly in the remittances sector, boosted *BBVA* international activity in the Southern United States. *BBVA* used its leading position in Mexico via *Bancomer* to facilitate its US expansion. In particular, it used the *Bancomer* Transfer Services (BTS)[25], which is a leading player in the remittance segment, to take a position in the US market.

As with its Latin America entries, its approach to the US started with the acquisition of two banks, in 2004 and 2005: *Valley Bank* in California and *Laredo National Bank* in Texas, both in the Sun Belt region, where *BBVA* has managed to achieve a consolidated presence. Although Valley was a small bank with only four branches, *BBVA* used BTS to acquire Valley bank, subsequently unifying the brand as *BBVA Bancomer USA,* which aimed to supply banking services to the Hispanic community in this region. The use of BTS was a good strategy for *BBVA*, acting as the main tool for *BBVA* to take hold of a sizeable chunk of the remittances not only in Mexico and US—one of the largest remittance corridors in the world—but also in Europe, Asia and Africa. BTS is currently the leading Mexico-US remittance broker with more than 40 per cent share in this market. With respect to Laredo National Bank, one of the largest banks in Texas, it was the biggest investment that *BBVA* made in the US market. In the following years, *BBVA* reinforced its position in this state through the acquisition of Texas State Bank and State National Bank.

Laredo, which was founded in 1892, had 47 branches and a strong presence in the state's main cities: Austin, Houston, Dallas and San Antonio. From its origins, this bank had strong connections with *BBVA Bancomer*. All together, Laredo, Texas State Bank and State National Bank offered *BBVA* the possibility of creating a leading banking group in the state, through the resulting conglomerate called *Tristar*. As Table 19 shows, *BBVA* invested more than $2,500 million in these two acquisitions ($2,134 million in Texas State, $484 million in State National). Both banks, which had strong roots in the area, specialised in providing commercial and personal credit to families and businesses. *Tristar* became a leading group in Texas with a

[25] BTS was founded in 1995 in Greenspoint (Texas) to facilitate the money transfer business.

network of 166 branches, more than 4,000 employees, more than $11,000 million in deposits, and $13,000 million in assets. However, the largest investment in the US took place in 2007 with the purchase of *Compass* Bank.

Table 19
Investments of *BBVA* in United States in 2008

	INVESTMENT ($ MILLION)
Valley Bank	17
Laredo National Bank	901
Texas Regional Bank	2,134
State National Bank	484
Compass Bank	9,115
Total investment US	**12,650**
BBVA Puerto Rico	348
Total investment *BBVA* US	**12,999**

Source: *BBVA* (2008: 53)

Compass Bank was founded in 1970 and had its company headquarters in Birmingham (Alabama). This bank is currently one of the 25 largest commercial banks in the US by market share and it is very well positioned in Alabama, Texas, Florida, New Mexico, Colorado and Arizona. Its business model is commercial retail banking, complemented by the issuance of credit cards and private banking activities. The strategy, then, was to concentrate *BBVA* efforts in one of the areas of greatest potential economic growth in the US. In 2012, *BBVA Compass* Bank was a leader in the Sun Belt region. To achieve this, *BBVA* first integrated the various previously-purchased entities (*Tristar* group) into *Compass*, and later on integrated *Compass* into *BBVA* USA.

The basis of *BBVA* USA's growth during its early years was increasing customer deposits, as well as achieving a good margin between interest and commissions, mainly in universal banking. Results, however, began to stagnate from 2014 and this has been reflected in the number of offices and employees, as well as in terms of deposits. Its profitability—which represented around 10 per cent of the group's total in the first years of operation of the *BBVA* USA franchise—seems to have stagnated at around 9-9.5% in recent years. The main problem has been that the number of clients has been below *BBVA* expectations. Economic conditions, especially the uncertainty surrounding unemployment and housing prices, are at the root of this phenomenon[26]. To sum up, the presence of *BBVA* in the US is concentrated in the Southern states, where is has a very competitive position but faces obstacles to growth. As in Latin American countries such as Argentina and Mexico, the Great Recession has had a great impact on *BBVA*'s business in the US.

[26] *BBVA COMPASS*, Annual Report, 31 December 2017.

Table 20
Position of *Compass* Bank by states, 2018-1Q

State	Ranking	Nº of Branches	Total Deposits ($000s)	Deposit Market Share (%)
Texas	4th	341	36,211,764	4.92
Alabama	2nd	89	13,842,989	13.80
Florida	21st	45	4,506,769	0.83
Arizona	6th	74	4,427,447	3.57
California	29th	62	4,197,521	0.32
Colorado	13th	37	2,355,722	1.78
New Mexico	12th	19	680,036	2.23

Source: *BBVA COMPASS*, Annual Reports

The third region of *BBVA*'s internationalisation is Europe. During the 2000s, the bank acquired significant stakes in various European banking entities, mainly Italian and French. Due to various circumstances—including regulation—the bank has divested itself of some investments in Europe (mainly Italian and French banks). In contrast to *Santander* Group, *BBVA* has only managed to consolidate its position in two countries: Portugal and Turkey. In Portugal, the evolution of the financial system has been relatively similar to that of the Spanish system: a relatively backward and closed system until the 1970s and 1980s, followed by a liberalisation process that started in the 1980s and got fully underway in the late 1990s with the entry of foreign banks. *BBV*-Portugal started operations in 1997, but *BBVA*'s main entry into Portugal was with the acquisition of *Crédit Lyonnais Portugal*, *Midas* and *Banco Efisa* (González, Anes and Mendoza, 2007). *BBVA* registered rapid growth in Portugal until 2007 but the impact of the Great Recession forced *BBVA* to change its strategy by abandoning the retail market and concentrating its activity in private and corporate bank. In 2014, *BBVA* closed most of the branches and the bank is now involved in a process of restructuration. In the rest of Europe, *BBVA* has banks in Ireland, Switzerland and Italy and branches in Germany, Belgium, France, and the United Kingdom, as well as a representative office in Moscow. In any case, the relative importance of banking activity in this region is clearly lower than in Latin America, Turkey and the US.

Turkey is one of the countries where *BBVA* has recently managed to consolidate its position (Table 21). The bank has made substantial investments, especially after the Great Recession when the bank intensified its investments in response to Turkey's positive macroeconomic conditions (in terms of GDP per capita growth and low unemployment rates) and great potential growth in the banking sector (Turkey has a low rate of banking penetration, a young population, and a total population of more than 75 million). For *BBVA*, Turkey was also a possible gateway to Asia.

The expansion strategy in Turkey was similar to the one used previously in other countries: the acquisition of a local partner, in this case *Turkiye Garanti Bankasi*. *BBVA* signed an agreement in 2010 with the main shareholders of *Garanti* Bank, the Turkish group *Dogus* and the General Electric group for the acquisition of a 24.8 per cent share of its capital for a total price of $5.838 billion. The agreement included the joint management of the bank and the joint election of some members of the board of directors. Additionally, *BBVA* was granted the option to buy an additional 1 per cent of *Garanti* Bank five years after the initial purchase. In

2014, *BBVA* agreed to raise its stake in *Garanti* to 49.9 per cent. In 2016, *Garanti* Bank had more than 23,000 employees, more than 14 million customers, and a broad distribution network (971 branches in Turkey, 7 in Cyprus, 1 in Luxembourg and 1 in Malta, with representative offices in London, Dusseldorf and Shanghai). However, the main risk of banking investment in Turkey comes from the exchange rate, due to the political instability of the area and the Central Bank of Turkey's performance, which has resulted in a depreciation of the lira. As a consequence, there was a reduction in profits and a deterioration of financial assets, which make the investment in Turkey (valued at no more than €7,000 million) a strategic but risky asset (*BBVA*, 2017).

Table 21
Credits and deposits of *BBVA* in 2015

	Loans		Deposits	
	Market share%	**Ranking**	**Market share %**	**Ranking**
Mexico	23.4	1	23.2	1
Spain	14.4	2	14.7	3
Turkey	11.8	2	11.6	2
South America (excluding Brazil)	10.4	n/a	10.4	n/a
US Sunbelt	n/a	n/a	6.3	4

Source: *BBVA*, Annual Report 2015

Like *Santander*, the *BBVA's* last phase of expansion was in Asia. As with other Spanish firms, investment in Asia came later than investment in other foreign markets (Durán, 2005; Guillén, 2006). *BBVA* opened a branch in Tokyo in 1977 (which was closed due to the Asian financial crisis in the 1990s and re-opened in 2005). However, the most important entry into Asia was in 1985 with the opening of a representative office in Beijing and a branch in Hong Kong. Moreover, in 2005 *BBVA* designed a strategic agreement (*Plan Asia*) that started with an opening in Shanghai and concluded with an agreement with its local partner *Citic Group* (*CITIC* Bank Corporation Limited), the leading investment conglomerate in the Popular Republic of China (*BBVA,* 2008)[27]. The agreement defined two different business areas: continental China and Hong Kong. As a consequence of *Plan Asia* branches were opened in Taiwan, Korea and Australia in 2006, with an investment of €1.180 million. In return, *BBVA* obtained 4.8 per cent of *Citic* in continental China, increasing to a 9.9 per cent stake in 2007 and 15 per cent in 2009. With respect to Hong Kong, *BBVA* achieved a 15 per cent stake with the option to increase this stake by 15 per cent in the following five years. At that time, the investment was the largest that had ever been made by a Spanish firm in China. *BBVA* also signed an agreement with the China Development Bank, which was the first agreement between a Spanish bank and a Chinese public bank under the direct jurisdiction of the government (*PwC,* 2011). Moreover, this bank has also engaged in major operations with Argentina, Brazil, Venezuela and also in Africa.

Most of the Chinese business is done through the Hong Kong branch, with more than half of the 200 employees that the bank has in China. *BBVA* has comparative advantages and

[27] *Citic* is one of the 10 largest Chinese banks, with branches along the entire Chinese coast.

great experience in the remittances sector, and it used *BTS* to sign some agreements with Chinese banks to facilitate money transfers with Latin America, the US and Asia. In a context of major Chinese FDI in South America, *BBVA* has improved its position in Latin America. This investment also allowed it to develop other business areas such as consumer loans or car purchases.

BBVA decided to cancel most of its investments in China between 2013 and 2107. It sold its *Citic* shares as a consequence of the regulatory changes linked to the Basel III regulatory framework covering the *core capital* of the banks regulated by the European Central Bank. In 2013, it sold a 5.1 per cent stake in *Citic* for an amount of €944 million and progressively reduced its stake to the present 0.3 per cent. This decision has had a negative impact on the bank's results. Despite this, the overall balance of Chinese investment, particularly in *Citic*, meant a positive cash flow of €1,300 million (€4,600 obtained from the sale minus €3,330 of the investment, *BBVA* Annual Report 2015). Finally, in 2010, the bank achieved entry into India through an agreement with *Bank of Baroda*, which included the purchase of 51 per cent of the credit card division (*Bobcards*) of the Indian bank for €34 million. However, the decision to sell previous Chinese acquisitions explains why the Asian market only represented 2.3 per cent of *BBVA* profits in 2017 (Table 22).

Table 22
***BBVA* profits by region and country**
(%)

Mexico	**40.3**
Spain	**16.4**
Latin America	**16**
- Chile	3.5
- Colombia	3.8
- Argentina	4.1
- Peru	3.4
- Rest	1.3
Turkey	**15.4**
US	**9.5**
Eurasia	**2.3**

Source: *BBVA*, Annual Report 2017

Table 23
***BBVA* Group, Assets by level of risk**
(business areas and main countries), 2016 – 2017
(€ million)

	2016	**2017**
Banking activity in Spain	113,194	111,825
Non-Core Real Estate	10,870	9,691
US	65,492	58,682
Turkey	70,337	62,768
Mexico	47,863	43,715
South America	57,443	55,665
- Argentina	8,717	9,364
- Chile	14,300	14,300
- Colombia	12,185	12,249
- Peru	17,400	14,750
- Venezuela	1,360	1,516
- Rest of South America	3,480	3,485
Rest of Eurasia	15,637	12,916
Corporate centre	8,115	6,426

Source: *BBVA* Annual Report 2017

4.- Measuring recent internationalisation and concluding remarks

As a measure of banking internationalisation Buch et al. (2010) use the volume of foreign activities relative to total assets, which they define as the "intensive margin". In 2017, *BSCH* and *BBVA* together had more than €1,800,000 million of assets (Table 24) and the percentage of foreign activities to total assets in both banks is above 70 per cent. The two internationalisation processes share some similarities but also reveal notable differences, as shown in Table 24.

Table 24
Total assets and foreign assets of *Santander* and *BBVA*
(€ million)

***Santander* Group**	**1999**	**2006**	**2017**
Foreign assets	76,734.9	520,007	1,093,507
Total assets	256,438.5	844,873	1,444,305
% Foreign Assets over Total assets	29.92%	62.36%	75.71%
***BBVA* group**	**1999**	**2006**	**2017**
Foreign assets	50,076	107,688	305,527
Total assets	238,166	411,916	417,352
% Foreign Assets over Total assets	21.03%	26.14%	73.21%

Source: for 1999 and 2006, Sierra (2007) and for 2017, *Santander* and *BBVA*, Annual Reports

BSCH and *BBVA* started their international expansion after: a) consolidating their positions in Spain and b) a process of mergers that allowed them to achieve the size they needed to expand abroad. Both banks adopted a strategy of entry via acquisition rather than via greenfield operations. The main difference was that whereas *Banco Santander* took majority stakes with the objective of ensuring full managerial control[28], *BBVA* started with minority stakes that it gradually increased over time (Guillén and Tschoegl, 1999). Retail banking has been the area of specialisation of *Banco Santander* and *BBVA*, in contrast to other foreign banks such as Citibank, which focus on a minority of the population: the high-net-worth households and investors (Citi Report, 2017). In both cases, Latin America was the first area of expansion and this region has been crucial for their international expansion. However, *Santander's* process of internationalisation started before that of *BBVA* (or the banks that formed *BBVA*). In the pre-1986 period, *Santander* had a much more notable presence in Latin America than *BBVA*. *Santander*'s initial entry was aimed at providing its clients with the necessary services to carry out their operations abroad ("to follow-the-client") but from the 1960s and especially in the 1970s, the bank looked for new growth opportunities and acquired some local banks in Latin America. In this period, the banks that would later form *BBVA* had a relatively limited presence abroad.

In the post-1986 period, *Santander* Group and *BBVA* have reinforced their presence in Latin America. In 1999, *Banco Santander* had more foreign assets as a percentage of total assets (29.92 per cent) than *BBVA* (21.03 per cent) but neither of these two banks reported a ratio above 30 per cent. However, the main difference took place between 1999 and 2006, when *BBVA* increased this percentage from 21.03 to just 26.14 per cent, whereas *Santander* rose from 29.92 to 62.36 per cent. Therefore, *Banco Santander* achieved a substantial increase in the intensive margin in only seven years.

From 2006 to 2017 both banks increased their presence abroad, to the point where they reached similar percentages of foreign assets over total assets: 73.21 per cent in the case of *BBVA* and 75.71 for *Santander*. In this sense, *BBVA*'s catching-up process in the period (2006-2017) was very rapid. *Santander* started its international race earlier and followed a gradual strategy of implementation abroad. The period with the highest increase in *Santander*'s intensive margin was from 1999 to 2006. *BBVA* started the internationalisation race later than *Santander* but from 2006 to 2017 it accelerated its internationalisation process: in 2017, although *Santander* had a higher volume of foreign assets (*BBVA* had a total of €305,527 million foreign assets whereas *Santander* had €1,093,507 million), both had a similar percentage of foreign assets over total assets.

In the post-1986 period, *Santander* Group and *BBVA* have reinforced their presence in Latin America; in 2017, this region accounted for 53 per cent and 56 per cent, respectively, of these two entities' profits. *Santander* has its activity distributed among different countries (Argentina, Brazil, Chile and Mexico) whereas *BBVA*'s activity is more concentrated in Mexico. With respect to the international expansion in other regions, *Santander* is more active in Europe (the UK, Portugal and Poland) than *BBVA*, whereas *BBVA* has been more successful in Turkey and the US. It is interesting to observe how *Banco Santander* and *BBVA* have a different pattern of geographical distribution although they do compete in some countries.

[28] As Guillén and Tschoegl (1999) remark, *Banco Santander* expanded via acquisitions and imposed the brand image abroad, whereas *Banco Central Hispano* adopted a strategy based on ventures with local partners, but without promoting its own brand.

They have nearly 30 per cent of their total assets in Latin America. *Santander* is the largest private bank in the region with nearly €350,000 million in assets and it obtains more than 50 per cent of its profits in this region. This bank is the leader among foreign banks in Argentina, Brazil and Chile. *BBVA*, however, has a predominant position in Colombia and Venezuela, and it is the second largest bank in Mexico. The main difference between *Santander* and *BBVA* in Latin America concerns Brazil. Whereas *Santander* has reinforced its position in Brazil through its *Banespa* acquisition, *BBVA* has not been successful in this country. However, *BBVA* has a better position in Mexico than *Santander*.

In addition to foreign assets, Buch et al. (2010) also use the branching expansion or extensive margin as an indicator of internationalisation. In order to understand the situation in the pre-1986 period, we have included all the branches, representative offices and subsidiaries of the banks that would later merge with *Santander* and *BBVA*. In the pre-1986 period, the banks that would later merge to form the *BBVA* group had more branches than those of *Santander*, whereas *Santander* had more representative offices than *BBVA*. In the post-1986 period, *Banco Santander* had more branches and representative offices than *BBVA*. *BBVA* underwent an extraordinary expansion in terms of subsidiaries from 1995 to 2000, but it decreased from 2000 to 2015. By contrast, *Santander* almost doubled its number of branches from 2000 to 2015 (Table 25).

Table 25
Total branches, representative offices and subsidiaries of *Santander* and *BBVA* in foreign countries

***Santander* Group**	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Branches	10	18	75	83	30	17	7	8	11
Representative offices	31	36	44	51	33	17	18	9	6
Subsidiaries			23	89* (150)	519	3,770	5,460	9,000	9,212
BBVA group	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**
Branches	21	30	33	31	57	23	17	16	19
Representative offices	13	24	34	27	29	23	8	8	9
Subsidiaries			23	76	490	5,040	3,807	4,313	4,148

Note: *Santander* Group includes the branches, representative offices and subsidiaries of *Banco Hispano Americano*, *Banco Central* and *Banco Santander* in foreign countries. *BBVA* group includes the branches, representative offices and subsidiaries of *Banco Exterior de España*, *Banco Vizcaya*, *Banco Bilbao*, *Banca Catalana* and *Corporación bancaria de España* in foreign countries.
(*) including banks and societies.

Source: *Asociación Española de Banca* (*AEB*), several years

BBVA and *Santander* Group have not only operated as commercial banks, they have also achieved important market shares in other business areas such as insurance, investment banking or pension funds. In 2000, *BBVA* managed 28.5 per cent of pension funds in Latin America and *Santander* only 14.4 per cent. With respect to investment funds, *Santander* held a stronger position than *BBVA* (Sierra, 2007).

With respect to the management strategy, as we have tried to show in this article and as numerous press reports and studies highlight, there is a contrast between *Santander*'s 'presidential' management style (linked to the different members of the Botín family that have been head of the bank) and *BBVA*'s 'team style' of management (Guillén and Tschoegl, 1999).

Santander showed an early interest in developing its technological platform and *Partenón* has been a crucial factor in its success. As mentioned, *Partenón* was decisive in its strategy of strict risk control. In relative terms, the technological development of *BBVA* started later. In recent years, however, *BBVA* has made a great technological effort, and Forrester Research (2017) ranked *BBVA* first in European mobile banking services. Forrester (2017) evaluated the retail mobile banking services of 11 retail banks in Europe and they highlighted the intensity and speed of *BBVA*'s digital advances in recent years, as well as the wide variety of transactional functionalities and marketing and sales initiatives available in the application.

As shown in the paper, the current geographic pattern of *BBVA*'s and *Santander*'s business activity in Latin America has been shaped by their respective histories in this region. However, the most recent international expansion results from a combination of different factors such as recent regulatory changes and the 2007/2008 crisis.

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