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Featured Q&A With Our Board of Advisors

Q Citigroup announced last week it will acquire up to 50 percent of Chile's Quinenco, the company that controls Banco de Chile, the country's second-largest bank. In light of the news, what is the outlook for Banco de Chile? What about the country's banking sector in general? Do you see more acquisitions in Chile on the horizon?

A Guest Comment: **Jeanne del Casino:** "We believe this transaction has the potential to dramatically shift the balance of competition among banks in Chile, particularly for the largest players, in terms of pricing power, operating efficiency, and product offerings given the management and financial resources available within Citigroup. Nevertheless, it may put even greater pressure on medium-sized or small banks which would spur further consolidation. That said, this transaction, and others like it, should have a positive effect on the Chilean banking system in light of the financial and qualitative benefits it implies. The Citi-BCH partnership is also representative of the increased interest and commitment we are seeing from major international banks in Latin America as a whole. The Citi-BCH transaction raises the question of whether other potential suitors might pursue larger investments in Chile and elsewhere. Scotiabank has already made a significant new investment in the Andean region by acquiring Banco Wiese

in Peru and is at the same time empowering its Chilean operation to diversify and increase market share. The already dominant Santander could acquire ABN Amro's operations in Brazil, should its European consortium be successful in acquiring the parent. HSBC and BBVA are also potential acquirers. Other deals may ensue because of the combination of margin pressure and the need for more capital to fund the dynamic loan growth in Chile during the past four years. Important new investments in technology are also driving consolidation, as is the case for the industry globally. The Citi-BCH transaction is likely to put significant pressure on banks such as

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PHOTO OF THE DAY



Mexican President Felipe Calderon said Thursday he would make changes to his tax reform proposal to address concerns by companies. See [story](#) on page 2.

Photo: Los Pinos.

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NEWS BRIEFS

Central Bank Chief Calls for Reforms to Mexican Labor Laws

The head of Mexico's central bank, Guillermo Ortiz, on Thursday called for reform to the country's labor laws, Reuters reported. Speaking at a World Bank conference on Mexico's informal economy, Ortiz blamed outdated labor laws for the high levels of unemployment and informal labor in Mexico. Citing statistics from 2004, Ortiz said 44 percent of Mexico's labor force worked in the informal economy. Ortiz said he thought some poor Mexicans were not trying to find formal work so they could keep receiving benefits like healthcare from the government.

Ally of President Garcia Elected to Lead Peru's Congress

Peru's Congress has elected former Foreign Minister Luis Gonzales Posada, a member of President Alan Garcia's APRA party, to lead the legislature, Bloomberg News reported on Thursday. Gonzales' election, which gives Garcia control over Congress for a second year, is expected to limit pressure from opposition lawmakers for greater social spending, according to the report.

Banco Azteca Gets Initial Okay to Launch Operations in Brazil

Banco Azteca, the banking unit of Mexican retailer **Elektra**, received initial approval Thursday to set up operations in Brazil, Reuters reported. The bank, which has been successful in marketing to working class Mexicans through consumer loans and remittance services, has been eyeing other countries for expansion. Elektra currently operates retail outlets in Panama, Honduras, Guatemala, and El Salvador.

Political News

Cuba Open to Talks with US After Bush Leaves Office—Raul Castro

Acting Cuban President Raul Castro said Thursday he would be open to discussing an improvement in relations with the United States once US President George W. Bush is no longer in office, the Associated Press reported. "If the new United States authorities would finally desist from their arrogance and decide to converse in a civilized manner, it would be a welcome change," he told thousands gathered for the annual Revolution Day festivities in Camaguey, the Communist island's third-largest city. Castro took the reins of power in Cuba

**Raul Castro**

Photo: Agencia
Cubana de Noticias.

“These have truly been difficult moments, although with a diametrically different impact than that expected by our enemies, who wished for chaos to take hold and for Cuban socialism to collapse.”

— Raul Castro

almost a year ago after his brother, Fidel Castro, underwent emergency intestinal surgery. Cuba "could hardly even suspect what a hard blow was awaiting us" when Fidel fell ill several days after giving Revolution Day speeches last year, Raul said on Thursday. Fidel Castro, who has not been seen in public since undergoing surgery, except via photos and television images released by state-run media, is reportedly recovering and in recent months has written several op-eds on a range of topics. "These have truly been difficult moments, although with a diametrically different impact than that expected by our enemies, who wished for chaos to take hold and for Cuban socialism to collapse," Raul Castro said in his speech Thursday. "Senior US officials even made statements about taking advantage of this scenario to destroy the revolution," he added. The US has maintained a 45 year-

old embargo on Cuba and strictly limits US travelers from visiting the island nation.

Economic News

Mexico's Calderon Says He Will Make Changes to Tax Reform Bill

Mexican President Felipe Calderon said Thursday he would make changes to his tax reform proposal to address concerns by companies, Reuters reported. "We are working intensely to improve and correct the proposal, attending to important and valuable suggestions from industry and business to avoid an impact on investment and employment," Calderon was quoted as saying during a visit to an automobile factory in the northern state of Nuevo Leon. Earlier this month, Mexico's biggest business group, the Business Coordinating Council, called on Calderon to make

changes to the tax reform bill, including lowering a minimum corporate tax, and giving greater tax deductions for salaries and social contributions, and warned of a negative impact on employment and investment if the changes were not made. Under Calderon's bill, companies would have to pay the higher of two taxes—a new tax of as much as 19 percent on revenue minus investment and cost of inputs, or the existing 28 percent tax on net profit. Mexican companies, which critics say do not pay enough taxes, have been expected to seek to either block or amend Calderon's tax reform proposal [Editor's note: see related Q&A in the June 26, 2007 [issue](#) of the *Advisor*]. The proposal is aimed at boosting tax revenue by 3 percent of GDP and lessening the government's dependence on income from state-owned oil monopoly Pemex, which funds about one-third of the government's budget.

Mexico's tax revenue is currently about 10 percent of GDP, the second-lowest in Latin America, according to Reuters.

Company News

ING Buying Santander's LatAm Pension Fund Business for \$1.3 Bn

Netherlands-based financial services giant **ING Groep** announced early today it had agreed to buy **Santander's** pension operations in Latin America for \$1.3 billion. In a statement, ING said the acquisition of Santander's pension fund management companies in Mexico, Chile, Colombia, and Uruguay would make it the second-largest pension fund manager in Latin America. Earlier this week, news service AFX, citing a report in Argentine daily *Clarín*, said that Santander had also reached an agreement to sell Argentine pension fund manager **AFJP Origenes** to ING for 300 million euros (\$US 413 million). However, ING said it was holding separate talks regarding Santander's pension and annuities business in Argentina, which was not included in the acquisition announced Thursday. Excluding Argentina, ING's and Santander's Latin American pension business had a total of 35.5 billion euros worth of assets under management at the end of 2006. ING said it already has pension fund operations in Chile and Mexico, and is the number-one pension fund manager in Peru. Once the acquisition closes by early next year, pending regulatory approvals, ING will be the number-three pension provider in Mexico, number-three in Chile, number-five in Colombia, and number-two in Uruguay, the Dutch financial services company said.

NII Holdings Reports 50 Percent Increase in Second-Quarter Profit

Regional mobile operator **NII Holdings** posted a 50 percent jump in its second-quarter profit, driven by strong revenue and subscriber growth. In an earnings release, NII Holdings, which operates in Argentina, Brazil, Mexico, and Peru under the Nextel brand, reported consolidated net income of \$84.1 million for the three

Capitol Hill Watch

A Weekly Look at US Congressional Activity on Latin America

Senate Approves \$3 Billion in Emergency Spending for Border Security

The Senate on Thursday voted overwhelmingly in favor of an additional \$3 billion in emergency spending to increase border security, Reuters reported. In an 89-1 vote, senators approved adding the funds to a homeland security spending bill for next year currently being debated. The vote follows lawmakers' failure earlier this month to pass a comprehensive immigration reform bill, which among other things was aimed at addressing the status of the estimated 12 million illegal immigrants—most of them from Mexico and Central America—living in the United States. However, the Republican sponsors of Thursday's meas-

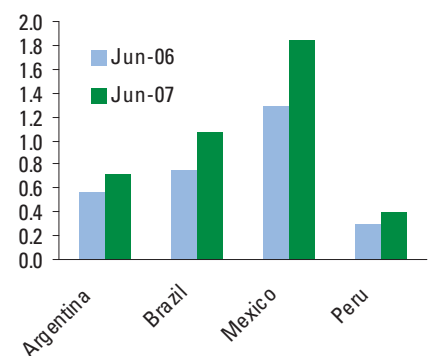
“One of the things that those of us who supported immigration reform learned was that the depth and breadth of cynicism about the government's commitment to enforcement is an impediment to comprehensive reform.”

— Sen. Jon Kyl

ure said the additional money for border security could help lay the groundwork for a broader immigration reform. "It will make it easier to go to the next step," Sen. Lindsey Graham (R-SC) was quoted as saying. Sen. Jon Kyl (R-AZ) noted that "one of the things that those of us who supported immigration reform learned was that the depth and breadth of cynicism about the government's commitment to enforcement is an impediment to comprehensive reform." US President George W. Bush has threatened to veto the \$37.6 billion homeland security spending bill for fiscal 2008 because it is about \$2.5 billion more than he sought, not including the additional money for border security.

months through June 30, up from \$55.9 million for the same period of 2006. Operating revenues rose 41 percent year-on-year to \$785.7 million, as the company added 1.14 million net subscribers during the 12 months through June, including a record 331,100 during the second quarter. The strongest subscriber growth was in Brazil and Mexico, which saw 43 percent and 42 percent year-on-year increases, respectively, in the second quarter to 1.08 million and 1.85 million customers. NII said it expects to add 1.28 million net subscribers this year, up from a previous estimate of 1.20 million. It expects capital expenditures this year to total \$650 million.

NII Holdings Subscriber Growth (millions of subscribers)



Source: NII Holdings.

Featured Q&A*Continued from page 1*

Bci, the country's fourth-largest bank, whose capital base is much smaller, but has an established and diverse retail franchise that makes it attractive to domestic and international institutions alike. Other smaller, but still sizable, institutions such as CorpBanca, Banco del Desarrollo, and Banco Security, are also attractive targets because of their niche and product expertise and client penetration."

A Guest Comment: Tricia Juhn: "In the next three to five years, we anticipate that the lion's share of Latin retail banking will be divided among two or three global giants—say Citi, Santander, and a third player to be named later. Citi's acquisition of Quinenco is a logical addition to its global portfolio. On the Citi side, the buy is driven by the success of acquisitions in Mexico and Central America. On the Chilean side, the deal

“The process is inexorable: bulge brackets need to show returns to their investors, and they go where the growth is.”

— *Tricia Juhn*

gives Citi a 20 percent share of the market, roughly on par with rival Santander. This deal is the continuation of consolidation in the Latin financial services sector, as local banks get bought out by global giants. (Citi and HSBC have effectively divided Central America between them. Some 80 percent of deposits in Mexico are owned by five banks, led by Citi's Banamex and Bancomer-BBVA.) We are seeing Scotiabank make prudent but decisive moves throughout Latin America as well as the Caribbean; and there are the Spanish giants, Santander and BBVA, to contend with. The process is inexorable: bulge brackets need to show returns to their investors, and they go where the growth is. It makes sense that they would go where macro condi-

tions have stabilized enough to execute. Moreover, once one bulge bracket goes into a new market, the others will follow to compete for share. Expect continuing consolidation within Latin America, with a cautious expansion into the Caribbean in the medium term."

A Guest Comment: Natalia Aránguiz: "Throughout 2006, loans in the Chilean banking system grew at a rate of 20 percent. However, that trend has tended to slow this year. Moreover, future inflation pressures foretell interest rate hikes in monetary policy that could decrease the demand for credit. On the other hand, the general tendency in the sector is a focus on low-penetration segments by way of [banks'] consumer divisions. This primarily occurs because much higher interest rates can be applied to these loans than to those for large companies. Although Chile's banking sector is composed of 26 entities, 80 percent of the market is in the hands of just six banks. Thus, in aiming to improve efficiency, generate economies of scale, and compete on a more level field with the country's large banks, it is natural to imagine new alliances in this sector. In this context, the strategic alliance between Banco de Chile and Citibank offers Banco de Chile better tools to compete in the most attractive market segment: individual consumers. Additionally, in the corporate segment, the combined bank is positioned as the largest in the country. Finally, Citibank's international experience makes the prospects for this new alliance very attractive."

Jeanne del Casino is Vice President and Regional Credit Officer for Latin American Banks at Moody's Investors Service in New York.

Tricia Juhn is Director of the Financial Services Practice at Miami-based InfoAmericas.

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