

Global Meltdown Spurs Bank Consolidation in Brazil

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Bank shares in Brazil soared earlier this week after Banco Itaú announced the purchase of Unibanco Holdings, a transaction that will create Latin America's biggest private banking firm. The stock transaction is valued in US\$ 12.5 billion.

Brazil's Bovespa index rose 2.3% to 38,115, with shares of Banco Itaú up 16% at 26.82 reais (US\$ 13.27). It was the biggest percentage jump since 1992 for shares of Brazil's second-largest bank. Unibanco shares rose 8.7% to 14.93 reais.

The advances followed the companies' announcement that they will merge operations in an all-stock deal. The new firm is to be called Itaú Unibanco Holding SA, will have 265 billion USD in assets. The deal is the result of 15 months of negotiations, the companies said in a joint statement.

Itaú will own 66% of the new company, which will have 19% of the local credit market, while Unibanco's shareholders get one share for each 1.7391 of the most traded unit.

The operation may signal more consolidation ahead among Brazilian financial institutions after local credit markets dried up. Brazil's central bank has injected more than 100 billion reais in the banking system since September 24 to spur lending and prevent smaller institutions from failing.

Talks between Itaú, the second-largest non-government bank, and Unibanco, the third-largest "accelerated" as the global credit crisis deepened recently, Itaú Chief Executive Roberto Egydio Setúbal said at a press conference in Sao Paulo Monday.

He said the decision to join forces with Unibanco was "a direct result" of the acquisition of ABN Amro Holding NV's Banco Real Brazilian unit by Banco Santander of Spain last year.

"When Santander bought Banco Real last year, Brazil's financial sector got a new kind of player and a new level of competition we had never had before," Setúbal said. "Suddenly the foreigners had bigger scale than the locals. We knew we needed to do something if we wanted to compete and grow," he said, adding that talks with Unibanco started in August last year. Itaú Unibanco plans to expand across Latin America, he said.

Setúbal, 54, will be CEO of the new company, while Unibanco Chief Executive Pedro Moreira Salles, 49, will be chairman. Itaú's controlling shareholders and the Moreira Salles family will name 6 of the 14 board members of Itaú

Unibanco, according to the statement. Independent executives will have the remaining eight seats.

Although there may be some overlap in Itaú and Unibanco's staff, the executives aren't planning any job cuts, Moreira Salles said at today's press conference. He also said the banks will maintain all its 4,800 branches.

Brazilian Finance Minister Guido Mantega said the combination will strengthen the country's financial system and spur lending.

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