

The Banker

GLOBAL FINANCIAL INTELLIGENCE SINCE 1926

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FARGO WAY

John Stumpf
interview

**GREEN
BOND
SHOOTS**

**COLOMBIA'S
PRESIDENT
ON PEACE**

**HONG KONG'S
CHALLENGES**

**TOP LATAM
BANKS**

**PRIVATE BANKING
AWARDS 2014**

**TOP ISLAMIC
FINANCIAL
INSTITUTIONS**



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COVER STORY

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Outbound report
The Banker's annual ranking of the Top Islamic Financial Institutions shows an industry whose continued growth is seeing it evolve beyond niche status.



REPORT: PRIVATE BANKING AWARDS 2014

Outbound report
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WATCH



Brian Caplen, editor of *The Banker*, discusses financial crime compliance with Tom Scampion, global risk analytics leader at Deloitte, and Luc Meurant, head of banking, markets and compliance services at Swift.

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- US banks retain lead in North American ROC ranking
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WEBCAST: THE CORE BANKING CHALLENGE

The Banker's technology and transaction banking editor, Jane Cooper, chairs a discussion with industry experts about the new ways to think about core banking and how banks must respond to the rapidly changing environment. View this webcast for free at:

www.TheBanker.com/SAP

VIEW FROM FELABAN 2014

The Banker is attending the 2014 Felaban Annual Assembly and our editors will be reporting regularly from the event with viewpoints and discussions with key industry figures. Bringing you articles, reports and videos, *The Banker's* View From Felaban 2014 is your ideal guide to the event.

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BILATERAL TRADE BETWEEN ROMANIA AND RUSSIA IS BELOW THE THRESHOLD THAT WOULD LIKELY GENERATE MAJOR ECONOMIC EFFECTS AS A RESULT OF THE CONFLICT AND THE SANCTIONS IMPOSED ON RUSSIA *Constantin Nita, Romania's minister of economy, page 56*



[COLOMBIA HAS] ONE OF THE STRONGEST ECONOMIES ON THE PLANET. WE ARE LEADERS IN LATIN AMERICA *Juan Manuel Santos, Colombia's president, page 66*



JUAN MANUEL SANTOS

Q&A

Colombia stands on the brink of a peace deal with the FARC rebels, while its economy, buoyed by cycles of strong foreign investment levels and rising GDP growth, looks set to only get stronger. President Juan Manuel Santos tells Silvia Pavoni why the country's future looks brighter than ever.

Q You spoke to *The Banker* this May, before your re-election, and were hopeful that a final peace agreement with the FARC, the Revolutionary Armed Forces of Colombia, was in sight. Do you still hold this view?

A I am not the only one who is hopeful. All Colombians have good reason to believe that after 50 years of war, we can finally end this conflict.

Never before have we made it this far in negotiations with the FARC. There is already an agreement on three of the five points on the agenda. The first deals with rural development, and will enable us to change forever the history of our farmlands. It will also allow us to make the investments that have long been needed but that we were unable to make, or that were ineffective due to the conflict itself.

The second point deals with political participation, which is... deepening our democracy and trading 'bullets for votes'. And for the third point, we have agreed upon deals regarding the drug problem.

This last point is of great importance, not just for Colombia, but also for the world. Essentially, we are talking about ending cocaine production in our territory. To achieve this, the FARC is committed to breaking all links with drug trafficking and co-operating to end this problem.

We are currently discussing the final two points on the agenda: the issue of victims, where we are trying to figure out the best way to address the rights of so many people who have been affected by the war, and the point dealing with 'DDR' [disarmament, demobilisation and reintegration]. All these advances give us a sense of hope and possibility that peace is finally within reach for Colombia.

Q Colombia has focused on an economic development model driven by investment, which has been greatly successful in the past. Will this continue to set the country apart from others in the region and attract foreign investment to its shores?

A We will certainly continue to work in that direction. We have one of the strongest economies on the planet. We are leaders in Latin America. The challenge is to maintain that solid foundation and I am confident we will, because we're doing the right things.

We have implemented a virtuous cycle, which can be explained this way: first, we got our fiscal policies balanced properly. To achieve this, we lowered our budget deficit from 3.9% of gross domestic product [GDP] in 2010 to 2.4% last year. Second, this balance led to lower interest rates and in turn, investment rates increased, reaching 30% of GDP this year. Third, these higher levels of investment increased economic growth, which also increased revenues. This last point closes the virtuous cycle because more tax revenues promote healthier finances and more social investment.

So why invest in Colombia? For us, this is not an end in itself. This is a means to achieve our true collective purpose: a country at peace, with equality, and a better educated population.

An example of how the rise in investment and economic growth has contributed toward a reduction in inequality is that we have lowered poverty rates like no other country in Latin America. In just four years, poverty has decreased from 39% to 29%. This translates into an expanding middle class and higher income per capita, in turn generating a new virtuous cycle of investment and growth in Colombia. In addition, we just began the largest cycle of investments in infrastructure in our history, which will [be worth] more than \$25bn and will mean an extra 1.5% annual growth in our GDP rate. Additionally, if we sign the peace agreements, many studies indicate that our economy can grow another two percentage points into the foreseeable future.

Q Are you optimistic about the pace of development of the Pacific Alliance and the Mercado Integrado Latinoamericano, or MILA, project, which bring



together the trade and stock markets of Colombia, Peru, Chile and Mexico?

A The Pacific Alliance is already a success. A good part of that success is due to the fact that it's a pragmatic alliance, focused on results that impact the free movement of goods, services, capital and people. Look at what has been accomplished in a very short time: we signed a commercial protocol eliminating 92% of our tariffs and now we jointly promote our exports, our investments and tourism opportunities. For instance, we have a joint office in Turkey and we will soon have another one in Morocco.

Also, we integrated our stock markets, which makes us the largest exchange in Latin America, and since 2012 we eliminated all tourism and business visas among our countries.

The Pacific Alliance has drawn a great deal of attention. There are now 32 observer states that have a serious interest in participating. And it's easy to understand why. Peru, Chile, Mexico and Colombia together represent the sixth largest economy in the world and a market of 214 million consumers.

Q What role would you like the financial sector to play in the economic growth of Colombia? Can it help reduce inequality in the country?

A For several weeks now, I have been talking to business leaders in Colombia about a holistic vision for the country; a vision in which business groups, trade associations, think tanks, corporations, entrepreneurs and citizens think not only about their own activities and their own self interests, but rather think about Colombia as a whole; a vision in which we agree on some fundamental principles that can benefit all of us equally.

In my second inauguration speech in August, I laid out a vision of a country that aspires to meet three objectives: a country at peace, with equality and the highest education standards in Latin America by the year 2025.

Consolidating peace and security, closing the social differences and having high-quality education for all will be an immense achievement. The effort we make must match the ambition of our goals. All of us must contribute and the government must continue to lead the way. I am certain that the financial sector, which is very strong and well regulated, will play a crucial role in achieving these great transformations and will serve as a vehicle for greatly reducing inequality in Colombia.



All hands on deck: much progress has already been made in integrating trade and commerce between the member countries of the Pacific Alliance, which includes Colombia

Q What worries you the most when you look at Colombia's banking sector? Is limited lending to small and medium-sized enterprises a concern?

A It is not an accident that the great moments in our economy have coincided with the evolution of banking in Colombia. For this reason, more than concerns, my government is always analysing what ought to be the next steps in order to guarantee, for example, greater and better access by more people to our banking system.

Today, Colombia's financial system covers 4 million more people than four years ago. And three out of every four adults in Colombia have a bank account.

But it is not enough to have an ample offering of financial products. It is also very important to understand how to use them. For this reason, this year we launched the National Strategy for Financial Inclusion and we passed the Financial Inclusion Law in congress. The goal of these efforts is to integrate the poorest and most vulnerable populations into the system. We are making great progress in this regard. One must not forget that reducing poverty and generating employment the way we have done translates into higher levels of participation in the banking system. This is another virtuous cycle. **FB**

**VIEW
FROM
SERIES**

**FELABAN
2014**

**15 - 18
NOV**

**MEDELLIN,
COLOMBIA**

A View From Felaban Annual Assembly 2014

Medellin, 15 - 18 Nov

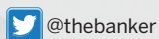
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Our editors will report from this major event providing comprehensive articles and exclusive view-points, as well as thought-led discussions with key industry figures.

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ARGENTINA AND VENEZUELA SCOOP BIG PROFITS

This year's Top 200 Latin American banks ranking sees Brazil's behemoth banks reducing in size, while Argentine and Venezuelan lenders continue to show jaw-dropping profitability ratios.

WRITER *Silvia Pavoni*

Latin American economies are expected to grow on average by only 1.3% this year, the second lowest growth rate of the past 12 years, according to the International Monetary Fund's (IMF's) most recent forecast. This includes data for the Caribbean region, but the worst-affected countries are in the south: Argentina, Brazil, Chile, Peru and Venezuela, where the IMF's downward revision since an earlier prediction has been even more severe. Other analyses confirm the unappealing picture of the region, as weakening commodity prices and uncertainty around domestic policies in certain countries depress investor outlook.

Bank results across the board are likely to reflect this. Brazil's stagnant economy, for example, has already affected the strength and performance of local lenders, as highlighted in *The Banker's* list of Top 200 Latin American banks, which ranks lenders according to the size of their Tier 1 capital from their most recent annual financial statements.

BRAZIL DOWNSIZES

All top four Brazilian banks that dominate the regional list have reduced their asset size – Caixa Econômica Federal, in fifth place, changed accounting standards last year, so a comparison with previous data would not be meaningful. Two of these lenders, Bradesco and Santander Brasil, also downsized their Tier 1 capital from the previous year. Smaller banks in the country, however, seem to have followed a different path and have grown. These tend to be either local banks with a specific territorial focus or foreign-owned lenders that tend to serve large corporate clients.

Banco Sumitomo Mitsui Brasileiro and Goldman Sachs Brasil, for example, raised their assets by more than 85% and 60%,

respectively, making them the second and third most improved banks in the country by asset growth. Meanwhile the Brazilian unit of Morgan Stanley displayed the largest percentage growth in Tier 1 capital in the country, with a jump of almost 56% – the fifth largest in the Latin America region. Banco Cooperativo Sicredi, the mutual lender that operates in a number of Brazilian states, also grew its Tier 1 capital significantly by just over 45%.

Brazil and Mexico remain the largest banking markets in Latin America, although Brazil is still by far the region's heavyweight. Total assets of Brazilian banks are \$2231bn, more than four times the aggregate figure of their Mexican peers.

MEXICAN HEAVYWEIGHTS

Mexican banks occupy four of the remaining top 10 places in the Top 200 Latin American banks ranking by Tier 1 capital. The highest scoring is Grupo Financiero BBVA Bancomer, with Tier 1 capital of just under \$1bn in sixth place; immediately followed by Citi's Banamex and Santander's operations in the country. Banorte, the largest locally owned lender, sits in 10th place.

Banco Inbursa, which occupies 13th place in the Top 200 ranking, is the highest scoring bank by profit growth. The Mexico City-based lender closed 2013 with a \$1.26bn pre-tax profit, a jump of just under 190% from the previous annual results.

When it comes to profitability, rather than size, the much smaller and distinctive markets of Argentina and Venezuela stand out. Citibank Argentina displays the highest return on capital (ROC), at 70%, followed by BBVA's Venezuelan operations, with a 65% ratio. In fact, the whole top 10 banks by ROC ranking is occupied by banks from either country. Another Argentine bank, Banco de San Juan, shows the highest return on assets



WHEN IT COMES TO PROFITABILITY, RATHER THAN SIZE, THE MUCH SMALLER AND DISTINCTIVE MARKETS OF ARGENTINA AND VENEZUELA STAND OUT

at 8.77%, followed by Citibank Argentina and Banco Patagonia. High inflation, and therefore higher interest rate margins, in both markets helps to explain such returns.

Looking at the growth in strength and size, the picture seems more diverse, with a variety of countries being represented in the list, from Chile to Colombia to Panama. Chile's Banco Ripley leads the rankings for growth in both Tier 1 capital and assets. Part of a retail conglomerate best known for its department stores, the bank's Tier 1 capital jumped by 381%, while its assets rose 153% to \$1.39bn. Ripley has expanded from a relatively low position, as have most of the other lenders in these tables.

The largest bank, however, to have improved both figures is from Venezuela. Mercantil Servicios Financieros has assets of \$38.1bn, which it expanded by more than 56%, and a Tier 1 capital of \$3.51bn, 68% larger than the previous year. **FB**



Meridith Kohut/Bloomberg

TOP LATAM BANKS FOR RETURN ON ASSETS

Rank	Bank	Year end	Country	Consolidation level	ROA %	Pre-tax profits \$m
1	Banco de San Juan	12/13	Argentina	BHC	8.77	158.94
2	Citibank Argentina	12/13	Argentina	FOS	8.49	334.99
3	Banco Patagonia	12/13	Argentina	FOS	7.75	389.53
4	Banco Inbursa	12/13	Mexico	BHC	6.40	1255.26
5	Banco Macro	12/13	Argentina	BHC	6.37	579.57
6	Banco Hipotecario del Uruguay (BHU)	12/13	Uruguay	BHC	6.37	101.73
7	Banco WWB	12/13	Colombia	BHC	5.39	23.22
8	Banpara	12/13	Brazil	BHC	5.38	103.99
9	BBVA Banco Frances	12/13	Argentina	FOS	5.38	482.77
10	Bancoex	12/13	Venezuela	BHC	5.35	19.30

Note: BHC, bank holding company; FOS, foreign-owned subsidiary. Source: thebankerdatabase.com

COUNTRY AGGREGATES

Country	Number of banks	Assets \$m	Assets % of top 200	Tier 1 capital \$m	Pre-tax profit \$m	Aggregate ROA %	Aggregate ROC %
Argentina	16	137,570	3.46	11,368	5,859	4.26	51.54
Bolivia	1	2,627	0.07	169	47	1.79	27.95
Brazil	52	2,230,837	56.15	194,925	30,421	1.36	15.61
Chile	19	301,747	7.59	20,942	4,503	1.49	21.50
Colombia	16	238,943	6.01	15,545	4,977	2.08	32.02
Costa Rica	7	31,486	0.79	2,590	388	1.23	14.99
Ecuador	6	28,272	0.71	1,999	343	1.21	17.14
El Salvador	4	9,650	0.24	1,118	235	2.44	21.04
Guatemala	3	18,832	0.47	1,157	331	1.76	28.65
Honduras	3	6,444	0.16	582	108	1.68	18.60
Mexico	24	528,432	13.30	42,713	10,521	1.99	24.63
Panama	13	79,586	2.00	7,012	1,378	1.73	19.65
Paraguay	4	10,475	0.26	702	151	1.44	21.46
Peru	11	102,331	2.58	7,527	2,637	2.58	35.04
Uruguay	4	24,152	0.61	2,139	499	2.07	23.33
Venezuela	17	221,807	5.58	16,464	7,944	3.58	48.25
Total	200	3,973,191	100	326,951	70,343	1.77	21.51

TOP LATAM BANKS FOR TIER 1 GROWTH

Rank	Bank	Year end	Country	Consolidation level	Tier 1 capital \$m	% change
1	Banco Ripley	12/13	Chile	BHC	380.99	327
2	Banco CorpBanca Colombia	12/13	Colombia	FOS	129.95	952
3	Banco Occidental de Descuento	12/13	Venezuela	BHC	74.67	905
4	Mercantil Servicios Financieros	12/13	Venezuela	BHC	67.62	3,507
5	Banco Morgan Stanley Brazil	12/13	Brazil	FOS	55.86	748
6	Banco del Tesoro	12/13	Venezuela	BHC	52.95	840
7	Banco Cooperativo Sicredi	12/13	Brazil	BHC	45.42	340
8	Bancoppel	12/13	Mexico	BHC	45.04	200
9	Scotiabank Costa Rica	12/13	Costa Rica	FOS	44.45	205
10	Multibank	12/13	Panama	BHC	41.96	332

Note: BHC, bank holding company; FOS, foreign-owned subsidiary. Source: thebankerdatabase.com

TOP LATAM BANKS FOR ASSETS GROWTH

Rank	Bank	Year end	Country	Consolidation level	Assets \$m	% change
1	Banco Ripley	12/13	Chile	BHC	152.83	1,386
2	Banco Sumitomo Mitsui Brasileiro	12/13	Brazil	FOS	85.22	1,836
3	Goldman Sachs Brazil	12/13	Brazil	FOS	60.57	2,115
4	Mercantil Servicios Financieros	12/13	Venezuela	BHC	56.29	38,083
5	Banco Occidental de Descuento	12/13	Venezuela	BHC	54.6	17,506
6	Banco Multiva	12/13	Mexico	BHC	52.97	3,736
7	Bank of America Mexico	12/13	Mexico	FOS	48.03	5,903
8	Banco Penta	12/13	Chile	BHC	33.85	1,794
9	BAC Panama	12/13	Panama	FOS	33.02	14,209
10	Banco del Caribe	12/13	Venezuela	BHC	32.49	11,853

Note: BHC, bank holding company; FOS, foreign-owned subsidiary. Source: thebankerdatabase.com

TOP LATAM BANKS FOR PROFITS GROWTH

Rank	Bank	Year end	Country	Consolidation level	Pre-tax profits \$m	% change
1	Banco Inbursa	12/13	Mexico	BHC	188.94	1,255
2	Banco do Nordeste do Brasil	12/13	Brazil	BHC	91.10	236
3	Banco del Tesoro	12/13	Venezuela	BHC	53.50	479
4	Banco Provincia	12/13	Argentina	BHC	48.86	224
5	CorpBanca	12/13	Chile	BHC	48.08	442
6	Banescobanco Universal	12/13	Venezuela	BHC	43.06	1,734
7	Scotiabank Chile	12/13	Chile	FOS	42.75	146
8	Banco Itai Chile	12/13	Chile	FOS	39.00	198
9	Mercantil Servicios Financieros	12/13	Venezuela	BHC	32.08	1,187
10	Banco Patagonia	12/13	Argentina	FOS	31.78	390

Note: Only includes banks with more than \$100m in pre-tax profits. Source: thebankerdatabase.com

TOP LATAM BANKS FOR RETURN ON CAPITAL

Rank	Bank	Year end	Country	Consolidation level	Pre-tax profits \$m	ROC % latest
1	Citibank Argentina	12/13	Argentina	FOS	70.26	334.99
2	BBVA Banco Provincial	12/13	Venezuela	FOS	65.22	1530.24
3	Banescobanco Universal	12/13	Venezuela	BHC	64.99	1734.09
4	Banco Exterior	12/13	Venezuela	FOS	64.28	449.72
5	Banco de Venezuela	12/13	Venezuela	BHC	61.86	1424.64
6	BBVA Banco Frances	12/13	Argentina	FOS	61.30	482.77
7	Banco Macro	12/13	Argentina	BHC	61.11	579.57
8	Banco de la Nacion Argentina	12/13	Argentina	BHC	58.12	1722.01
9	Banco Patagonia	12/13	Argentina	FOS	57.90	389.53
10	Banco del Tesoro	12/13	Venezuela	BHC	57.07	479.28

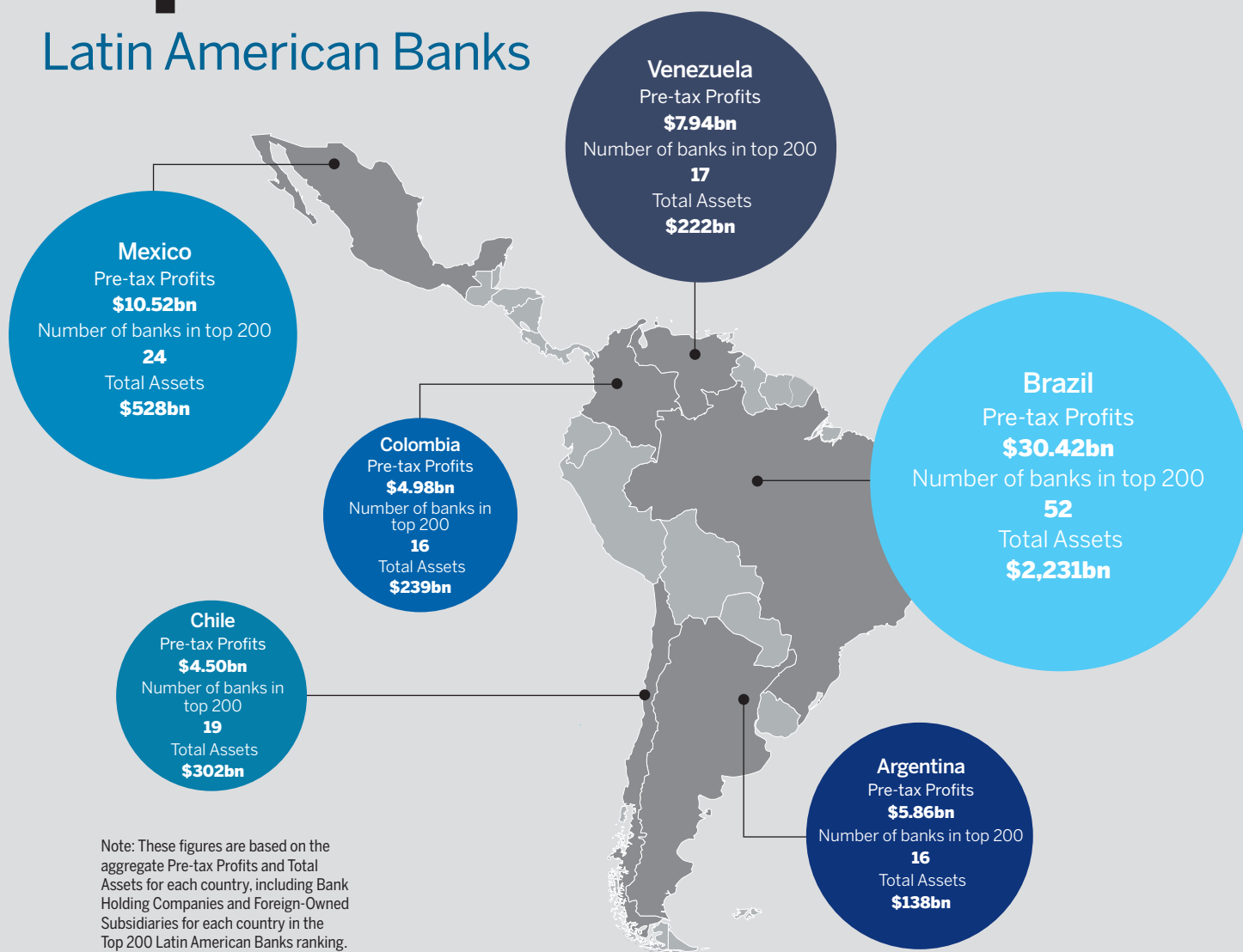
Note: BHC, bank holding company; FOS, foreign-owned subsidiary. Source: thebankerdatabase.com

RANKINGS

TOP 200 LATIN AMERICAN BANKS 1-100															
Rank	Bank	Tier 1 capital		Assets		PTP*	Rank	Bank	Tier 1 capital		Assets		PTP*		
		\$m	% change	\$m	rank	\$m			\$m	% change	\$m	rank	\$m		
1	Itaú Unibanco Holding	37132.12	5.56	436404.84	2	-11.94	8863.64	51	Bancolumbia Panama	913.74	21.24	7913.76	5	10.08	124.21
2	Banco do Brasil	36321.54	0.05	493699.19	1	-11.04	5462.61	52	Banco Occidental de Descuento	905.13	74.67	17505.89	5	54.6	272.66
3	Banco Bradesco	30079.90	-6.98	356117.93	4	-9.01	6082.91	53	BBVA Colombia	899.09	-20.01	18144.18	4	5.25	383.62
4	Banco Santander Brasil	27015.60	-15.2	192460.79	5	-6.44	2583.57	54	Banco de Galicia	894.72	21.64	1261771	3	-1.54	462.74
5	Caixa Econômica Federal	25284.16	n/a	364624.19	3	n/a	2198.54	55	Bladex	868.15	5.16	7471.31	6	10.58	84.75
6	Grupo Financiero BBVA Bancomer	9979.66	8.53	114855.47	1	7.98	3604.50	56	Banco Original	864.64	0.64	1091.68	45	-11.93	14.92
7	Grupo Financiero Banamex	8528.94	-1.63	96302.75	2	4.71	1732.81	57	Banco del Tesoro	839.76	52.95	10417.58	8	28.71	479.28
8	Grupo Financiero Santander	5307.72	-7.46	65597.46	4	13.74	1148.05	58	BicBanco	834.59	-12.79	6558.18	19	-25.61	-1741
9	Banco BTG Pactual	4832.43	-3.48	51354.42	8	-15.51	1279.06	59	Banco ABC Brasil	814.57	-0.25	6696.65	17	7.62	130.87
10	Grupo Financiero Banorte	4480.00	24.82	76989.22	3	9.28	1363.77	60	Grupo Financiero Pichincha	808.00	4.88	12901.55	1	12.51	112.59
11	HSBC Bank Brasil	4176.71	-12.2	54678.95	7	-3.1	222.59	61	BBVA Banco Frances	787.59	-0.28	8981.52	6	-1.77	482.77
12	Banco de Chile	4000.49	3.95	49514.80	2	1.88	1133.23	62	Banco Popular	753.21	17.31	4295.73	3	12.77	77.34
13	Banco Inbursa	3690.98	3.07	19598.76	7	3.73	1255.26	63	Banco Morgan Stanley Brazil	748.25	55.86	4289.57	28	20.82	76.57
14	Banco Santander Chile	3592.52	-1.36	51582.47	1	-0.29	1028.20	64	Banco del Bajío	743.61	-4.19	9024.73	10	9.37	94.25
15	Mercantil Servicios Financieros	3507.32	67.62	38082.93	2	56.29	1186.55	65	Banco Popular	730.27	3.42	8634.58	8	1.11	314.78
16	Banco de Bogota	3316.55	-28.78	52361.97	2	15.22	1503.93	66	Banco del Caribe	723.32	18.09	11853.12	6	32.49	350.32
17	Bancolumbia	3228.53	-36.94	68042.74	1	23.11	1005.03	67	Banco Azteca	701.00	21.16	7670.80	12	6.72	110.81
18	Banco Safra	3211.13	-3.67	56457.35	6	2.4	730.04	68	Banco Exterior	699.67	12.99	10667.65	7	14.32	449.72
19	Grupo Financiero HSBC	3201.88	8.56	40570.47	5	4.72	359.87	69	Banistmo	698.53	-11.98	8064.38	4	-13.88	59.70
20	Banco de la Nación Argentina	2963.00	-4.46	42922.79	1	-7.13	1722.01	70	Deutsche Bank Brazil	689.36	2.27	4189.42	29	-32.49	96.01
21	Citibank Brazil	2887.40	-22.02	19799.04	10	-5.31	106.50	71	Banco da Amazonia	676.09	-28.88	4813.13	26	-6.33	72.73
22	Banesco Banco Universal	2668.23	18.69	35628.49	3	23.66	1734.09	72	Banco Patagonia	672.79	33.37	5027.89	10	-5.89	389.53
23	Banco de Credito e Inversiones	2619.32	4.28	38656.39	4	3.2	691.98	73	Grupo Financiero Interacciones	646.71	36.7	13243.86	9	22.92	174.35
24	Banco de Credito del Peru	2574.24	7.04	35042.22	1	-1.3	820.39	74	HSBC Bank Argentina	645.27	13.62	6728.62	7	-6.48	270.66
25	CorpBanca	2382.37	21.72	33393.25	5	18.14	442.45	75	Banco Hipotecario del Uruguay	597.29	-0.88	1597.46	4	2.54	101.73
26	BBVA Banco Provincial	2346.12	4.57	31376.35	4	19.4	1530.24	76	Citibank Colombia	577.26	-25.18	4495.55	13	-6.55	153.95
27	Banco de Venezuela	2303.08	4.72	38880.85	1	17.56	1424.64	77	Banco Agrario de Colombia	565.90	-14.72	9987.32	6	-2.76	204.22
28	Banrisul	2185.62	-8.27	22988.51	9	-0.71	449.57	78	Bank of America Merrill Lynch B Multiplo	564.29	-12.13	2720.13	33	-28.43	69.60
29	Banco del Estado de Chile	1836.62	-14.92	48801.52	3	0.88	378.56	79	Banco Nacional de Panama	562.75	2.22	8696.94	3	12.37	120.24
30	Banco Davivienda	1796.85	-26.76	29322.61	3	10.24	566.86	80	JPMorgan Chase Bank Mexico	548.52	5.15	3403.84	16	8.09	43.05
31	Scotiabank Inverlat	1764.09	-13.83	18456.60	8	7.48	232.39	81	Banco BICE	548.45	8.9	8140.23	10	1.39	118.20
32	Banco JPMorgan Brazil	1458.64	-14.53	10862.01	14	-37.25	47.92	82	Parana Banco	546.59	-7.88	2025.80	37	0.01	73.74
33	Credit Suisse Brazil	1370.21	-16.65	14862.11	11	-25.7	364.64	83	Banco Colpatría	535.72	-7.11	8659.59	7	1.44	174.94
34	Banco do Nordeste do Brasil	1290.99	1.21	14365.76	12	-7.78	236.19	84	Banco Provincia	526.58	-6.66	12749.13	2	4.81	224.19
35	BBVA Continental	1283.10	10.12	20231.84	2	3.83	633.63	85	Banco Security	525.97	-2.02	8392.27	9	-3.91	75.21
36	Banco BMG	1266.36	3.38	12794.82	13	-22.29	460.92	86	Banco Hipotecario	525.78	-17.26	3128.90	13	-4.24	94.39
37	Scotiabank Peru	1201.26	0.69	14651.52	3	9.55	407.16	87	Banco Pine	518.49	-13.04	4410.94	27	-12.42	71.70
38	BBVA Chile	1175.85	-1.68	19346.54	6	-1.18	110.37	88	Banco Fibra	515.42	4.85	4019.08	30	-22.63	-276.91
39	Scotiabank Chile	1157.81	-2.65	13631.52	7	-1.47	145.60	89	Banco de la Ciudad de Buenos Aires	485.32	-17.46	5090.19	9	-4.13	189.00
40	Banco de Occidente	1151.01	5.75	14334.87	5	7.56	165.55	90	Bank of Tokyo Mitsubishi Brazil	484.01	-9.61	2258.60	35	14.37	30.09
41	BNP Paribas Brasil	1149.07	-7.84	6236.30	20	-16.8	115.70	91	Banco Nacional de Costa Rica	483.66	-14.98	10082.33	1	27.66	48.50
42	BAC Panama	1145.14	8.97	14208.78	1	33.02	395.56	92	Rabobank International Brasil	479.96	-6.56	6650.16	18	2.48	91.28
43	Banco de la Republica	1033.33	-10.06	14299.09	1	6.83	311.37	93	Banco Alfa	479.18	-12.76	5745.91	24	-16.14	63.28
44	Banco General	1032.82	10.67	11815.69	2	9.35	313.16	94	Banco de la Nacion	477.16	-9.12	9667.37	5	1.95	259.40
45	Banco Itaú Chile	1031.28	2.61	12975.33	8	14.22	198.43	95	Citibank Argentina	476.81	-10.49	3945.52	12	-7.2	334.99
46	Banco Santander Rio	1027.24	6.17	10862.56	4	-0.17	545.77	96	Banco de Costa Rica	475.46	7.22	8507.13	2	13.11	99.31
47	Banco Daycoval	1006.40	12.91	6191.38	21	1.5	134.21	97	BanRegio	472.88	20.42	6668.50	13	20.11	99.26
48	Banco CorpBanca Colombia	952.00	129.95	6505.42	10	25.59	91.41	98	Banrural	456.39	16.41	5447.25	2	10.91	149.11
49	Banco Macro	948.34	-1.29	9099.91	5	-7.87	579.57	99	Banco Caja Social	436.22	-14.86	5338.20	11	-4.41	159.33
50	Interbank	926.98	22.9	10625.70	4	15.1	314.35	100	Banco de Brasilia	435.91	4.49	4917.90	25	3	135.45

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Latin American Banks



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BRAZIL'S BANKS HIT THE BRAKES

Having revelled in the economic growth that characterised the past few years, Brazil's banks are now struggling to adapt to a less favourable environment. In response to stalling gross domestic product and disposable income growth, many lenders are curbing their lending, leaving gaps, particularly in the small and medium-sized enterprise segment, for other players to step in. **WRITER** *Silvia Pavoni*

Brazil's near-term economic forecast is disappointing, with gross domestic product growth that, at best, may just exceed 1% in 2015. This has had a dramatic impact on its banks' expansion plans. Private sector lenders, such as Itaú Unibanco and Bradesco, have tightened their lending policy, while state-run institutions Caixa Economica Federal and Banco do Brasil, which are tasked with supporting the economy through the extension of credit lines, are expected to relax their previously aggressive margins on loans and are braced for rising non-performing loans (NPLs).

Upcoming presidential elections have added a further layer of difficulty to the market in recent months, with most in the finance community adopting a wait-and-see policy. Banks have put the brakes on lending, but this may open up opportunities to less conventional financiers, such as private equity funds.

WORSE THAN EXPECTED

On reflection, banks started 2014 in an overly optimistic mood, and now many are finding that they have not met their expectations for loan growth.

Itaú Unibanco, the country's largest private sector bank, is one such lender that has seen slower than anticipated loan growth this year. Its loan book expanded by 9% in the second quarter of the year, slower than its February forecasts, which predicted

growth in the 10% to 13% range.

Bank lending for the whole system rose 11.4% to 2800bn reais (\$1200bn) in the 12 months to July 2014, according to Brazil's central bank. Analysts expect private sector loans to grow 5% and state-owned lenders' loans to grow by 15% in 2014.

Average loan growth for the system could hover at about 10% next year, says Mauricio Molan, chief economist at Santander Brasil, the country's third largest private sector bank by Tier 1 capital. But, while average growth will hold steady, the convergence towards safer assets will affect loan book composition, which "will continue to change from less to more secure lending", says Mr Molan.

This means that products that are perceived to be more risky will be sidelined, such as certain consumer loans and financing to small and medium-sized enterprises (SMEs). This represents a U-turn from the interest which private sector banks have shown to smaller corporate clients in previous, more buoyant years.

"I don't see much appetite for private sector banks to finance SMEs if the economy stagnates," says Franklin Santarelli, head of the Latin American financial institutions team at ratings agency Fitch Ratings. "Banks, mostly private, have tried to shift the composition of their portfolios away from unsecured consumer lending, as it was five or six years ago, [and have gone] in different directions: in the consumer segment, towards payroll



lending or auto finance or, [in the case of state-owned] Caixa, into mortgages."

CHANGING TACTICS

Fast-growing levels of personal debt in recent years have raised concerns, so a slowdown in consumer credit would be welcome, according to analysts. But financing to SMEs is a different story, as these companies employ an estimated 80% of the total workforce in Brazil.

Itaú Unibanco plans to focus on large corporate clients and infrastructure-related projects, which it hopes the government will instigate. It will also continue to reduce its exposure to consumer lending and the financing of small businesses, says Marcelo Kopel, a former finance director of the bank's credit card processing business, Redecard, who is now head of Itaú's investor relations.

"At Itaú, we're very keen to grow large corporate [products] related to infrastructure and investment; we will grow in the consumer finance space only if disposable income is growing," he says. "The environment is quite competitive among large corporates. In terms of SMEs, the market is competitive for mid-sized companies; for the smaller ones, it is less competitive, because banks are more risk averse. In our case, our policy is that even if we could charge more to compensate for larger losses, the risk appetite is not there. There are banks that may be willing to do this, but we are not."

Brazil's second largest private sector



Paulo Fridman/Bloomberg



Dado Galderi/Bloomberg

Uncertain times: markets will need time to adjust to the outcome of the Brazilian election, which saw Dilma Rousseff (left) and Aécio Neves (right) go head to head

lender, Bradesco, is of a similar view. It has also found that the stagnant economy has diminished loan demand.

“Our best product is the loan [portfolio], but we need to have quality in those operations,” says Luiz Angelotti, an executive board member and head of investor relations at Bradesco. “We try to approve the majority of [loan requests] but we need to maintain quality and margins. The demand that we have now is not enough to maintain the growth that we had expected at the beginning of the year. [Corporate] clients are not fully using their pre-approved lines.”

MIDDLE GROUND

Brazil’s medium-sized banks, which had traditionally been the natural fit for serving SME clients, have found themselves priced out by the larger lenders. Traditionally, SMEs were served almost entirely by mid-sized banks until larger players, encouraged in past years by a better macroeconomic backdrop, decided to target the market. Now, with leading banks preferring larger clients, and smaller banks dealing with rising funding costs, it seems the SME market is, once again, underserved.

“What we’re seeing, generally speaking, is that banks that were active with SMEs, mostly mid-sized banks – Indusval, Pine and others – have a competitive advantage because of their [long standing relationship with] the customers,” says Mr Santarelli at Fitch. “Having said that, once larger banks identify a seg-

ment, they’re in a better position than medium-sized banks because their funding is cheaper. They can go to the same client and offer an interest rate that is a bit lower, because their funding cost is a fraction of the funding cost for a medium-sized bank.”

Banco Indusval and Banco Pine did not respond to *The Banker’s* requests to comment.

Mr Santarelli acknowledges the difficulties in lending to SMEs, however, and adds that not all large lenders have got their strategy right. “Five years ago, [private sector] banks discovered that the SME segment was a significant portion of the market and that it was underbanked. But this is a sector that can bring some grief,” he says, pointing out that lending to SMEs involves dealing with “customers that have never been attended to before. You don’t know exactly their paying patterns and how volatile they can be on the asset quality. [A leading bank] tried to serve SMEs using [what turned out to be the wrong] approach and quite quickly realised that the asset quality was not what they were expecting.”

GAP IN THE MARKET

If banks are at a loss about how to continue their SME strategy, other players are becoming increasingly aware of the potential of this market.

Darby Overseas Investments, a Washington, DC-based fund that forms part of global investment firm Franklin Templeton Investments, has started to provide mezza-

nine financing to Brazilian SMEs. Unlike a bank, because of its natural risk appetite, Darby would not consider collateral a prerequisite to financing.

Darby’s most recent investment in the country involves ethanol producer Vital Renewable Energy Company (VREC), for which Darby provided \$15m-worth of financing that will allow the company to complete the next phase of an industrial and agricultural expansion of its ethanol facility. Darby provided equity as well as a senior loan with a tenor of more than five years – something that few local lenders would be prepared to do.

“Banks are very hesitant in terms of how long they will extend the tenors of their loans,” says Richard Frank Junior, Darby’s managing director. “[Their] interest rates are probably less than what our ultimate returns would be, but we’re going out several years [on the loan] and banks don’t have the appetite to go that far. I think that will continue. What banks generally want is assets. VREC actually had some good assets, but there are other companies we were able to invest in that were asset-light – banks won’t touch those.”

CENTRAL BANK STEPS IN

In an effort to boost bank appetite for lending in general, in August Brazil’s central bank went so far as to reduce capital requirements, in a move that it hoped would raise loans by 150bn reals. Earlier this year, the >>>



Franklin Santarelli of Fitch Ratings:
"I don't see much appetite for private sector banks to finance SMEs if the economy stagnates"

central bank sought to control inflation with higher interest rates and increased its overnight rate to 11%, which central bank president Alexandre Tombini insists is not at odds with measures to free up credit. Analysts, however, expects a rate cut as inflation appears to be tamed at 6.5%.

Regardless, the central bank move left the market lukewarm. "Banks don't want to lend. Putting more money into the inter-banking system is not going to do anything," Tony Volpon, head of emerging markets research for the Americas at Nomura Securities International, told news agency Bloomberg in August this year. "There is too much policy and political uncertainty," he added.

The uncertainty is likely to continue in the months following the country's presidential election, which will be held at the end of October. The two candidates left in the race as *The Banker* went to press were incumbent president Dilma Rousseff, and pro-business challenger Aécio Neves, who has the endorsement of environmentalist candidate

Marina Silva, who did not advance to the final run-off. Whatever the outcome of the election, the market will no doubt need a few months to adjust.

Among the challenges facing the incoming government will be the rising NPLs in state-run banks, where asset quality in consumer lending quickly deteriorated this year. To ensure that Caixa's capital position was sufficiently strong, the central bank authorised the lender to book 28bn reais in hybrid securities as common equity.

Investors had voiced concerns that the rapid growth of the bank's loan book on the back of government pressure to boost access to credit, had weighed down Caixa's capital position. In the 12 months to June 2014, the bank said that its loan book had grown by 28%; this compares with average growth of 1% among private banks in the same period, according to Fitch Ratings.

Mr Molan at Santander, for one, is not particularly concerned about the rise of bad loans. "Public banks' NPLs will grow, but won't be critical; at the end of the day [if nec-

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*Published July 2015

essary] we'd see the government increase [public] banks' capital so that they can improve their balance sheets," he says. He also acknowledges, however, that the government will not have much room to manoeuvre, as it will have to engage in fiscal adjustments given the macroeconomic environment. According to Santander, flat economic growth will likely push unemployment to 7% next year, from the current 5.5%.

SHAPE OF THINGS TO COME

Some are convinced that SMEs, despite the difficult backdrop, will continue to do well and benefit, in particular, from expected government investment in infrastructure, as they can potentially provide services to large constructors, says Fitch's Mr Santarelli.

At the same time, new investors are looking at this space. Mr Frank says that Darby is one of the very few funds providing mezzanine finance in Latin America using a regional strategy; it also invests in Mexico and Colombia. But, he adds that a number of local private equity firms have started to

show interest in this type of deal. Because fundraising is currently done in US dollars, the fund needs to scout for companies that have exposure to the currency. A growing local network may galvanise this process.

"The challenge is to find the right fit [for a] US dollar investment with a mezzanine structure," says Mr Frank. "We have to do our homework and find the right fit for companies that have a natural hedge or have very little debt where they can manage fluctuations on the exchange rate. We see a lot of opportunity for mezzanine investments in Brazil. The market has now cooled down a bit. In fact, we don't see much activity right now because everyone is holding on before the final rounds of the elections, but in terms of mid-sized companies, Brazil is a huge market."

If Brazil's economic and political uncertainties continue, even after the elections, banks can be expected to stay on the safer side of lending for some more time. It may be that non-banks will be the ones that take on the riskier assets. ^{1B}



Richard Frank Junior, managing director of Darby Overseas Investments, sees opportunity for mezzanine investments in Brazil

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PERU PICKS UP

Peru's stellar economic performance over the past decade hit a bump in 2013 as a result of the US quantitative easing programme. However, the country's central bank governor sees this as a temporary setback, and reports that the Peruvian economy is back on the track towards long-term growth.

WRITER

Brian Caplen

After a decade of hectic growth, the Peruvian economy was hit hard by 2013's "tapering tantrum" – as Julio Verlarde, the country's central bank governor, describes the impact of the US Federal Reserve tapering its quantitative easing programme – but it is now back on course and predicted to grow by 6% in 2015.

This year growth is likely to be about 4%, says Mr Verlarde, who argues that Peru's past decade has been about much more than a typical Latin American commodities boom. While Peru's economy was certainly boosted by high gold and copper prices over this period – and has been impacted by recent price reversals – it has an investment rate of 28% of gross domestic product (GDP), which is translating into both expanded commodity production but also increased exports in other sectors such as agriculture.

The IMF reports that Peru has posted the fastest growth and slowest inflation in Latin America over the past decade, with GDP growth averaging 6.6% and inflation 2.93%.

But last year's announcement by then chairman of the Federal Reserve Ben Bernanke that the US would start pulling back on its bond buying programme caused panic in global markets, and Peru was badly affected with its currency falling by 10% as foreign investors sold Peruvian assets. On top of this, Peru which is the world's third biggest copper producer and fifth largest gold producer, had

Gold mine: Peru's growth has been about much more than a commodities boom, says the central bank governor



to contend with falling commodity prices.

Mr Verlarde says that this "tapering tantrum" was not really based on fundamentals, and he has managed the situation through a combination of interest rate movements and changes to reserve requirements, as well as selling of foreign exchange reserves to strengthen the country's currency, the sol.

"We don't want the exchange rate to be too far from fundamentals; we only intervene when we believe it is going beyond fundamentals," he says. "In this case we are talking [about] a tapering tantrum. It overshoot [the sol depreciated too much against the dollar], it was unsustainable and it was going to be reversed."

FICKLE INVESTORS

More than half of Peruvian government local currency debt is held by foreigners, but Mr Verlarde says: "The market is currently underestimating the prospects of a US rate rise and it may come sooner than expected. But the fickle investors have already left so those remaining are more professional long-term investors and I don't expect the same kind of sell off as last time."

The market reaction in Peru to a falling dollar was also greater because 40% of loans are in dollars. Mr Verlarde would like to see this proportion reduced, but says that historically low US interest rates since the 2009 financial crisis have made dollar borrowing superficially attractive.

Overall bank loans to GDP in Peru are a low 40% and government debt to GDP is just 18%, meaning that the country has plenty of room to expand without becoming overburdened.

When it comes to the current position of the Peruvian economy, Mr Verlarde says: "We had a good decade, helped by high commodity prices, but there is more to the story than that.

Indeed, the commodity prices boom has brought with it upstream improvements to Peru, and a sizeable chunk of the mining


profits has been invested in other sectors, producing a big jump in agricultural exports and high-end textiles and clothing.

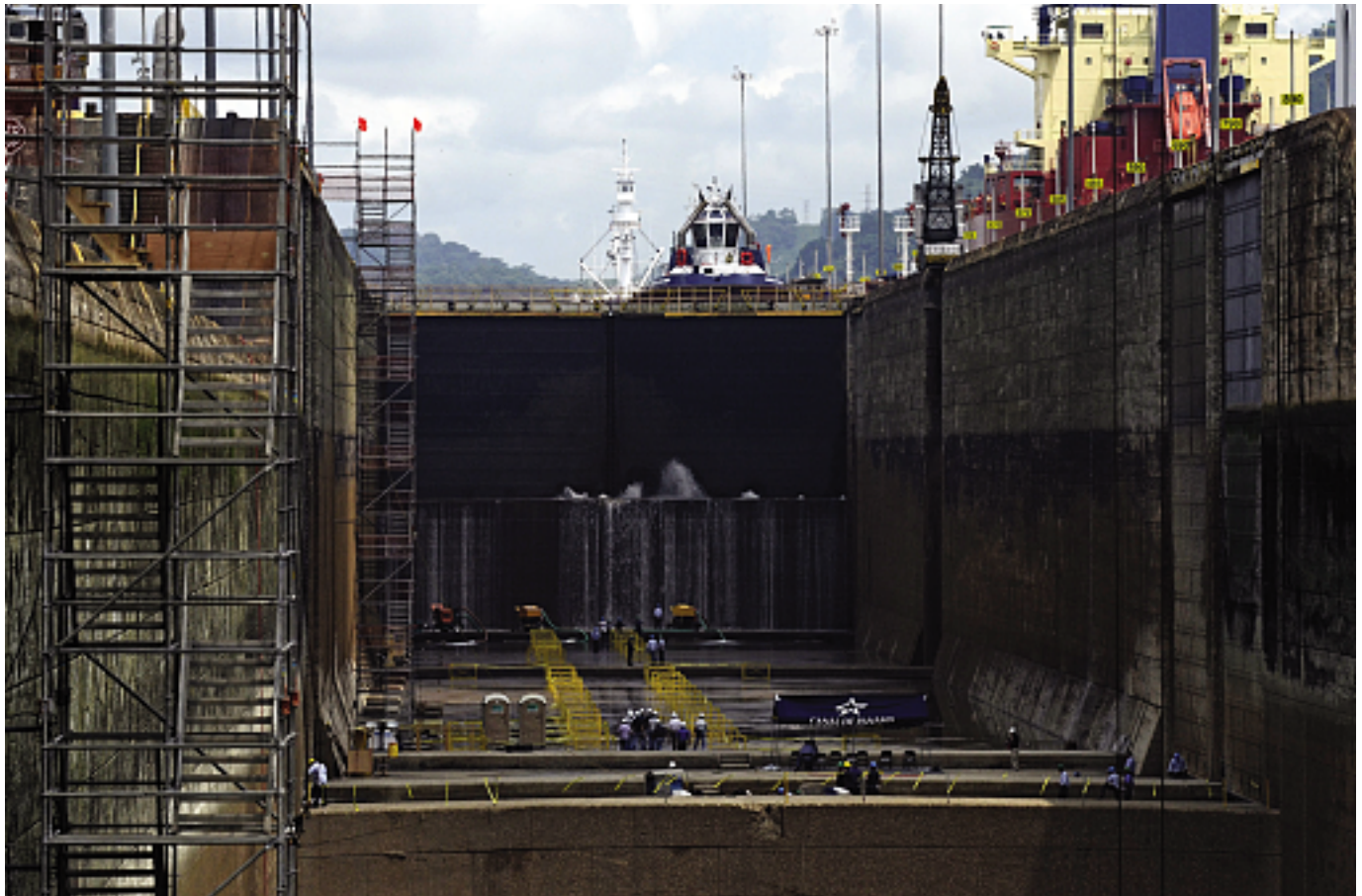
A huge fillip to the attractiveness of the domestic market has come with the advent of the Pacific Alliance trade agreement linking Peru, Chile Colombia and Mexico, as well as the Mercado Integrado Latinoamericano (MILA), which integrates the stock exchanges of Chile, Colombia and Peru.

Christian Laub is both president of the Lima Stock Exchange and CEO of the Peruvian investment banking franchise Creditcorp Capital, which was formed by the integration of three banks: BCP Capital in Peru, Correal in Colombia and IM Trust in Chile. He says that Peruvian companies and investors are now thinking on a regional rather than national scale, and that both the development of MILA and the creation of Creditcorp were designed to respond to this. Creditcorp also has an inter-dealer broker in the US.

Mr Laub admits that the trading volumes on MILA are still small, but says they do not take account of all the regional business, such as that carried out by family offices. He is also arguing for lower trading costs to make Peru competitive with both the Chile and Colombia exchanges, as well as those in the US, where the majority of the liquidity in Peruvian stocks is held.

"Last year we reduced [trading] costs by 50% but they are still high and we are not competitive with Chile and Colombia. We need to aim higher. The liquidity exists but it is traded in other markets. We need to get that liquidity back to Peru," says Mr Laub.

He says that by the Peruvian, Colombian and Chilean exchanges, companies in these countries can serve an \$800bn economy with 90 million people. Adding Mexico to this bloc would create an economy the same size as Brazil. "The growth rate is not what we are used to [in Peru], but we are not in a downward spiral and there will be a pick-up next year," concludes Mr Laub. 



Hidden depths: large-scale infrastructure projects, such as the widening of the Panama Canal (pictured), are opening up new opportunities for financing in Latin America

LATAM'S TRADE FINANCE PATH

*Trade finance is emerging as a key part of the Latin American banking business model and is bound to be a hot topic on the agenda at this year's Felaban annual meeting being held in Colombia in November. Ahead of this, The Banker speaks to experts about the challenges and opportunities that this growing business line is creating in the Latin American market. WRITER *Silvia Pavoni**

With international trade flows at record levels and new trade routes being established, trade finance looks set to retain its newly acquired strategic status within banks the world over. This is true for both local lenders, which have a granular knowledge and prime relationship with corporate clients, and for international financiers, which can accompany businesses across multiple markets.

As Latin America's banks prepare for Felaban's annual meeting in Medellín,



**[THE PACIFIC ALLIANCE]
ACCOUNTS FOR MORE THAN
50% OF TOTAL TRADE
[WITHIN LATIN AMERICA],
AND WILL ONLY INCREASE
ITS RELEVANCE AND WEIGHT**
Ricardo Velázquez ●●

Colombia, in November, The Banker asked a panel of experts to discuss the current trends in the industry and to predict where future opportunities and challenges lie.

■ WHERE DO THE BIGGEST OPPORTUNITIES LIE IN LATIN AMERICAN TRADE FINANCE?

"Latin America is a very heterogeneous region, so opportunities differ but are plentiful," says Gerd Pircher, HSBC's regional head of global trade and receivables finance for Latin America. He singles out Mexico, where foreign direct investment is flowing into the

country on the back of recent energy reforms. The country may also benefit, he says, from the re-shoring of US manufacturing, as Mexico is still very cost-efficient in this area. Such a trend would “shorten logistics chains and reduce the risk of [rising manufacturing] costs”, he says.

Ricardo Velázquez, head of international banking at Banorte, is based in Mexico and has witnessed rising international foreign direct investment first hand. As well as this, he is also optimistic about the opportunities presented by intra-regional trade after Mexico signed agreements with Colombia, Peru and Chile as part of the Pacific Alliance. The country has also reached other international trade agreements.

“[The Pacific Alliance] accounts for more than 50% of total trade [within Latin America], and will only increase its relevance and weight. The Trans-Pacific Partnership will give Latin American countries that are part of the partnership [Chile, Mexico and Peru] greater access to countries in the Pacific Rim,” says Mr Velázquez.

Jose Clemenceau, head of products, trade export commodity finance at Santander Brasil, says that there is room to grow in the Brazilian market as smaller companies are beginning to look at international exports.

Mr Pircher notes that Brazil seems to be relatively unaffected by declining commodities prices, something that Renato Faria, head of trade for Latin America at Citi, agrees with, saying that commodities-linked products offer interesting growth opportunities. Mr Faria also names infrastructure as a growth area in Brazil. “Given the lack of infrastructure-related investments in the past decades, both public and private sector companies are developing turn-key projects, which are generating an increased demand for sources of financing,” she says.

A few countries stand out, according to Kika Ricciardi, Latin America head in Deutsche Bank’s global transaction banking business. “Countries such as Colombia and Panama have each committed to a number of large infrastructure projects that will require additional financing in the near term. Both countries benefit from an investment-grade credit rating, which makes them particularly attractive to lenders,” she says.

Furthermore, growing corporate activity within Latin America, and the need for companies to optimise working capital ratios, offer new business avenues to trade finance houses. “These two factors [allow] banks to extend financing to less credit-worthy companies down the supply chain, thus maximising returns at healthy risk levels,” says Mr Faria.

Supply chain finance is indeed a growing area, according to Ms Ricciardi, who says: “Post-crisis, working capital solutions have become a very favourable way for corporates to manage their liquidity. We have recently rolled out solutions, such as an automatic confirmed payables tool, which have helped Deutsche Bank’s clients in the region improve the liquidity in their supplier finance programmes.”

She goes on to detail other products that are attracting strong interest and that give clients greater flexibility. “While there is still consistent demand for traditional trade instruments, such as commercial letters of credit and collections, there is growing demand from clients for sophisticated solutions, such as open account solutions, silent payment guarantees and account receivable programmes,” she says.

■ WHAT ARE THE BIGGEST CHALLENGES FOR TRADE FINANCE IN LATIN AMERICA?

Aside from growing competition and adverse market conditions, regulation seems to be the largest concern for trade financiers – whether they are part of a global firm or a local bank.

“Increased competition from local banks and abundant liquidity [reduces] spreads, which ultimately creates a challenge [if we want to] maintain proper returns without jeopardising market share,” says Citi’s Mr Faria. “Also, the global regulatory environment and the different impact that new regulations [such as Basel III and the Dodd-Frank Act] have over global banks compared with local banks create additional challenges for international players.”

Local banks are concerned about regulation, too. Banorte’s Mr Velázquez is concerned about the potential negative impact that Basel III will have on the affordability of trade finance. But, he believes that concerted efforts by lenders and international organisations are useful in presenting the case for trade finance to regulators. “Banks and trade organisations, such as the World Trade Organisation and the International Chamber of Commerce, should keep partnering and gathering meaningful trade finance data. This information will facilitate a better understanding and regulatory treatment of the trade finance business among policy-makers, regulators and political leaders around the world,” he says.

Other external factors are also coming into play, such as weakening commodity prices, says HSBC’s Mr Pircher. He also cites country-specific issues and widespread >>



THERE WILL ALWAYS BE THE SPACE AND NECESSITY FOR LOCAL AND INTERNATIONAL LENDERS TO SUPPORT SMALLER BUSINESSES SITTING ALONGSIDE EACH OTHER

Gerd Pircher ●●



SECURITISATION IS LIKELY TO BECOME AN 'ADD-ON' TO THE TRADE FINANCE BUSINESS IN LATIN AMERICA, AS HAPPENED IN THE US AND TO SOME EXTENT IN EUROPE

Renato Faria ●●

structural impediments as creating challenges for banks. "Drought and election-related uncertainty in Brazil in much of 2014, the pain of tax reforms in Mexico, and external restrictions aggravated by continued uncertainty regarding disputes with bondholders in Argentina. [There are also] serious structural hurdles – from low investment in fixed assets [such as infrastructure] to the unfriendly business environment and poor human capital – which have been driving the region to a situation of reduced competitiveness. In economic terms, Latin America is currently [taking] two steps forward and one step back, and trade is no exception to this theme," he says.

Ms Ricciardi cites political elections as a crucial source of disruption. "Elections in both Brazil [at the end of October] and Argentina, in October 2015, regardless of the political outcome, will determine shifts in the macroeconomic, fiscal and monetary policies of those countries. Some of the changes have already been priced into the market, while others are still to be determined," she says.

■ **CAN BOTH LOCAL AND INTERNATIONAL LENDERS BENEFIT BY WORKING TOGETHER TO SERVE SMALLER BUSINESSES? WHAT IS HINDERING PRODUCT GROWTH IN THIS SEGMENT?**

Lenders agree on the benefits of co-operation and the need for development on this front. "Small and medium-sized enterprises [SMEs] represent approximately 80% of the total number of companies involved in trade in the region, but inversely represent less than 15% of the total amount and volume of trade financing," says Mr Velázquez.

Because of their limited credit history and technical expertise when it comes to financing, work for smaller companies "requires a deeper knowledge of the clients and main shareholders, which can only be achieved by local financial institutions", says Mr Velázquez. "On the other side, in many cases local banks are less equipped and lack the global capabilities required to offer trade financing services compared with their international counterparts."

HSBC's Mr Pircher acknowledges the limitations of some global players, which often lack granular knowledge of foreign markets. "There will always be the space and necessity for local and international lenders to support smaller businesses sitting alongside each other," he says. "There is nothing hindering product growth in this segment, other than the fact that there are very few international

lenders that can genuinely link up smaller Latin American businesses with buyers and suppliers, which may be equally small, in other parts of the world. The further afield those trading partners are, in particular in emerging countries in Asia, the Middle East or in Africa, [the fewer] banks can genuinely support them, not just with trade finance but with the support services and the 'handholding' that that type of client really requires."

Deutsche Bank's Ms Ricciardi adds: "Local and international lenders can work very well together. There are limitations [for international banks] when it comes to lending to small businesses. Local banks play a vital role in this respect and with lending occurring primarily in major currencies, international banks can help and support [local banks] indirectly. Local banks do not always have ample liquidity in these major currencies and therefore rely on international banks to supply them via trade funding arrangements."

■ **AS INTERNATIONAL TRADE FLOWS GROW AND TRANSACTIONS BECOME MORE COMPLEX, HOW DO YOU MANAGE SPIRALLING COMPLIANCE RISK?**

The industry is painfully aware of the risks of falling short of wide-reaching, heavy, new compliance requirements – from Basel III's capital rules to the Dodd-Frank Act, to the Foreign Account Tax Compliance Act and anti-money laundering and privacy laws. Banks have invested in procedures and systems to deal with the new regulatory web surrounding trade finance deals, according to both Mr Faria and Mr Clemenceau.

But, the new regulatory environment is far from being untangled.

"There is no global standard for [anti-money laundering], terrorist financing and sanction regulations and they vary considerably, and sometimes may even be [conflicting] in different jurisdictions," says Mr Velázquez. "Because of this, the banking industry is struggling with the complexity and pace of change in the local and global compliance environment relating to trade finance transactions. The more complex and interconnected the compliance system, the greater the risk of vulnerability and breakdown."

Mr Pircher is optimistic about the industry's ability to respond to such regulatory challenges, but he also warns of the dangers of misregulation. "The good news is that while global supply chains have become more complicated, so too has the technology and expertise we have in place to manage these risks," he says. "On compliance risk, the global financial crisis rightly led to a rein-

forced regulatory framework, making the financial system safer.

“However, it is important to ensure that trade finance continues to be recognised as low risk and self-liquidating, which is why we welcomed Basel’s decision to lower the capital requirements for trade finance. Without a reliable international trade finance network, exporters and importers would face greater risk and incur higher costs. In some instances, without trade finance a deal could not take place at all – particularly if one of the parties is considered to be higher risk. These effects would be felt disproportionately in emerging regions, such as Latin America, and by SMEs, for whom trade finance offers an indispensable form of collateral.”

Ms Ricciardi says that the best solution is simply to confine business activities to markets and companies that banks are truly comfortable with – a reflection of the more cautious post-financial crisis attitude that is being applied across all banking products.

“A number of risk dimensions have been added to the [market]: along with sovereign and credit risks, environmental, reputational and compliance risks are also ever present in financing complex projects and trade flows in emerging markets,” she says. “Banks such as Deutsche Bank continue to spend more time and resources in the analysis and mitigation of these risks. We are very focused on doing business only in those markets and sectors that we [fully] understand.”

■ IS SECURITISATION HELPING TO DEVELOP A SECONDARY MARKET FOR TRADE FINANCE ASSETS IN THE REGION? WHAT NEEDS TO BE DONE TO DEEPEN THE MARKET FURTHER?

“Securitisation is likely to become an ‘add-on’ to the trade finance business in Latin America, as happened in the US and to some extent in Europe,” says Mr Faria.

“Banks will increasingly face balance sheet constraints when it comes to asset growth, and securitisation may become an interesting way to address these constraints. For this to become a reality, a stronger, more uniform legal and regulatory framework that allows international investors to access our markets in the region must be in place. If we look at where we were on this subject some 20 years ago, we can see that a lot of progress has been made. But, we still have a way to go to turn securitisation into a real tool for developing a secondary market for trade assets in Latin America,” he adds.


Mr Pircher at HSBC says: “The implementation of Basel III and deployment of

risk-weighted assets means banks are looking with greater interest at securitisation, as it can be a good tool to keep lines open for corporate clients. While there are discussions taking place in the market, I cannot see these translating into a large number of deals in the immediate future. For banks with a global footprint that are helping importers and exporters at both legs of the trade, there is appetite to hold trade finance risk. For banks that do not have trade as a core business, securitisation of trade assets can be a good alternative. As long as you are in line with local regulation, securitisation offers another option to help customers grow their business.”

Local banks seem to be more conservative, however. Santander Brasil’s Mr Clemenceau says: “This is a new market and we haven’t seen local banks putting lots of effort into it. But Santander Spain has taken the first step, and last year it launched a \$1bn three-year rated asset-backed securities product composed of short-term trade finance assets originated by Santander and another competitor.

“A percentage of Santander’s assets in this programme are composed of Brazilian loans. Our multi-banking asset participation programme is aimed at enhancing the ability of trade banks to support global trade flows by addressing challenges facing the banking industry, including capital management, liquidity, increased credit constraints and capital requirements imposed by Basel II and III.”

More needs to be done to encourage financial institutions other than banks to trade finance products, which would encourage the development of a secondary market. Mr Velázquez at Banorte says: “The distribution of trade finance risk has been present in the region for many years through the trade credit insurance market. However, in recent years, a number of large global banks have actively explored ways to distribute trade finance risk to other non-bank investors.

“So far, the involvement of alternative investors has been mainly limited to boutique non-bank financial institutions [NBFIs] focused on customers that face constraints in accessing bank-intermediated trade finance, such as SMEs in emerging markets. The attraction of capacity and capital to support additional trade financing still has a long way to go, which requires standardisation and transparency of trade finance assets, education about the nature of trade risks and dialogue and interaction with potential NBFIs investors in order to be able to compare trade loans with other asset classes.” 



COUNTRIES SUCH AS COLOMBIA AND PANAMA HAVE EACH COMMITTED TO A NUMBER OF LARGE INFRASTRUCTURE PROJECTS THAT WILL REQUIRE ADDITIONAL FINANCING IN THE NEAR TERM *Kika Ricciardi*



BRAZIL TOP FOR IFC FDI IFCs

Brazil remains the leading Latin American country for foreign investment into the finance sector, but its total investment levels have shrunk. When it comes to outbound investment into the region, Venezuela is leading the way.

WRITER *Silvia Pavoni*

BRAZILIAN FINANCIAL CENTRES ATTRACTED a total of \$3.3bn in foreign direct investment (FDI) over the 12 months to August 2014, according to estimates by investment monitor fDi Intelligence.

Brazil's inward FDI was mainly directed towards its leading financial centre, São Paulo, which received \$2.17bn of capital investment over eight projects. Capital city Brasilia saw \$361m investment by US-based insurance services company McLarens, which has based a new aviation claims management office in the city. Rio de Janeiro attracted \$51m over three FDI projects. A number of other FDI projects were spread across the country. Total investment in Brazilian finance centres, however, was 25% lower than the previous 12 months.

One country to experience an increase in FDI into the financial sector was Mexico, which attracted almost three times the amount it had in the previous 12 months – a reflection of the wide-reaching reforms the country enacted in 2013.

Colombia, the third largest destination in Latin America for financial sector FDI, suffered a reduction of inward financial sector FDI, which dropped to about \$278m in the 12 months to August 2014, from almost \$909m in the previous 12 months.

When it comes to outward investment, Venezuela generated the largest volumes, with \$474m and five projects – all of which were part of Caracas-based Banesco Banco Universal's international expansion. These five projects were in Brazil, Mexico, Argentina, Panama and the US. **IFC**

TOP 10 IFCs IN LATIN AMERICA AND THE CARIBBEAN BY INWARD FINANCIAL SERVICES FDI, SEPTEMBER 2013 TO AUGUST 2014

Rank	Destination country	Capex (\$m)	Projects	Average capex (\$m)	Jobs created	Average jobs	Companies
1	Brazil	3,302.6	14	235.9	569	40	14
2	Mexico	805.3	22	36.6	1,071	48	17
3	Colombia	278.1	9	30.9	495	55	6
4	Argentina	159.0	7	22.7	287	41	5
5	Chile	134.5	5	26.9	275	55	5
6	Panama	123.7	5	24.7	221	44	5
7	Costa Rica	92.7	3	30.9	165	55	3
8	Uruguay	61.8	2	30.9	110	55	2
9	Bermuda	35.1	2	17.6	64	32	2
=10	Nicaragua	30.9	1	30.9	55	55	1
=10	Cayman Islands	30.9	1	30.9	55	55	1
=10	Saint Vincent & the Grenadines	30.9	1	30.9	55	55	1
=10	Venezuela	30.9	1	30.9	55	55	1

TOP 10 IFCs IN LATIN AMERICA AND THE CARIBBEAN BY INWARD FINANCIAL SERVICES FDI, SEPTEMBER 2012 TO AUGUST 2013

Rank	Destination country	Capex (\$m)	Projects	Average capex (\$m)	Jobs created	Average jobs	Companies
1	Brazil	4,405.4	21	209.8	776	36	16
2	Colombia	908.6	15	60.6	3,716	247	10
3	Mexico	279.7	15	18.6	566	37	12
4	Chile	269.5	10	26.9	1,560	156	6
5	Argentina	216.7	8	27.1	389	48	2
6	Dominican Republic	158.7	6	26.4	284	47	4
=7	Uruguay	92.7	3	30.9	165	55	3
=7	Peru	92.7	3	30.9	165	55	3
=7	Panama	92.7	3	30.9	165	55	3
=10	Paraguay	61.8	2	30.9	110	55	2
=10	Nicaragua	61.8	2	30.9	110	55	2

TOP 10 IFCs IN LATIN AMERICA AND THE CARIBBEAN BY OUTWARD FINANCIAL SERVICES FDI, SEPTEMBER 2013 TO AUGUST 2014

Rank	Source country	Capex (\$m)	Projects	Average capex (\$m)	Jobs created	Average jobs	Companies
1	Venezuela	474.0	5	94.8	251	50	1
2	Bermuda	282.0	14	20.1	894	63	12
3	Brazil	174.1	13	13.4	469	36	3
4	Panama	139.1	4	34.8	215	53	3
5	Chile	138.5	4	34.6	178	44	2
=6	Guatemala	61.8	3	20.6	111	37	2
=6	Colombia	61.8	2	30.9	110	55	2
8	Cayman Islands	56.8	2	28.4	126	63	2
9	Mexico	10.9	1	10.9	51	51	1
10	Peru	4.2	1	4.2	9	9	1

TOP 10 IFCs IN LATIN AMERICA AND THE CARIBBEAN BY OUTWARD FINANCIAL SERVICES FDI, SEPTEMBER 2012 TO AUGUST 2013

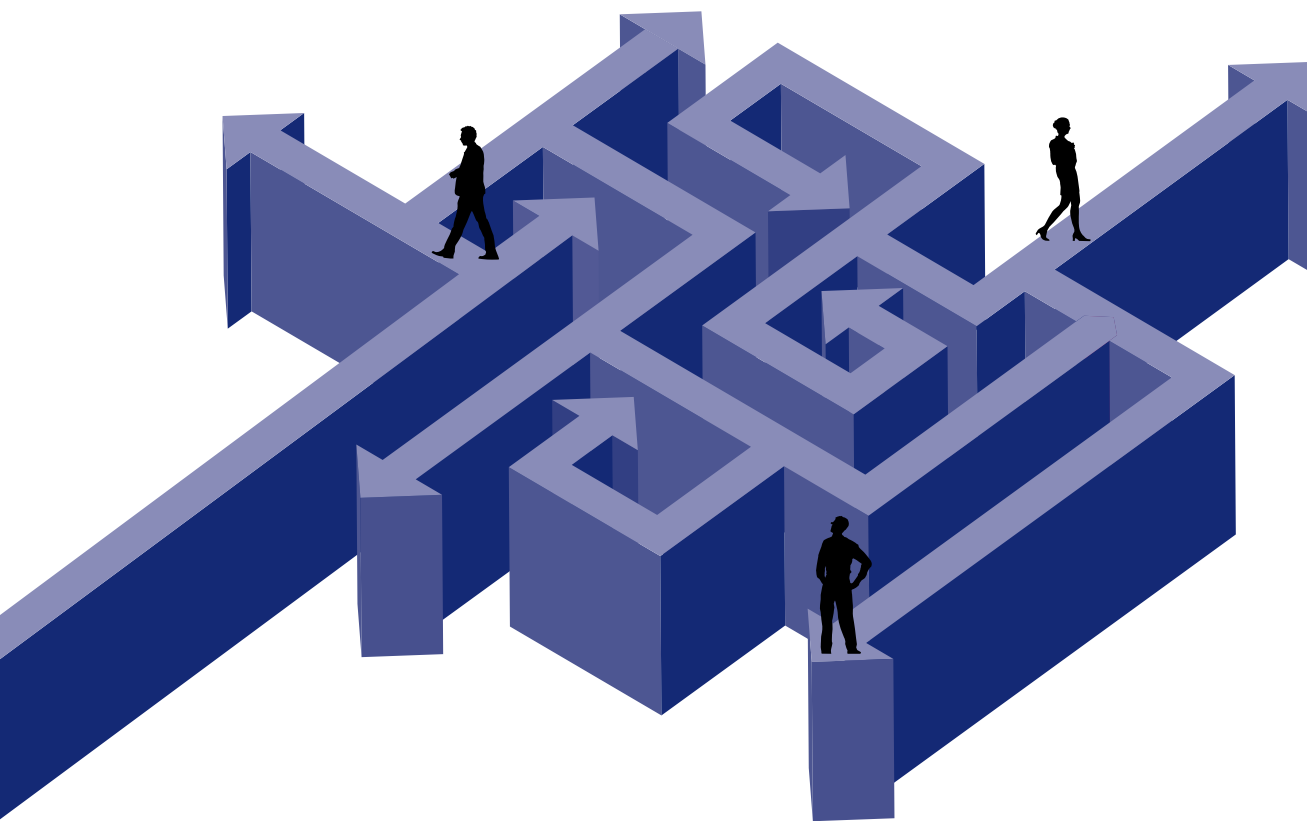
Rank	Source country	Capex (\$m)	Projects	Average capex (\$m)	Jobs created	Average jobs	Companies
1	Bermuda	266.5	9	29.6	644	71	6
2	Venezuela	234.1	7	33.4	514	73	3
3	Brazil	179.5	8	22.4	341	42	5
4	Peru	99.7	3	33.2	165	55	2
5	Bahamas	97.2	2	48.6	91	45	1
6	Colombia	61.8	2	30.9	110	55	1
7	Chile	48.4	3	16.1	141	47	3
8	Ecuador	38.0	1	38.0	12	12	1
=9	Nicaragua	30.9	1	30.9	55	55	1
=9	Panama	30.9	1	30.9	55	55	1

Source: fDi Intelligence from the Financial Times Ltd 2014. Data subject to terms and conditions of use. Capex data includes estimates. Jobs data includes estimates. Financial Times Ltd takes no responsibility for the accuracy or otherwise of this data.

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