

BOFA ADDS BIG LATIN PRESENCE

Bank reduced loan exposure, then acquired 253 offices in 8 nations in Fleet purchase

RICK ROTHACKER

Staff Writer

Bank of America Corp.'s planned acquisition of FleetBoston Financial Corp. is mostly about new markets in the Northeast, but the deal also gives the Charlotte bank expanded operations in volatile Latin America.

For the past year, Bank of America has been reducing its loan exposure in countries such as Argentina and Brazil, which have been dogged by currency fluctuations, high inflation and unpaid debts.

Now the bank is poised to add new consumer and corporate banking operations in economies that analysts say are risky but possibly making a comeback.

"You are potentially getting into a period where it is less volatile," said Mike Holton, who follows bank stocks as manager of T. Rowe Price's financial services fund. "It could be an upside period."

FleetBoston's roots in the region date to 1917, when it opened an office in Buenos Aires to assist New England wool merchants. Now Fleet, which operates as BankBoston in these countries, has one of the largest foreign banking operations in Latin America, with some 250 offices in eight countries and 10,000 employees.

Depending on the country, Fleet offers customers a wide range of products, including checking accounts, mutual funds and corporate loans.

Bank of America has no retail banking operations in Latin America, but makes loans to corporate customers, handles trade-related transactions and provides other services for corporations.

In March, it paid \$1.6 billion for a 24.9 percent stake of Mexico's third-largest bank, Grupo Financiero Santander Serfin, with an eye on grabbing more of the Mexican-American market in its U.S. footprint. It has about 200 employees in five Latin American countries.

Since unveiling the \$47 billion Fleet merger last month, Bank of America has said little about its plans in the region. But Chairman and Chief Executive Ken Lewis was optimistic in a conference call after the merger announcement.

"There have been some issues in Latin America, but in Brazil and Argentina, BankBoston is a strong, storied name that we think will create value for our shareholders," said Lewis, according to Bloomberg News. "Things have changed in Latin America from last year."

Bank of America has said the combined company's Latin American operations would be based in Boston, along with other business lines such as wealth management. The banks, which still need regulatory and shareholder approval, aim to close the merger in the second quarter of next year.

Eugene McQuade, Fleet's president and chief operating officer, is set to be president of the combined company, with Latin America among his responsibilities. McQuade, who joined Fleet in 1992, currently oversees all of Fleet's business lines and previously served as chief financial officer.

Despite the groundwork the banks have laid for combined Latin America operations, some analysts question whether Bank of America wants to add international retail banking. In recent years, the bank has scaled back retail operations in Asia and instead focused internationally on its corporate and investment banking business, said Ray Soifer, chairman of Soifer Consulting in Ridgewood, N.J.

"I don't sense any great desire at Bank of America to get deeper in retail banking in emerging markets," Soifer said. "What I see them doing is building on their wholesale business (for corporate customers) and over time exiting select countries or letting the retail business run off."

Banks with a bigger international retail presence such as Citigroup Inc. or HSBC Holdings PLC could find Fleet's Latin American franchise attractive, he said.

Signs of improvement

Operating in Latin America has long had risks because of unstable governments and economies. The biggest flash-point recently has been Argentina, where the government ignited an economic crisis in 2002 by defaulting on its debt and abandoning its dollar-to-peso exchange rate. Since fourth quarter 2001, Fleet has taken charges of more than \$2 billion against its earnings related to the country. To minimize risk, Fleet and Bank of America separately had reduced loan exposure in Argentina, as well as Brazil, another economically turbulent country. In the first nine months of this year, Fleet reduced its total loans in the two countries, which includes lending to consumers, Argentine companies and multinational companies, to \$6.7 billion from \$7.7 billion. Meanwhile, Bank of America reduced its exposure, which includes loans, commitments, derivatives and securities investments, to \$1.1 billion from \$1.6 billion in the same countries. Both say they will continue this trend.

Some signs of improvement, however, are on the horizon.

In September, the Argentine government reached a three-year agreement with the International Monetary Fund to refinance \$21.2 billion in debt, and in the first quarter of this year, inflation in Brazil fell. Argentina's gross domestic product is projected to grow 4 percent next year, while Brazil's is expected to grow 3 percent, according to the IMF.

In the third quarter, Fleet reported net income of \$49 million in its international banking unit, compared to no profit for the same period last year, when it was hurt by a \$38 million charge in Argentina.

Merger reduces risk

Jason Goldberg, an analyst for Lehman Brothers, says he is still wary of conditions in Argentina but Brazil holds promise.

"Argentina has been and continues to be a mess," said Goldberg, who does not own shares in the banks but whose firm has done business with them. "Brazil is one of the better franchises (for FleetBoston) despite high interest rates and inflation."

In a larger company, Fleet's risk in Latin America would be spread among a much larger lending portfolio. Bank of America has \$737 billion in total assets, compared with \$196 billion for Fleet. Merged, they become the nation's second largest bank.

"The good news is, in the combined bank, the Latin America piece is a much less smaller piece of the pie and less volatile to the earnings stream," said Mike Blodwick, analyst with Blaylock & Partners, who does not own shares in the two banks and whose firm has not done any other business with them.

Through its Bank of Boston roots, Fleet is firmly entrenched in many of the Latin American countries where it operates. In Argentina, for example, the bank has 131 offices and is the sixth largest bank, according to the country's central bank. In big cities such as Santiago, Chile, the company has 20 offices bearing the BankBoston brand. What name the combined bank would operate under in Latin America has not been determined.

Serving the Hispanic market

Fleet's experience in Latin America might help Bank of America's push to grab a bigger share of customers among the United States' fast-growing Latino population, analysts said.

One of the main reasons Bank of America cited for its Mexico investment was to learn more about Hispanic customers and their banking needs. One of the first signs of cooperation came in June when Bank of America and Grupo Financiero Santander Serfin waived fees for customers using either bank's ATMs.

"Bank of America has made a big push to serve the Hispanic market," Goldberg, the Lehman Brothers analyst said. "Maybe they can better leverage the legacy Fleet has in Latin America."

Some analysts, however, see few possibilities for synergies because Fleet has little presence in Mexico and one of its biggest markets is Brazil, where people speak Portuguese.

Analysts are betting Bank of America will keep Fleet's Latin America operations in the short-term. Whether they'll commit for the long-term is still unclear.

"Senior management at Bank of America will have to assess the opportunity in Latin America over the long term versus the headline risk associated with doing business in Latin America," said Gerard Cassidy, analyst with RBC Capital Markets, who does not own shares in the two banks and whose firm has not done any other business with them. "They have to decide, 'Do we want to be there. Is it worth the risk?'"