

## BBVA BUYS GARANTI IN TURKEY

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In early November 2010, BBVA announced the purchase of 24.9% of Türkiye Garanti Bankası, amounting to 4,200 million Euros. Garanti was the second Turkish bank by asset size (46,000 million Euros), and had a network of 900 offices, more than 20,000 employees and approximately 9.5 million customers.

The bank was controlled by Dogus Holding, the third largest private group in the country, a conglomerate with more than 100 companies operating in different sectors (construction, finance, energy, automotive, media, etc...) and interest in Balkans, Middle East and North Africa.

The transaction was made through the purchase of the block of shares (18,6%) that General Electric had in Garanti at a price of 6,92 Turkish Liras per share, plus an additional payment to Dogus (6,3%), at a price of 11, 18 Liras. This meant a discount on the last trading price in the case of the American company but a significant premium in the case of Turkish partners, being the average price paid by BBVA of 8 Liras, somewhat lower than the latest price (8,68), which had soared in the last two years with a rise of 260%.

With this transaction, BBVA and Dogus reached an equal shareholding position, allowing them to jointly manage the company, through an equal representation on the Board of Directors. The Spanish bank reserved the option to purchase an additional 1% (up to 26%), or launch a tender offer to gain majority control (which would entitle him to name -within five years- the two thirds of the directors). Nevertheless, BBVA agreed to agree with Dogus the decisions as long as it maintained at least a 10% of capital. But until then, President and CEO would be Turkish.

To finance the deal, BBVA bid to its shareholders a capital increase of 5,000 million Euros, in a ratio of 1 new for every 5 old shares at a price of 6, 75 per share (which represented a discount of approximately 30% over the average price of the previous days). Despite the capital increase, the bank was committed to maintain the dividend for the next year.

With this transaction, BBVA entered a country where there are excellent opportunities for financial services. That is, an emerging economy with a banking system very poorly developed and (despite the economic situation) a 5% GDP growth forecast for 2010.

**Question:** Analyze the reasons, the method of development and advantages/disadvantages that, both BBVA and Dogus, will have to face in this financial transaction.