Spanish in position

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In mid-November 2008, Emilio Botín was undergoing some of the most nerve-racking moments of his career. Santander, the Spanish bank of which he is executive chairman, had surprised the market with the launch of a heavily discounted rights issue to raise €7.2bn and bolster capital ratios; but the share price was falling perilously close to the €4.50 per share rights price. It was possible that a fifth of Santander, the eurozone's biggest bank by market capitalisation, would end up in the hands of the underwriters, led by Merrill Lynch and Bank of America.

But by the end of November, the shares had recovered and the money was raised. Mr Botín was jubilant. He had once again taken a calculated gamble to strengthen the bank and outsmart his rivals, and won.

A year later, it is easy to forget how close the operation came to failure. Mr Botín, who has just celebrated his 75th birthday, presides over a bank that has emerged far stronger from the depths of the crisis than most of its rivals and partners - especially the battered Royal Bank of Scotland and Fortis, which with Santander bought ABN Amro for €72bn and shared out the pieces at the height of the global economic expansion two years ago.

Santander's share price has more than doubled in less than a year, and the company has just carried out the largest initial public offering of the year, raising $7bn from the listing of its Brazilian subsidiary. This alone is worth more than €30bn, about the same as Deutsche Bank, Société Générale or Citigroup.

Yet it was far from inevitable that a small bank founded in the northern Spanish city of Santander in 1857 would grow into an institution with 90m customers and 170,000 employees, and one of the largest and most acquisitive banks of the early 21st century. Nor was it obvious it would thrive during the acute global financial crisis that followed the collapse of Lehman Brothers last year - particularly under a boss appointed by virtue of his family name and criticised by some rivals for his rashness.

This is prompting questions about what enabled a bank from the European Union's fifth-largest economy to emerge as a force in global banking, and how much of this is down to the institution's history and how much to its leadership.

Mr Botín's foreign acquisitions certainly helped when the crisis struck. About a fifth of Santander's profits come from the emerging economy of Brazil; another fifth from the challenging UK market - where Santander added Alliance & Leicester and the deposits and branches of Bradford & Bingley to the Abbey network it bought in 2004. That limits the bank's exposure to the weak economy of its base in Spain. "We've achieved leadership positions in 10 markets that we considered to be key and that we know well," Mr Botín said recently. "That's what geographical diversification means to us: having critical mass in a selection of mature and emerging markets."

It also helped that the Bank of Spain, the industry regulator, had been so traumatised by previous crises it prevented the banks in its care from indulging in the reckless leverage and off-balance-sheet accounting that sank lenders in the US and the UK. Like other Spanish banks, Santander has focused on traditional retail and commercial banking, and mostly ignored the risky attractions of investment banking operations.

"Risk management - and nothing else" is how Alfredo Sáenz, chief executive, explains the relatively robust performance of the bank and some of its Spanish rivals. "In Spain, we bankers have weathered four big banking crises," he says in an interview at Santander's "financial city" complex of office buildings, computer centres and sports facilities outside Madrid. "Hardly any western country has had this - the crises of the 1970s, the 1980s, the 1990s and now the 2000s. And I have lived through all of them."

The 66-year-old Mr Sáenz likens himself to *Abuelo Cebolleta* - the character of Grandad Onions from old comic books, who tells war stories - or to a primitive "Cro-Magnon man" for his habit of drumming into younger executives the need to be obsessive about credit quality and to shun alluring but non-core activities such as commodities trading.

Unlike the bosses of many foreign banks or of the Spanish *cajas de ahorros* - unlisted regional savings banks that piled into domestic property lending just as the market peaked in 2006-07 - the country's commercial sector has "a huge aversion to risk", says Mr Sáenz. "Our sensitivity to risk is way beyond that of any other European banker."

At Santander, risk meetings are known as "promontories", because Mr Botín's father, who ran the bank before him, used to summon executives to his cliff-top home overlooking the Bay of Biscay during the August holidays to pore over the loan book.

The focus on risk management may explain why Santander did not dabble in dangerous derivatives or need to be rescued as a result of the crisis. But it does not explain why it has grown so large over the past 10 years.

Ronit Ghose, banking analyst at Citi, points out that at the start of the decade, after a round of consolidation in Spain, Santander and BBVA, the country's number two bank, were roughly the same size in terms of market capitalisation: about €40bn. Today Santander is worth about €90bn and BBVA €47bn. "One doubled, and one didn't," says Mr Ghose.

The difference, according to bankers in Madrid, was essentially one of character. They say Francisco González, executive chairman of BBVA, really has been as cautious and risk-averse as he claims, although José Ignacio

Goirigolzarri, former chief executive, took early retirement last month in part to make possible a more aggressive global expansion programme.

The ebullient Mr Botín, on the other hand, relishes transformational deal-making and has been aggressive almost from the start of his tenure in 1986, notably with the UK Abbey purchase and the subsequent ABN Amro deal, in which Santander emerged with the most valuable assets: Banco Real, doubling the bank's size in Brazil, and Banca Antonveneta in Italy, which Santander had valued at €6.6bn and promptly sold for €9bn to Monte dei Paschi di Siena.

Mr Botín's style of doing business has attracted criticism as well as envy and praise from Spain's leading executives and foreign investors. The fraud by US broker Bernard Madoff, in which Santander's private banking clients were exposed to €2.3bn of losses, suggested the bank's risk controls were not as robust as Mr Botín had claimed.

One businessman calls the company's expansion "unsustainable" and says Mr Botín's ambition is out of control, adding: "Whenever he found some problem in his life, he always doubled the bet and won."

In the depths of the post-Lehman crisis, hedge funds were aggressively short-selling the shares of European banks, especially Spanish ones exposed to the domestic property market crash. Santander, as one of the most liquid banking stocks in the eurozone, suffered disproportionately - hence the threat to its rights issue - but the recent recovery in financial share prices seems to have left many of the shorters nursing heavy losses, according to bankers in Madrid.

For Santander, the most vulnerable market is probably not Spain - where the bank's burden of bad loans is rising at a slower rate than expected - but the US, a notorious graveyard for European banking ambitions. It was in the US that HSBC stumbled, suffering billions of dollars of losses from the purchase of the consumer finance group Household.

Santander bought a quarter of Sovereign Bancorp in the north-eastern US four years ago. As the crisis deepened last year, and Sovereign grappled with losses from an ill-fated foray into car loans, Santander faced a choice between writing off its investment and seizing control of the whole bank. It chose the latter, buying the rest for a tenth of the price agreed during negotiations to buy the minority stake, but also saddling itself with the job of integrating the bank's different parts and returning it to profit.

Sovereign is regarded within Santander as a complicated management challenge. Mr Sáenz admits it is still an "unstructured" bank and he rules out further expansion in the US for the time being. However, he acknowledges the possibility that Santander would take an "Alliance & Leicester-like" opportunity to grow further in the US by buying a mid-sized bank in two or three years.

Another glaring question confronting Santander is that of the succession, but even hard-headed stock analysts are finding it hard to criticise the septuagenarian Mr Botín's recent performance - let alone complain about the likelihood of his daughter, Ana Patricia, the 49-year-old head of the group's subsidiary, Banesto, taking over when he retires. "You could have said he should have stopped at 70, but then he would have missed the best years," says Citi's Mr Ghose. "You could say he's in his prime."

Will Mr Botín push for further international expansion to make Santander a truly global bank?

Analysts and Santander executives agree there is no particular reason to do so in retail banking, where domestic markets tend to be self-contained and the strongest competitors are local institutions. But there would be some logic to building an international network akin to HSBC's or Citi's to serve corporate clients, whether Spanish multinationals doing business in Latin America or Latin American companies doing business in China.

The vast, fast-growing economies of Asia, where even the smaller BBVA has a presence, represent the obvious gap in the group's international network, but Santander insists it has no ambitions for anything other than minor deals in markets such as India and China in the near future. "The big jump from Spain to Latin America, from Spain to Brazil, from Spain to the UK, from Spain to the US - these are jumps that are more complicated each time," says Mr Sáenz. "But a big jump from Spain to China or Thailand or Hong Kong or Singapore is, as they say in the circus, a triple death jump without a safety net."

Mr Botín has taken a similar line, arguing at the shareholders' meeting in June that the bank had "absolutely no need" to make acquisitions. No need, perhaps, but what of the desire? Given Santander's ability to generate capital from its annual profits and Mr Botín's record as a predator, few would be surprised if he set his sights on new prey.

Local to global

Santander has been involved in global finance through its backing for trade with Latin America since its founding in the 19th century by local businessmen. It has become one of the world's top 10 banks through mergers and acquisitions in the UK, the US and elsewhere. Since 1920, when the first of three Emilio Botíns became chairman, the company has been linked with the family, though they now have only a small shareholding.

Brazil

A foothold in a fizzing economy

With its acquisition of ABN Amro's Brazilian assets two years ago, Santander pulled off a deal that left it much better off than its partners. Part of its takeover of the Dutch group along with Royal Bank of Scotland and Fortis - both of which had to take government bail-outs - Santander's merger of its existing Brazilian operations with ABN's Banco Real also leaves it well placed to flourish in one of the world's few markets with the potential for growth.

Being chosen to host the 2014 soccer World Cup and, this month, the 2016 Olympics will increase Brazil's visibility and its powerful investor appeal. It will also add extra fizz to an economy where, for the first time, many people feel they are succeeding on their own merits. The credit market is set to expand over the next few years, according to many analysts. Total credit in the country was equal to just 45 per cent of gross domestic product in August, much less than in most developed and many developing nations. After years of low inflation, economic stability and income transfer programmes, millions have entered the market economy. This year for the first time most of the population was classified as middle class. Many are opening their first bank accounts. Mortgage lending - equal to a tiny 2 per cent of GDP - is one area Santander will concentrate on.

A year ago, Emilio Botín, executive chairman, was in São Paulo to announce his intention of making Santander Brazil the country's biggest bank within three years. That is a tall order given the size of the local competition and their battle for leadership. Santander is already the third biggest private bank behind local giants Itaú Unibanco and Bradesco, but both will fight hard to defend their market share. So will big public-sector banks, led by Banco do Brasil and Caixa Econômica Federal, a savings and mortgage bank. Banco do Brasil, knocked off the top spot by last year's merger of Itaú with Unibanco, moved quickly to snap up small state- owned banks and regain leadership.

The Banco Real brand is to be phased out next year but much of its expertise and culture will be retained. Fábio Barbosa, its respected chief, is now head of Santander Brazil. Real's branch network made a good geographical fit with Santander's, and its strength in retail lending should enable the bank to keep growing as the market expands without having to fight to take share from rivals.