

ABSTRACT

EXAME MAGAZINE is a fortnight Brazilian publication that brings analyses of the main political and economical events in the Country. In latest issue commented on the Itaú and Unibanco merger that created Latin America's largest bank (and one of the first 15 banks in the world), and the impact this merger had on BRADESCO that, until then, was the Continent's financial market leader.

Our vice president, Antonio Bento Furtado de Mendonça Neto, who led several important SolvingEfeso projects in the Brazilian financial market and specifically at Bradesco for the past 10 years, and who also has extensive experience in this market, was interviewed by the magazine. He was asked to comment on strategic alternatives that could be adopted by Bradesco to recover the leadership it held for the past 50 years or, at least, to reduce the gap with the new leader resulting from the Itaú-Unibanco merger.

Antonio Bento emphasizes that the possibility of "organic growth" by itself would not allow Bradesco to recover this leadership since its competitors will probably also move on that direction. Moreover, besides Itaú-Unibanco, the second largest retail bank, Banco do Brasil, has made two important acquisitions in the past few weeks – Banco Nossa Caixa and Banco Votorantin. Their fundamentals for growth are even stronger and this will compel Bradesco to make new acquisitions. The problem is that there are always less alternatives, both in Brazil and Latin America.

Nevertheless, if Bradesco's strategic answer relied solely or fundamentally on this organic growth, then achieving current clients loyalty and attracting new clients would require a consistent effort focused on substantial improvement of its operations and customer services. In order to collaborate on this extensive improvement process, SolvingEfeso has already started conversations with Bradesco's Top Management.

From the strategic point of view, this retail banking concentration in Brazil was predicted several years ago by several specialists, including Antonio Bento, who in early 2004 told "The Economist" about the a probable scenario of only three or four major institutions being one large domestic bank, a foreign institution and a state-owned bank.

Nowadays, the Brazilian banking system is very close to that since there are currently no more than five major retailers in the market.

Interview of 'EXAME MAGAZINE' is attached.

WHERE BRADESCO IS HEADED

Silently, the bank in Cidade de Deus is preparing to reduce the difference that is separating it from the bank created by the Itaú and Unibanco merger.

By Giuliana Napolitano
Revista Exame

Late last November, a top Bradesco director looked somehow perplexed before an audience he knew well: His own employees. At this time of the year, for many years, he had been meeting with this team to discuss strategies for the following year. But, the 2008 meeting was different. On November 2, a Sunday, Bradesco executives went to bed as leaders of the country's largest private bank. The following morning, the bank had fallen down to third place among the country's largest financial institutions. This same morning, Bradesco's strongest historical competitor, Itaú, had announced a surprising merger with Unibanco thus becoming the southern hemisphere's largest bank. Suddenly, Bradesco had lost market leadership, a position it had occupied for fifty years. And this director, a 30-year career employee, taking this leadership position for granted, had never discussed with his employees the future of the business without it. "At that moment, I needed a strategy to motivate my people," the executive told more than one person. "The Itaú and Unibanco merger had stunned everyone," he added. His solution in his speech to his subordinates was to recount Bradesco's history, to highlight its strengths and to plan new strategies to help the institution's return to the top – perhaps not in the banking business but at least in specific business segments.

This story is more than a curiosity about daily events at Cidade de Deus, or City of God, where Bradesco is headquartered. This story is an example of what the bank is going through since Itaú and Unibanco joined forces and since Banco do Brasil began to purchase – and to offer – public and private institutions. Since then, Bradesco's top executives have been telling themselves that they do not need and that they do not plan to become leaders again at any price. It is unlikely that successful bankers said or did otherwise. Discrete, Bradesco executives silenced while the market asked where would now be headed the institution created 65 years ago by Amador Aguiar. "The merger increases the competition in the very competitive Brazilian market," Márcio Cypriano, Bradesco's president, told EXAME. "We will keep on course, working in that we believe in. What changes is that we have to improve our quality and performance indicators."

Bradesco's strength

Ever since the Itaú-Unibanco merger was announced, Bradesco's top executives have been discussing and working on new ways to launch more aggressive growth plans. Some of the new strategies have been exhaustively discussed in the wall-less, 700 square meters room that holds the 21 desks of Cidade de Deus' top executives. "In the past five weeks there have been more meetings than in the past five years," said a bank executive. One of the pillars of Bradesco's reaction is to attract more individual

accounts, especially among low income people. A plan to inaugurate new branch offices and to attract new accounts that had been placed on hold due to the worldwide economic crisis is now a priority. The goal is to attract 1.5 million new account holders per year beginning in 2009. "I think this is a modest projection," said Cypriano. According to him, the bank today has 37.5 million clients of which only 20 million are checking account holders; the remainder either has a savings account, a credit card or makes layaway type of payments for a car and hardly uses any of the other bank services. "If we can convince these other clients to become checking account holders, we will probably have a faster growing base," he said. Compared to Itaú Unibanco, Bradesco has an advantage: The sum of the two banks' account holders is 15 million. According to official plans, Bradesco would open 74 new branch offices in 2009 but bank officials say that this number is being reviewed up to 200.

At least for now, Bradesco's strategy is to grow around the edges. A possible source of expansion, as per Cypriano's and his executives' point of view, is to offer credit to companies, especially major organizations. Bradesco already is the main lender for the country's major business groups. Its credit portfolio for this segment was 78 billions of reais in 2007 according to EXAME's annual Best and Biggest. Together, Itaú's and Unibanco's total 64 billions of reais, ranking it second. "To lend money has always been Bradesco's business and it should grow now," said a former bank director. Bradesco's managers have, for the past few weeks, been calling on companies to offer numerous products and services – corporate credit cards, checking account for suppliers, offering financial advice and, of course, loans. In December, the bank closed with Petrobrás an export loan in the amount of 200 million dollars.

Will these organic growth strategies be able to make Bradesco a leader again in the private market? Hardly. In order for that to happen, his competitors would have to have no expansion whatsoever for the next several years. "Only then could Bradesco close a gap of 200 billion reais in assets that separate it from Itaú Unibanco," said Antônio Bento Mendonça Neto, senior vice president of the French consulting company Solving Efeso. As improbable as this scenario is to believe that Bradesco will not include purchasing of other banks among its priorities. Market analysts, consultants and executives have fun speculating which banks could be a target – Citi, Safra, Banrisul and even Votorantim (nowadays in advanced negotiations with Banco do Brasil) have been cited as possibilities. "These are speculations, of course, but the fact is that the Brazilian market is not yet fully concentrated and there is room for consolidation," said Federico Rey-Marino, Latin America analyst for the American broker Raymond James. Cypriano disagrees. "It is not a priority to launch an acquisition program that does not add value for the stockholder." But, a ghost spooking the Cidade de Deus buildings is how the bank will maintain its current solidity and high profitability. "They are not as comfortable," said Antonio Bento from Solving Efeso. "The trend in this sector is towards consolidation and, increasingly, only the major groups will be able to purchase other institutions." Bradesco also has a sensitive image issue to work on. The group conquered in the 1950s the title of largest private institution in the country and kept it until now. Being number one was mentioned in marketing campaigns and made the

employees proud. “The task now is to find a new identity and to show that the Group was not asleep while Itaú and Unibanco merged,” said Ricardo Martins, chief analyst at Planner.

The size of the bank

In the midst of all these changes, there is also a dispute for the institution’s presidency. Cypriano turned 65 in November and this is the age limit for the positions of executive director, vice presidency and presidency according to bank statutes. In theory, he is supposed to leave his post in March 2009. But, Bradesco can change its statutes and allow Cypriano to remain as president. The bank has done that once before, in the 1990s, to extend Lazaro Brandão’s mandate. Brandão is currently president of the bank’s Administrative Council. Probable candidates, according to sources close to the bank, are Luiz Carlos Trabuco Cappi, president of the bank’s insurance arm, and vice presidents José Luiz Acar Pedro and Milton Vargas. It is being speculated that outsiders are also being tapped but choosing someone from the outside would be a first in Bradesco’s conservative history since its culture privileges career executives. Results of the new strategies may change the power brokering within the bank. Be as it may be, Bradesco will hardly be the same in 2009.