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BOZANO, SIMONSEN | Asia

A case study

by

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Faculty Comments

This study reports on the case of a Brazilian investment bank's investigation of business opportunities in Asian countries following the Asian financial crisis of 1997/98. It begins with a brief analysis of the bank's position and strategy within its home market, then presents the rationale for its exploration of opportunities in Asia. This paper looks at four of the nine country markets explored, coming to conclusions about whether the bank should venture to each and if so, what it should do. The study concludes with a brief discussion of the strategic choices facing the company.

The study's strengths lie in its clear conceptualization, original fieldwork conducted, and well-organized presentation of material in the form of a learning case. It suffers from being somewhat dated i.e. the empirical data and interviews were all conducted in the summer of 1998, since when the economic situation in Asia has changed and is somewhat more favorable, whereas the economic situation in Brazil has worsened. The country studies could also be more systematic and elaborated, and the paper as a whole could do with some editing to smoothen the language. Nevertheless, overall this is a good piece of work, potentially useful for classroom discussion



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BOZANO, SIMONSEN | Asia

A case study

THE CROSSROAD OF GROWTH

On Tuesday, July 28, 1998, Paulo Ferraz, CEO of Banco Bozano, Simonsen (Bozano), is set in his office at Av. Rio Branco, the financial center of Rio de Janeiro, evaluating which steps he should take for the sustainable future of Bozano. He is still glimmered by the good results from the privatisation of Telebras, the Brazilian telecommunication giant, which has led to substantial increase of IBOVESPA, the index of the Sao Paulo Stock exchange, where Telebras represents 30% of the total volume traded.

After one more big deal, he turned again to the operations, trying to understand which should be his next steps, considering the recent turmoil in the financial markets. Bozano bought a regional retail bank, Banco Meridional, at the end of 1997 which presents good improvement potential. The Brazilian investment banking market has good perspectives for expansion. Finally, the Asian crisis on October 1997 can also revert into good opportunities for international growth, drawn from the recently opened operation in Hong Kong.

He is conscious that his next moves will determine the survival of the largest Brazilian investment bank.

COMPANY BACKGROUND

Banco Bozano, Simonsen is controlled by Companhia Bozano, Simonsen whose president and major shareholder is Mr. Julio Bozano, one of the 50 wealthiest people in the world. The most important sector within the group is formed by financial institutions consistent of three divisions under the umbrella of Banco Bozano, Simonsen: investment banking, retail financial products (credit cards, leasing, insurance) and commercial retail banking. Companhia Bozano, Simonsen is also the holding of the non-financial division of the group, with assets of US\$1,200 million, along Industrial, Real State and Farming segments. Exhibit 1 illustrates the structure of the Companhia Bozano, Simonsen.

Banco Bozano, Simonsen is one of the largest multiple service banks in Brazil with US\$608 million equity, ranking 8th in equity among domestic private banks. Headquartered in Rio de Janeiro, the Bank has only one domestic branch in Sao Paulo and an international in Grand Cayman, consistent with its wholesale focus. It also operates in the international financial markets in New York, London, Hong Kong, Miami, and Buenos Aires through its subsidiaries.

Banco Bozano, Simonsen core operation is in investment banking, remarkably in corporate finance, asset management, underwriting, brokerage and securities trading. Euromoney granted Bozano, Simonsen the award for the best investment bank in Brazil in 1997 and in 1998. Exhibit 2 describes each area of the investment bank.

Nevertheless, the investment banking division also acts as corporate commercial bank in loans and foreign exchange, maintaining active contact with the 150 largest corporations in Brazil, which enable the origination of M&A and securities issuing.

The acquisition of Banco Meridional do Brasil on December 1997 put Bozano back into the retail banking business. Meridional's franchise is the strongest in the Southern part of Brazil, with 220 branches and a loyal customer base. Meridional used to be an inefficient state-owned bank, which presents revenue and cost improvement opportunities and the possibility of increasing the retail network.

Bozano's consolidated net income in 1997 was US\$143 million, with total assets of US\$11,187 million leading to 1.76% return on average assets and 25.8% return on average equity.

Recent development phases

The Bank was formed in the early 1960's by Julio Bozano, son of an industrialist, and Mario Henrique Simonsen, who became the Minister of Economy in the 1970's. The initial focus of the company was in securities trading, but it has changed over years, becoming also a corporate commercial banking. By 1990 the bank had 22 branches all over Brazil and 4,000 employees.

Paulo Ferraz, a MBA from Harvard, was nominated CEO in 1992, after leading the Treasury over its glory days of high inflation. The bank had already downsized to 1,000 employees, but was still with cost problems, considering its lack of scale for a commercial bank. In the following years, Paulo Ferraz closed most of the branches, cut the work force to 400 and reshaped its operations to the current focus, reaching international benchmarks of profits per employee.

The bank has passed through 3 major phases of market development in the last 10 years: Arbitrage, Privatisations and Foreign competition. During most of this time, the bank was led by an executive committee formed by 8 Directors: Paulo Ferraz, Alvaro Lopes, Lucio Belez, Aladim, Sergio Castro, Armando Almeida, Cury e Geoffrey Langlands. This group was informally called the G-8.

The arbitrage phase happened during the high inflation period of the 80's and beginning of 90's. Bozano and other domestic banks profited easily from Dollar swap operations, which led to a glory period for treasuries. During this period many banks were opened and retail networks grew to increase the capital raising base.

The second phase began in 1991 with the first large privatization in Brazil, the steel producer Usiminas. Bozano took a leading position, participating as an active investor. Between 91 and 95 either the bank or the group invested in diverse privatisations, such as: Usiminas -91, Cosipa - 92, CST - 93, Embraer - 94, Ecelsa - 95. Most participation had already been sold as return expectations were met. Currently only Cosipa e Embraer remain within the Group.

Currently, Bozano is facing the third phase which will be the most difficult for its survival. Most of the global bulge brackets (largest investment banks) have set operations in Brazil and have started competing against Bozano in its own backyard. The boldest move was done by CS First Boston which bought Garantia, the used-to-be largest investment bank before the Asian crisis in October 1997. Others had also moved into the market: SBC Warburg bought Omega, a stockbroker; Chase Manhattan bought Patrimonio, an investment boutique; Merrill Lynch created a bond trading desk. In addition, Salomon,Smith Barney, Lehman Brothers and Goldman Sachs were all strengthening their Latin American teams to better serve the region.

To win within this phase, Bozano relies on its competitive advantages: solid relationship with local companies, usage of its balance sheet to make loans and commitment to long-standing position in Brazil. In addition, Bozano has also been strengthening its international presence and expanding its recruiting efforts, remarkably being one of the main Brazilian recruiters of MBAs. The vision pursued by top-management is to become the leading investment bank in South America.

Bozano has also the intention to continue its expansion into retail banking, through acquisitions of other state-owned banks and an expanded branch network for Meridional. This will also explore another competitive advantage of the group: human resources flexibility. The bank incentives executive and personnel rotation among its different businesses, which has created a very adaptive and aggressive work force.

BRAZILIAN MARKET

The Brazilian financial market has gone through big changes after the economical stabilization plan in 1994. In the recent years, a number of acquisitions happened on the retail segment, concomitant with government rescue packages for domestic banks.

In general, large private commercial banks have been profitable and have grown through acquisitions. Government-owned and small private banks have not had scale or have not been profitable, which has increased the acquisition movement. Exhibit 3 shows the dateline of top acquisitions in Brazil.

In the second half of 1994, the federal government has launched the PROER, a basket of measures (credit lines) to stimulate merging and restructuring of private banks. PROER set 43 institutions under Central Bank intervention, temporary receivership or wound up from 1994 to 1997. This program cost US\$18 billion (2.2% of GDP), but successfully controlled the shrinking of the banking sector from 16% of GDP in 1993 to 6% in 1996. In the second half of 1997, the government has also established the PROES, with further measures to assist cleaning up and privatising state banks.

Currently, there are 179 financial institutions in the country, with the 7 largest banks holding 73% of total assets. Total loans corresponds to 21% of GDP and non-performing loans as a percentage of total credit portfolio are 23.8% for state-owned banks and 3.4% for private banks. Exhibit 4 presents data from major banks by assets.

The Brazilian financial market is also considerable. The Sao Paulo Stock Exchange, BOVESPA is the largest in Latin America, with daily average volume of US\$482 million during the first half of 1998 and market capitalization of US\$151 billion as of July 2nd, 1998. On June 1998, the money market had an average daily volume of US\$152 million and the Futures Exchange (BM&F) had US\$79 billion open contracts, being the 3rd largest in the world.

The three segments of investment banking with greater potential are asset management, merger & acquisitions and privatisation.

Perspectives for asset management

There is a strong feeling that the asset management market will grow strongly in the next years, following international and domestic trends. Currently, this segment represents 13% of the Brazilian GDP (around US\$100 billion), while it is 50% in the US; this shows its growth potential. Growth is expected to come from increases in retail fund investment and in management of pension funds resources by banks, resultant from its more professional approach.

The key factors of success in this segment are distribution and investment strategies. That is why, there has been many alliances between international (seeking distribution channels for their products) and domestic players (seeking investment technologies and access to international information). Examples are: Nikko securities and Banco Marka; Nations Bank and Banco Liberal; Alliance and BCN; Templeton and Bradesco (retail); Patrimonio and Bradesco (wholesale).

Perspectives for M&A

The total value of M&A deals in Brazil was around US\$3.5 billion in 1997 and projections for 1998 are of US\$4.0 billion. However, there is a strong feeling that the market can develop faster in the future, considering consolidations which has followed the overture of the Brazilian economy.

The leading player in the domestic market is Banco Pactual, with 15% market share, followed by Morgan Stanley and Goldman Sachs, adding 16%; the remaining is fragmented. However, Pactual also acts as private equity, taking active control in investments such as Mesbla, a retailer rescued from near bankruptcy. Bozano was not among top 10 players, but has already figured in the third place in the past.

Perspectives for privatisations

There are good opportunities in the near future, following the general trend of decreasing government influence in economy/business throughout Latin America. Bozano considers that the Brazilian privatisation process reached a point-of-no-return, which would not change in case of a defeat from President Fernando Henrique Cardoso in the forthcoming elections in October 1998.

The process has involved US\$12 billion in assets, out of which Bozano participated in US\$3 billion as an active investor, which puts it as the major domestic investor in the whole process.

Among the sectors with greatest potential in Brazil, there are some highlights: electricity companies and concession for new installations; concession for new technologies (e.g. cable TV, paging); sanitation; roads. In the rest of Latin America, Chile and Argentina have gone through most of the process, but the remaining countries are still in the initial phase.

THE ASIAN OPPORTUNITY

Recently, following the Bank's international expansion strategy, Bozano, Simonsen opened an office in Hong Kong to oversee the Asian region from India to New Zealand. This movement translates the Bank's aim to have a global reach, mainly to strengthen its securities distribution capabilities. Nevertheless, Bozano wonders if the financial turmoil in the region can open windows of opportunities in different areas than solely distribution.

Bozano intends to use its opportunism to profit from the situation, making use of its strong financial situation, its organizational flexibility to adapt to new environments and its global presence. Bozano also considers it can take advantage of its experience in emerging/turbulent markets, designing similar solutions in Asia as it had in Brazil.

The Hong Kong office is the first operation ever set-up by a Brazilian investment bank in Asia. It is designed to focus in the following activities, in addition to oversee Companhia Bozano's interests within the region:

- Securities trading (both equity and fix income), either the buy side for the Bank's own portfolio or the sales side of Brazilian securities.
- Asset Management through the distribution of Bozano's off-shore funds with Brazilian securities underlying or the formation of international portfolios to be managed in Brazil.
- Corporate commercial banking products focused on trade finance and foreign exchange or in on behalf of any interest of Bozano's clients.
- M&A advisory services for deals between Latin American and Asian companies or identification of partners for the Brazilian privatisation process.

Currently, there is three front-people working on Hong Kong for Bozano, Simonsen Asia: Jose Lavaquial, CEO and director of the bank, Shin Fukui and Lim Shan Kei, fixed income sales managers.

Bozano hired three Brazilian MBA students as summer associates, under the supervision of Jose Lavaquial to perform recognition visits to key markets aiming to establish the first and to bring their views on the market potential. The main tasks were to understand better the country economic, political and social situation and its financial markets, as well as to establish contact with key players in the financial and industrial/services sectors to seek mutual business opportunities.

Renato Monteiro from Michigan, Graciema Bertolletti from Harvard and Yen Yang from Wharton contacted agents of the financial markets such as commercial and investment banks, insurance companies, fund managers, stockbrokers, as well as other key companies with interests in Latin America and government agencies to draw their recommendations of actions. The Project Asia, as it was named, had a number of potential interactions with Bozano's investment banking operation, as can be seen in Exhibit 5.

Overview of the Asian markets

The group recognized 7 blocks of countries within the region delimited by languages, religion & values, historical sovereignty and economical developments. Japan, Australasia and the Newly Developed countries (Singapore, Hong Kong and Taiwan) were the blocks of developed countries; while Southeast Asia (Thailand, Malaysia, Indonesia and Philippines), China and the Indian Sub-continent were blocks of emerging economies. Korea was considered a block in between the two developing phases. Exhibit 6 shows the geographic reach of each block.

The impact of the Asia Crisis has been different among the blocks. In Australasia and Newly Developed countries the impact depended on the degree of regional involvement, but the greatest consequence was the search for other markets to export and invest.

In China and Indian Sub-continent there was a slow down in the development process, resulting in the search of other markets to export and the increase of regional competition, as well as slower domestic growth and overture of the economy.

Japan has had its own crisis, with competitiveness decrease, huge non-performing loan percentile and inflated financial system. The crisis over the region only exacerbated the bad situation, remarkably over non-performing loans, but the solutions for its domestic problems were much more in Japanese hands.

Southeast Asia and Korea were the most affected, with a radical change in the economical environment: financial system restructuring, change of ownership and bankruptcy of the real sector, strong reinforcement of export economy and doubts about potential to return to past growth patterns.

Renato Monteiro visited four countries: Australia, New Zealand, Thailand and India. Where he developed an understanding of the economy, the financial situation and the business opportunities for Bozano, Simonsen. His findings are described below.

Australia

Australia should be regarded as potential investor in Brazil. The great dependency on Asia for exports (50% of its total; 20% only to Japan) and for investments creates concerns to Australians in terms of the best options for investments both in the financial market and in the real sector. In this way, the situation can present a good opportunity for Latin America to grab potential investments.

Financial markets are well structured, following the American model in terms of agility and openness. However, there is a big difference in the level of concentration of retail commercial banking, which is just starting to diversify into investment banking. There are four big players, with 80% market share: National Australian Bank (NAB), Australia New Zealand Bank (ANZ), Westpac and Commonwealth.

The best and largest domestic investment bank, Macquarie Bank, presents similar financial results as Bozano, but with 6 times the number of people. There are also large insurance companies, where AMP and Colonial are the largest. Most players in all segments has asset management division, which is considered the area with greatest potential for domestic growth.

There is no presence of Brazilian banks in the country, but in the past two Brazilian commercial banks had had offices in Sydney focused on trade finance.

In the real sector, mining and energy companies stand out within the economy. In the 1970's, this unbalance has created worries among Australians to become a "Banana Republic" with only raw material exports. In fact, those sectors are the ones with investments in Latin America, mainly in Chile (consider the closest partner in South America), but even in Brazil (BHP, a mining company, has holdings in Brazilian companies). The infrastructure sector has also shown interest in Latin America.

Commercial trade with Brazil is small (0.5% of each country's total trade), totaling US\$300 million per year. Surprisingly, the trade is focused on exports of Australian ore and imports of Brazilian manufactures.

The local stock exchange has daily average volume of US\$600 million, with the largest capitalization from large retail banks and mining companies. Historically, it presents low volatility, but it was severely affected by the Asian Crisis. The total fixed income market is around US\$60 billion, being 60% government papers and 50% US dollar nominated. More details about the Australian financial market is in Exhibit 7.

Areas with the greatest potential are: asset management, to raise capital to be managed by Bozano in Brazil; M&A and privatisation advisory services for companies in the basic material or the infrastructure industries interested in investing in Brazil; small distribution of Brazilian securities, focused on equities or commercial papers.

There are 3 ways to enter the market, which choice should take into account Bozano's strategy in the region: full alliance with Macquarie (for details see Exhibit 8), to develop a cross Asia-Latin America player; alliance with the second largest domestic stockbroker, JB Were, to distribute Brazilian securities; overture of a small office focused on specialized funds for Brazilian equity and fixed income.

New Zealand

New Zealand is a nice and small country, but with little business potential for Bozano. The best New Zealand can offer is good technology know-how in specific sectors. There is an

increasing awareness about Latin America, but it should take few years to be translated into opportunities for commercial trade or financial transactions.

The structure of the Kiwi financial market is similar to the Australian's, but with a much smaller size. There is no strong domestic financial institution, the biggest players are either Australian or International. There are 4 large commercial banks with 80-90% of market, owned by 3 of the Australian "big four" and by Lloyds Bank. Investment banks have operations focused in brokerage with small corporate finance (less than 20 people usually). Large asset managers are also international.

The fund management industry is around NZ\$60 billion (US\$32 billion), with 65-69% of the volume from pension funds and insurance companies, but New Zealand is considered a country with small savings history. AMP is the largest asset manager and Tower is the most aggressive domestic.

The stock market is 60% dominated by long term off-shore investors who concentrate in the top 10 companies by market capitalisation - the only liquid stocks. The market turn-over is around US\$30 million daily, with the telecom counting for 30% of the volume. For more details about the Kiwi financial market, refer to Exhibit 9.

Trade with Brazil is also limited, with less than US\$60 million in each way, being the Kiwi exports focused on dairy products. There has been some incentives from government to increase the involvement with Latin America, considering the current Asian situation. However, it seems to be just the beginning of a long process.

There is no potential to open an office in New Zealand; the best way to cover the market is directly from Hong Kong or from a potential office in Australia. It was identified a small buyer of Latin American equity whom will be handle by the London office, but in general, such small and competitive financial market does not present good opportunities. Nevertheless, Bozano can offer Kiwi technology for its corporate clients in Brazil, as New Zealand has good technology in dairy products, meat processing, telecom and energy engineering.

Thailand

Thailand is a country where the economical and the financial market situation is the main issue. There has never been market potential for Bozano's products due to restrictions on capital flow/investments and to opportunity cost compared to internal investments. However, it certainly has potential if Bozano decides to expand into a full-operation within the market, through full alliances with a local player.

The situation in Thailand is very bad. The country is technically bankrupt, needing a bail out of more than US\$20 billion, despite good fundamentals in terms of education/productivity, large/growing working force and developing consumer market.

Great part of the economic growth was financed by corporate borrowing and FDI, which decreased radically since the Baht devaluation. The economy is forecast to decrease up to 12% in

1998 and nobody predicts 1999, the general feeling is that Thailand will never return to past growth patterns.

Thailand has about US\$90 billion in international loans with 60% being corporate loans. Japan is the largest creditor, counting for 50% of total loans. Great part of these loans are backed by real estate assets, evaluated at high prices due to the bubble of supply. In Bangkok, there are at least 50 buildings in construction stopped due to the lack of demand. There is no bankruptcy law forcing borrowers to liquidate assets to pay loans, which sustain real estate prices against further decrease.

Moody's estimates an average of 35% non-performing loans (NPL), with the trend to increase further, as more companies are affected by the crisis. There is no money internally to cover all the bad debts, as it is required another US\$20 billion in addition to the IMF bail-out to balance NPLs.

Government has taken responsibility over most of the NPL, to prevent against total crash of the financial sector. There are few sources for this money: government bonds (domestic or sovereign), corporate bonds, foreign investments or proceeds from privatisation. However, all alternatives faces problems.

The initial solution was designed to be the Government's US\$15 billion capital raising in the domestic market and \$5 billion internationally, supported by consistent historical surpluses in the fiscal account, which can be taken as a guarantee to future payments. However, investors are afraid that after the crisis nobody can predict the future of fiscal accounts and that market conditions are not favorable for bond issuance.

Other alternatives are: corporate bond issues, which are waiting the sovereign issue; foreign investments in loan portfolios and in financial restructuring of companies, which are waiting the bankruptcy law; and privatisation of state companies which adds up to US\$20 billion in equity out of which \$10 billion would be sold, however the process is just beginning and is foreseen to present the many difficulties.

The financial system is changing radically. Out of the 15 commercial banks before the crisis, 4 are bankrupt and were nationalised, 5 recapitalised at the beginning of the year and 2 were bought by foreigners and 4 are still struggling to survive. The number of finance companies has decreased from 100 to 51 and stockbrokers from 50 to 26.

This crisis is reshaping the financial market, forcing government to change regulations and players to reanalyze their operations. Finance companies will be terminated; the ones which survive will become commercial banks or super-finance companies (commercial + investment bank + brokerage). For more details on the Thai financial market, check Exhibit 10.

The stock market is at a 12 years low, the index having dropped from 1,800 point in 1996 to 280 in July 1998. Banks are the most traded companies and the financial sector is the one with the highest participation in the country's total profit. Therefore, recover in the stock market is directly correlated to a solution to the financial crisis, which is far from being solved.

In the short term, local players are redirecting their efforts to fee-based services such as restructuring of companies' balance sheet, investments in bad loan portfolios and advisory services for foreign direct investment. However, in the long term, there should be a strong market for eurobonds of bigger companies which survive the crisis.

Currently, there are good opportunities for entering the market through alliances with weakened players looking for complementary partnerships. The best potential alliance is with National Finance Public Company (see exhibit 11 for details), which is a well structured company, with good management and good financial position.

The advantages for Bozano are: set presence in a market with potential to restore its leading position in Southeast Asia; take advantage of short-term opportunities in the country, e.g. companies' restructuring; and in the long term be established to participate in the privatisation process.

India

In general, India has to be seen as a receiver of investment for the great potential of its consumer market. India is considered along with Russia and China as the highest growth region in the 21st century. There is no potential for our products besides advising Brazilian companies into acquisitions in India.

India has not been affected as bad as other countries by the Asian crisis, because Hindu corporations were not internationally leveraged and there was no asset bubble. However, there is also a bearish market more influenced by international restrictions resultant from the testing of nuclear armament, which should affect government fiscal deficit (international aid will be cut).

There are 3 major types of financial institutions, which used to be large state monopolies: Commercial Banking, Asset Management and Insurance. Stockbrokers and investment banks are small players.

In the last 5-6 years there have been many changes in regulation, allowing foreigners to enter in most segments of the financial market. As result, there were many entries in the commercial banking and fund management areas, though these new entrants are still small.

Even with changes in the regulation for entry, the market remains very closed. Fund managers are not allowed to invest outside or distribute international funds internally, the biggest ones have off-shore funds to attract foreign investors. Commercial banks are mostly state-owned, being prohibited from investments in foreign securities and with low presence in the local equity market. Insurance companies, a state duopoly, are under the insurance act which forbids investment abroad and determines percentages of the volume for each investment category.

There are 17 stock exchanges in India, being the largest ones: National, Bombay, New Delhi, Calcutta and Madras. The total market capitalisation in Rs 6,500 billion (US\$162.5 billion), with 95% concentrated in 1,400 companies, and the average daily trading volume is US\$600 million. Companies are listed in different exchanges which creates arbitrage potential, though with lack of liquidity. Exhibit 12 gives more details on the Hindu financial market.

There are few large corporations such as Tata (steel, automobile, chemicals, etc), Reliance and Birla. Most of them are not internationally competitive, but the closed market assure a long standing life for them.

Trade with Brazil is still very low, around US\$450 million in both directions. The State Bank of India is the largest player in trade products with 40% of the market.

With such limitations, the Hindu market presents no/small potential in the selling point of view. However, the market is under deregulation and future developments can offer good opportunities depending on our approach in the region.

The biggest opportunity derives from an aggressive move: pursuing an alliance with a local player to develop a full investment bank. The proposal is from the asset management arm of the General Insurance Company (GIC), one of the four largest financial institutions in India with US\$14.5 billion assets (for more details see Exhibit 13). They are the 3rd largest asset manager with US\$300 million in assets, but want to develop a full investment bank and proposed a partnership with Bozano.

This would offer Bozano the potential to become one of the 5 largest investment banks in India which means long-term profits based on the growth potential of the country.

Perspective of remaining countries

The profiles of these four countries indicate the situation in the region. The situation in the Newly-Developed countries were similar to Australia, while India presented basically the same situation as China, and Thailand was similar to Korea, Indonesia and Malaysia. Philippines was in a better position than Thailand and was more open than India. Exhibit 14 makes an overall comparison of the situation in the region.

Besides Japan, which has had FDI in Brazil and currently has many subsidiaries of Japanese companies still active in the market, most of the other countries' businesses with Brazil were related to bond trading. Korea and Philippines used to be active buyers of Brazilian high-yield bonds before the crisis, but were closed to deals since then. Singapore and Taiwan has increased interest in Latin America, but the lack of contact with the region has put potential clients in a recognition period.

All the countries were different in essence, but it was clear that major decisions would be made in the direction of the block it belonged, eventually with priorities among countries within a block.

Potential strategies for Bozano, Simonsen in Asia

The outcome from Project Asia made one thing clear to the team: the future of Bozano, Simonsen Asia would be fairly difficult. The financial turmoil and the economical situation in the region was scaring, not providing good perspectives of resurgence in the short-term.

The group developed a number of alternatives for the operation in the region:

1. Be only a distributor of Brazilian fixed income issues and eventually expand its product offer to brokerage services in the future, in Brazil, New York, London or Hong Kong, where Bozano has broker-dealer permits
2. Act as a trader for proprietary position mainly focused in equity instruments, understanding the region and preparing itself for a rebound of local stock markets
3. Develop a private equity operation, to take advantage of cheap assets across the region, but with the intention to resell them in the near future.
4. Build associations with few players in each country, to offer specific products, such as Brazilian funds/securities in Australia, fixed income distribution in Japan or privatisation services in Thailand.
5. Make strong alliances with players in different countries to form full-operations which offer corporate finance, asset management, underwriting, brokerage and securities trading, as an attempt to build a global franchise at least across Latin America and Asia.

Out of these alternatives, there was a polarization of intentions among people in the project on the extremes, either to remain solely as a seller of Brazilian fixed income or to become a full-operation. Nevertheless, the other options were still open because many things could change during the implementation of the recommendation of Project Asia.

The extreme positions were driven by the battle between the paradigms of growth of the bank. The current objective to become a regional player in Latin America was better filled by the "Seller" option. However, the financial turmoil represents a very good opportunity for the rapid expansion of Bozano's franchise in the region, under a new paradigm of an emerging market player.

Trade-off between acting as a seller and as a full-operation

The "seller" option fits better Bozano's current situation, requiring little change to its organization and modus operandi, as well as the little investment. Bozano would grow the Latin America operations before going global, which was far less aggressive but might not provide the required scale to compete against global players.

The "full-operation" option can take advantage of regional players' short-term financial problems and lack of scale for survival. There are economies of scope and scale of regional alliances with Bozano's current operation, which could put the bank in a more comfortable position to fight for survival. Depending on Bozano's approach those alliances can require a radical change in Bozano's operation or can basically represent strategic options for Bozano's future positioning in the region, depending on the economical and financial evolution of the region.

The table below describes the pluses and minus of both strategic developments.

Paradigms	Main role in Asia	Pluses	Minus
Regional Latin American player	Seller	<ul style="list-style-type: none"> • Small investment lead to lower risks and to the possibility to sustain the bet on LatAm recovery • Position to take advantage of one-time opportunities (e.g. stk boom, privatisation), in the future • Increased knowledge on the region leading to strengthen in trading and in potential future ventures 	<ul style="list-style-type: none"> • Strong competition from international players may jeopardize selling proposition • No generation of enough results to break-even in the short term • Doubtful sustainability of the operation
Global Emerging Markets player	Full operation in select countries through alliances	<ul style="list-style-type: none"> • Take advantage of short-term windows of opportunities • Early/solid entry in markets with huge potential (e.g. India) • Leverage on crisis and emerging markets expertise can lead to superior returns • Economies of scale and scope in research, advisory and sales 	<ul style="list-style-type: none"> • Higher risks/commitment, with potential large requirements of capital • If alliances are badly managed, increasing capital/human resources requirements will have high opportunity cost in the Latin America consolidation

THE STRATEGIC DECISION

The best summary of Bozano strategic choices are illustrated by McKinsey's concept of the Strategic Game Board (Exhibit 15). "Same game" represents investment banking, while "New game" represents a shift to the retail business through Meridional, the recently purchased regional bank. "Across-the-board" implies an international expansion into Asia and other Latin American markets through alliances, while "Selective" is continue mainly as a player in the Brazilian market.

All the alternatives present difficulties, either in the execution or in its sustainability as an independent player. The intentions of its major shareholder, Mr. Julio Bozano, pointed for remaining independent from large international players, such as Goldman Sachs, which has made offers to buy the bank in the past. Therefore, the solution should be designed on this basis.

Paulo Ferraz has to decide the best growth strategy for the bank. Should Bozano change its product focus, emphasizing the retail operation? Should he concentrate in the growth potential of the Brazilian investment banking market, in asset management, M&A and privatisation? Or should he take a more aggressive approach to use Hong Kong as the beach-head of a full-operation in Asia?

In addition, what should be the future of Bozano, Simonsen Asia? What should Jose Lavaquial focus on the next year? And in the next 2-3 years?

Exhibit 1 - Structure of Companhia Bozano, Simonsen

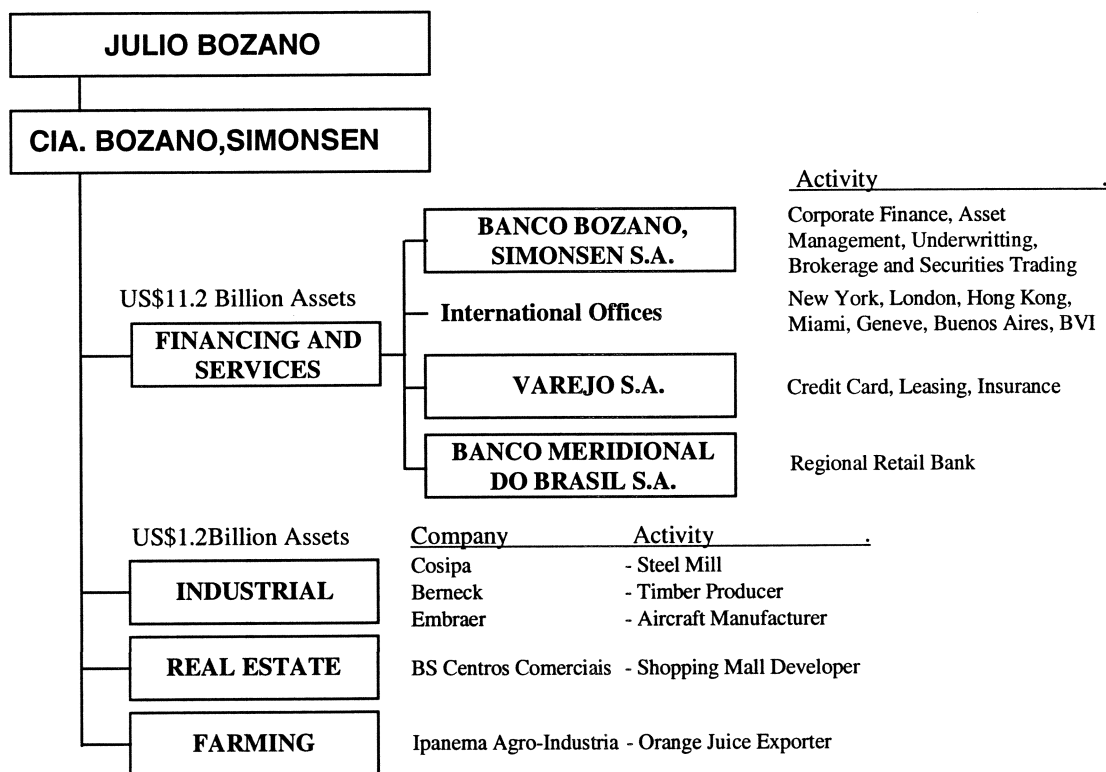


Exhibit 2 - Detailed description of Bozano, Simonsen's investment bank areas

The investment bank is organized in 11 different areas: asset management, international fixed income sales, international equity sales, brokerage, equity research, treasury, proprietary trading, M&A, privatisation, large corporations and private banking.

The **Asset management** is a genuine domestic operation, with both products and clients from Brazil. The type of investment analysis is fundamentalist (focus on DCF model), but multiples are also used to understand other influences. In general, Bozano has a conservative management, attempting to increase funds liquidity.

Bozano focus on institutional investors among which pension funds from state-owned companies are the largest clients, followed by insurance companies; they count for 55% of the assets managed by the bank. There is a strong effort to diversify the client base, to decrease the exposure to few large clients; however, other segments are still smaller: retail (20% of assets), government's cash balance (10%), cash balance from large/medium companies (8%), clients from the private banking (7%).

In the product side, Bozano has funds with a number of underlying securities (fixed income, equity, derivative of foreign exchange/interest rate, index) and different packaging (underlying portfolio, risk profile). Bozano's international whereabouts is restricted to Brazilian Eurobonds, Brady Bonds (from the Brady plan which rescued Brazil from the moratoria in the 1980's) and the Joint Venture with Consultatio, an Argentinean fund manager.

International fixed income sales includes activities from its old definition as International area: trade/export finance, commercial paper/bond issuance and international raising of funds to finance Bozano. Currently, the focus is on Brazilian Eurobond issues and distribution (origination is done by relationship managers from the Large Corporations area). Bozano was the main Brazilian issuer of Eurobonds in 1997.

Bozano sells fixed income securities to asset managers, insurance, pension funds and other institutional investors outside Brazil, supported by Bozano's international offices, remarkably New York, London and Hong Kong.

International equity sales grew with the boom of Brazilian equity market since 1993 (the market grew 500% in dollar terms during this period). It assists foreign clients established or not in Brazil, which differ from domestic relationship-driven clients served by other area. The base of buyers is the same of fixed income, but with different contacts.

This area works closely with the brokerage and the equity research. They are responsible to "sell" information/analysis done by the research department to institutional investors, getting a fee from brokerage services (actual stock trade in the stock exchange).

Brokerage is responsible for all transactions which involve the stock exchange comprehending: brokerage, issue of Brazilian ADR (American Depositary Receipt), block trade of new issues and action of market maker (daily trader of a specific stock who tries to keep/increase

the liquidity of a stock to increase its price). Bozano was the largest broker at the Bovespa in the first half of 1998, with 15% of daily volume.

Equity research is responsible for macro-economical and business analyses of companies and sectors. They have a number of publications covering 160 companies: 59 companies are covered in quarterly reports, 51 companies in sectorial reports and 50 companies have their ratios and multiples followed up.

Bozano's research has the largest number of hits on First Call, a internet-based database of research reports, and was chosen as the best Brazilian research by the "Global Finance" magazine in 1994 and 4th best by "World Equity" magazine in 1997.

Treasury is the most interesting area considering the number of people and the complexity of tasks. In fact, Bozano's Treasury completely different to the American treasuries. This area incorporates: cash management, credit analysis, risk management and proprietary trading of sovereign fixed income, foreign exchange, American Treasury Bonds, commodities, derivatives and any other thing different from equity.

Proprietary Trading is responsible for equity investments. Bozano predominantly invest in the domestic market, targeting indexes, Telebras & other blue chips and selected second line stocks.

Bozano is very conservative on trading risks for proprietary position. The current limit is 85% of Bozano's equity put "at risk" - the maximum amount that the bank would loose considering stress situations on the financial market.

Merger and Acquisitions resulted from the recent split of the corporate finance area in M&A and Privatisation. Bozano targets companies with capitalization over US\$30 million, as fees are based on total value of the deal. Currently, Bozano has 7 mandates, 3 on the buy side and 4 in the sell side.

Privatisation was recently formed due to the increased frequency of privatisation deals, following the Brazilian government economical policy. The type of work is quite broad, including formation of bidding consortiums (shareholders act, negotiation strategy), financial/legal evaluation and floor trading. Bozano is currently trying to build centers of expertise by sector, beginning with telecommunication & media and electricity.

Large Corporations is a typical relationship management area, which originates businesses for all other areas within the bank, mainly asset management, M&A, fixed income sales, capital markets, treasury and credit. Large corporations are considered to be companies with turnover higher than \$400 million. Out of the 150 companies served, 60% are active clients having done at least one deal in the last 12 months.

Private Banking was formed two years ago, but has received more attention only in the last 6 months, after recruiting an exclusive director from a major competitor. Bozano manages US\$500 million in assets from 200 clients, which gives its private banking a world-class performance with of US\$85 million assets managed by employee .

Exhibit 3 - Dateline of Brazilian commercial banks' acquisitions in the last years

<u>Date</u>	<u>Acquirer</u>	<u>Acquired</u>
07/98	ABN Amro	Real
04/98	Sudameris	América do Sul
04/98	Bilbao Vizcaya	Excel Econômico
01/98	Caixa Geral Depósitos	Bandeirantes
12/97	Bozano, Simonsen	Meridional
10/97	Bradesco	BCN
08/97	Santander/Geral Comércio	Noroeste
08/97	InterAtlântico	Boavista
08/97	BCN	Credireal
06/97	Itaú	Banerj
03/97	HSBC	Bamerindus
12/95	Excel	Econômico
11/95	Unibanco	Nacional

Exhibit 4 - Financial and operational data from the largest banks by assets.

	State Owned Banks		Private Banks				
	31/12/97	31/03/98	31/12/97	31/12/97	31/12/97	31/12/97	31/12/97
	Banco do Brasil	Banespa	Bradesco	Itau	Unibanco	Real / BN Amro	Bozano, Simonsen
<u>Balance Sheet</u>							
Assets	97,551	31,897	55,282	41,549	25,203	13,930	11,187
Credits	58,279	5,274	26,325	16,816	12,369	7,274	790
Provisions for bad debt	10,834	1,435	1,618	364	697	205	54
Deposits	49,534	11,885	22,097	16,371	5,776	5,705	1,017
Equity	5,377	3,658	4,991	3,970	2,758	787	609
<u>P&L Highlights</u>							
(+) Fin. intermediation Revenue	2,014	569	2,997	2,291	2,008	568	169
(+) Services Revenue	2,291	96	1,305	1,986	1,123	642	147
(-) Administrative Costs	1,910	118	1,783	1,617	1,341	676	40
(-) Personnel Costs	5,658	259	1,785	1,461	1,035	515	50
Net Income	518	204	750	651	389	95	143
<u>Profitability</u>							
Return on Assets	0.53%	0.64%	1.36%	1.57%	1.54%	0.68%	1.76%
Return on Equity	9.63%	5.58%	15.03%	16.40%	14.10%	12.07%	25.83%
Net Margin	2.06%	7.33%	5.42%	5.51%	7.97%	4.07%	35.14%
Service Rev./Adm & Pers. Costs	30.27%	25.46%	36.58%	64.52%	47.26%	53.90%	163.33%
Provisions/Assets	2.20%	0.22%	1.35%	1.01%	3.22%	0.87%	N/A
<u>Productivity</u>							
# Employees	76,387	22,950	62,450	36,263	23,924	17,281	1,200
# Branches	2,777	575	2,164	1,217	627	562	222
Lending/employee (US\$/empl.)	0.76	0.23	0.42	0.46	0.52	0.42	0.66
Deposits/employee (US\$/empl.)	0.65	0.52	0.35	0.45	0.24	0.33	0.85
Net Income/employee (US\$/empl.)	6,781	8,889	12,010	17,952	16,260	5,497	119,167
Lending/branches (US\$/bran.)	20.99	9.17	12.16	13.82	19.73	12.94	3.56
Deposits/branches (US\$/bran.)	17.84	20.67	10.21	13.45	9.21	10.15	4.58
Net Income/branches (US\$/bran.)	186,532	354,783	346,580	534,922	620,415	169,039	644,144

Exhibit 5 - Potential interactions of Bozano's areas with the Asian Venture

Area	Value to be added by the area	Requirements to Asia Operation
Asset Management	<ul style="list-style-type: none"> • Possibility of sales of Brazilian funds through off-shore operations. 	<ul style="list-style-type: none"> • Source of information (macro economy and research reports) • Understand which is the demand for Brazilian funds or other products.
International Fixed income sales	<ul style="list-style-type: none"> • Contacts with correspondent banks • Past experience of new market recognition 	<ul style="list-style-type: none"> • Potential buyers for Brazilian fixed income.
International equity sales	<ul style="list-style-type: none"> • Contacts for international clients which already operate in Brazil 	<ul style="list-style-type: none"> • Development of sales team dedicated to Asia
Brokerage	<ul style="list-style-type: none"> • Brokerage and custodian services for international investors. 	<ul style="list-style-type: none"> • N/A
Research	<ul style="list-style-type: none"> • Offer of researches produced to potential buyers 	<ul style="list-style-type: none"> • Understand necessity of information from clients(companies, types of reports)
Treasury	<ul style="list-style-type: none"> • Management of off-shore operation in Geneva, Nassau and Bermudas to invest own portfolio internationally 	<ul style="list-style-type: none"> • Understand market dynamics and potential influences over the domestic market. • Potential investments for proprietary portfolio
M&A and Privatisation	<ul style="list-style-type: none"> • Potential target for foreign investment 	<ul style="list-style-type: none"> • Potential investors in fixed assets in the country or in Latin America.
Private Banking	<ul style="list-style-type: none"> • Option for sophisticated private investors who want to invest directly in the country through off-shore funds. 	<ul style="list-style-type: none"> • Concentration/distribution of wealth • Relationship with wealth people

Exhibit 6 - Country blocks within Asia

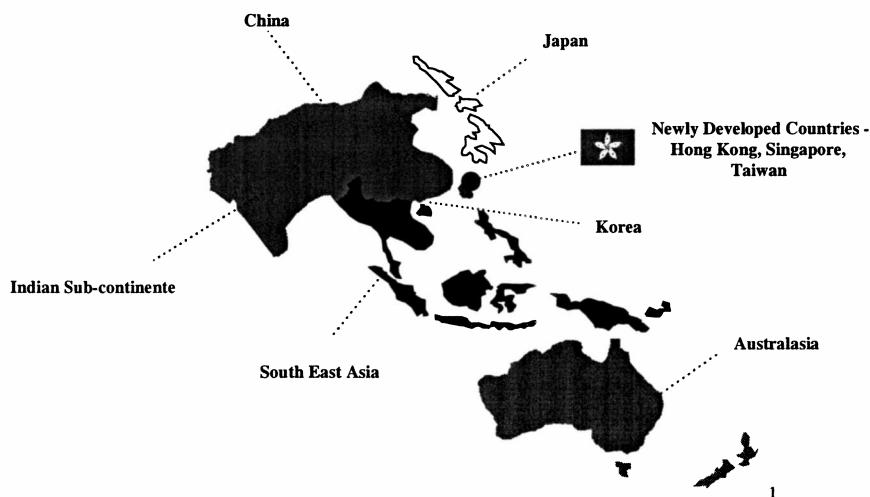


Exhibit 7 - Details of the Australian financial market

The market is characterized by the separation of investment and commercial banks. There are 4 large commercial banks: NAB, ANZ, Westpac and Commonwealth, which still hold 80% of the retail market, even after the overture to foreign players in 1996 (only Citibank and Chase Manhattan has branches among foreigners). Among the commercial banks, only ANZ has a small investment banking operation.

Investment banking is dominated by international players, with the largest being Bankers Trust, ABN Amro and HSBC. However, there are new entrants such as Merrill Lynch and Deutsche Morgan Grenfell, which have acquired local players in the last two years. Nevertheless, Macquarie Bank is the best and the most prestigious investment bank in the country.

Players across the board have asset managers, which is considered the segment with the greatest growth opportunity. Currently, there are A\$340 billion (US\$204 billion) assets invested in this area, with projections for 2002 reaching A\$470 billion (US\$280 billion). These estimates are built over a compulsory contribution from companies to pension funds (superannuation funds), around 6% of salaries.

There are around 40-50 medium to large size asset managers, more than half of it international players. Most of them are specialized on the domestic market, but the largest ones also has international investments. Few domestic players have investments in Latin America coordinated from New York or London, e.g. AMP, NAB Colonial and Westpac. Bankers Trust and Platinum are the only players with Latin American funds managed from Australia.

There is low penetration of Latin securities due to lack of contact/knowledge and the perception of high risk when compared to other opportunities in Asia. However, the Asian crisis and the continuous enlargement of the asset management segment results on great potential for the search of new markets for investment. An example for the increase of searching is the appearance of high-yield funds (traditionally the market has always been only for AA and AAA rated securities).

Exhibit 8 - Brief description of Macquarie Bank

Macquarie Bank is the largest Australian domestic investment bank in equity and it has been elected the best by international magazines. Macquarie has 8 international offices used for securities distribution and investment in local markets: New Zealand (2), China (3), Indonesia, Malaysia, Singapore, Hong Kong, New York, London and Munich, in addition to an alliance with Standard Bank of South Africa for mining deals.

financial highlights

- Assets: A\$6,142 M (US\$3,685 M); equity: A\$500 M (US\$300 M)
- Total Operating income: A\$530 M (US\$320M)
- Operating Profit after income tax: A\$117 M (US\$70 M) - ROE : 25.2%
- EPS: A\$ 0.75 (US\$0.45), P/E= 11.3, Market cap: A\$1,287 M (US\$772 M)
- Cash at year end : A\$493 M (US\$296 M)
- Average VAR - A\$ 1.9 M (US\$1.1 M); Maximum VAR - A\$3.2 M (US\$1.9 M)
- Assets under management: A\$23,500 M (US\$14,100 M) - retail, 31%; wholesale, 36%; listed trusts, 10%; mortgages, 22%; other 1%
- Moody's (long term) A3; S&P (long term) A

Company structure (front business areas of a total of 1,965 employees)

- **Equities Group**, 281 employees (Private client investments; underwriting; equity markets; operations)
- **Corporate finance**, 203 employees (advisory, project/structured finance; infrastructure funds management)
- **Treasury and commodities**, 184 employees (bullion/commodities; foreign exchange capital market; debt market; energy and agriculture; futures; money market; risk advisory)
- **Investment services**, 301 employees (institutional funds; investments products; asset management; portfolio management)
- **Corporate banking**, 433 employees (Banking Services; corporate financing and leasing; property investment banking)
- **Financial management**, 40 employees (Compliance; correspondent banking; credit; finance; internal audit)

Exhibit 9 - Details of the New Zealand financial market

The largest commercial banks are: ANZ - Australia & New Zealand, NBNZ - National Bank of New Zealand (Lloyds), BNZ - Bank of New Zealand (NAB), Westpac Trust (Westpac has just bought the Trust Banks around the country).

All large commercial banks have small investment banking divisions (up to 10 people) and have no potential for enlarging due to the small volume of deals. The market is dominated by 6-10 international players, with the biggest ones being: BT, Merrill, SBC, CS First, ABN Amro.

In the fund management industry, TradeNZ has done a study 5 years ago which calculated the total market around NZ\$60 billion (US\$32 billion), with 65-69% of the volume from pension funds and insurance companies. They believe this value should have increased to NZ\$70 billion, but it is not fueled by compulsory deposits as Australia. AMP is the largest player in NZ with an operation managed independently from Australia, their products are retail funds and management for pension funds. Tower is the most active local player, however they do not have any expertise in Latin America and just distribute emerging markets funds from other large players.

The stock market is 60% dominated by long term off-shore investors who concentrate in the top 10 companies by market capitalisation - the only liquid stocks. In the long term, the 2nd tier has potential, specially a wine company he prefers, but no liquidity. The telecom counts for 30% of volume, being the only stock which can be bought a US\$5M position in one day without changing the price.

In the 1980's hedge funds tried to perform speculative trading, but the lack of liquidity in the market stopped them from doing it.

Exhibit 10 - Details of the Thai financial market

The market has been under severe changes, both in terms of competitors movements, as well as in terms of changes in regulations. There is 4 types of financial companies: Commercial Bank, Finance company, Insurance and Fund Managers.

There used to be limited licenses for Commercial Banks, which kept the number of players of 15, many of them with international offices in Southeast Asia. Banks had been focused on retail having extended branch network, but no investment banking arms. In fact, this gap had been closed through stakes on finance companies.

Finance companies had been the result of a regulated market, being created to fill the gap left from limited commercial banks. They used to have two main businesses: lending and securities. The lending side, with both corporate and retail operations, used to take riskier type of business (the ones banks did not want to take), usually focusing on project finance with rates over 15% (very profitable in a wealthy market, but dangerous in a shaking). The securities side had been focused on trading/brokerage and corporate finance (IPO's, advisory services, private equity), it had profited for a long time considering the bull market of the early 1990's.

There is a law since last year which forces finance companies to split legally their business between lending and securities. In fact, some people reckons this law caused the beginning of the crisis, because all the bad loans which used to be covered by profits on the securities side started appearing. Nevertheless, not every company has completed this process, as they were caught by the crisis.

Insurance companies is a small part of the financial system, with few large players in the largest market of life insurance.

There are also asset managers, which are usually subsidiaries of commercial banks. They are regulated on their investments, as no one can invest abroad and they can have only 10% on cash. This policy dragged the industry down with the crisis, from US\$8.0 billion of total assets managed to US\$2.0 billion.

Up to July 1998, 4 commercial banks were nationalized, remaining the possibility to either sell them private or to the only traditional state bank. Out of 100 finance companies, 49 has been closed and many others are still struggling to survive. The number of securities companies has also been cut from 50 to 26.

In this scenario, it is hard to predict what is going to happen, though there are some general beliefs within the market:

- All banks need to recapitalise by minority issues of international equity or by large capital inflows with transference of control. There are estimates that only 5 commercial banks will survive. The remaining 5 would be bought by foreigners (ABN Amro bought Bank of Asia and a Singaporean, Thai Danu Bank) or killed by increasing NPL.

- Asset Management companies will serve as a 'bridge-bank', receiving all the bad loans from banks and being responsible for breaking them up in similar batches to allow better choices of investment. In this way, investment in loan portfolio is considered one of the best moves, with general discounts from 50% (GE bought \$500 million at 46% face value) up to 75%. Estimates of a good portfolio for investments is \$250 million.

- There is no more need for finance companies. The best and independent ones will become commercial bank or super-finance, after the relaxation of licenses. The ones with bigger ownership from commercial banks will be encamped and become the investment banking arm of the super-finance formed.

- The securities side is more attractive to int'l players looking for an entry in the market, as the fixed income side is easier to be build than the equity side. Merrill bought Phatra, the best structured one.

- In the short term, finance companies will focus on fee-based services in corporate restructuring or in back-office services for loan portfolio investments (accounting, asset recovering).

Exhibit 11 - Brief description of National Finance Public Company

National Finance Public Company (NFPB) foresaw the potential shortage of liquidity 2 years ago which led them to lend shorter term and to raise capital through external loans. In Jan/Feb 98 they took advantage of the upturn in the American market and the perspective of an early recover in Asia, to recapitalize the operation through an equity issue. NFPB also backed by investments in other sectors, such as real state and rice distribution (the largest in the country).

They have reduced the number of employees from 1200 to 600 (450 in finance and 150 in securities) in the last 3 years, but the securities operation will be further reduced. NFPB was one of the few which went against the general non-firing policy of Thai family-owned business.

They used to have stakes on Caspian securities and on a Washington-DC based fund which raised capital to be invested in Thailand, but withdrew these operations. It used to have an alliance with Bear Stearn for distributing Thai securities in US too.

Currently, they intend to buy a fund manager and to apply for a commercial banking license. The Security business is seeking a partner which gives them access to the US market and research knowledge. However, at the holding company level, partners which could act as owners are seen as a treat to their sovereign; an alliance of equals is preferred.

Financial highlights (1997 annual report)

- Assets: Baht 53,563 M (US\$1,340 M); equity: Baht 6,207 M (US\$155 M)
- Total operating income: Baht (1,540) M (US\$(39) M)
- Net Profit after income tax: Baht (3,151) M (US\$(79) M)
- Investment in securities: Baht 8,330 M (US\$208 M)
- Net loans: Baht 39,399 M (US\$ 985 M)
- Cash at year end : Baht 276 M (US\$7 M)

Company structure (Front business areas)

- **Corporate & project and Retail financing**
- **Hire purchase & leasing and Funding**
- **Provident fund management and Financial advisory services**
- **Fixed income investment and Debt instruments business**
- **Equity underwriting**
- **Stock brokerage and Equity Investments**

•Exhibit 12 - Details of the Hindu financial market

There are 4 types of commercial bank:

- Nationalised banks (State Bank of India is the largest one), which are the largest ones
- Co-operative banks, regional banks which serves only one province, being focused on helping their members
- Foreign banks (e.g. HSBC, ANZ Grindlays), smaller than the Nationalised
- Smaller private banks, by sector (e.g. IndusInd) or supported by financial institutions (e.g. UTI, ICICI)

Private banks appeared after deregulation of the market in 1993. Since then, nationalised banks have also being sold partially private, but government still holds majority.

The Asset management market is about US\$20 billion , being the largest player the government-owned Unit Trust of India (UTI), with US\$18 billion in assets.

After deregulation of the fund management market in 1993, 31 new players entered: Hindu corporations (e.g. Tata, Reliance, Birla) and international players (Alliance, Templeton, Merrill, etc), which counts for 5% market share; banks and insurance companies (e.g. SBI, GIC, LIC), which has 10% market share. However, the lack of brand awareness make their market entry difficult.

The Insurance industry used to be a duopoly of Life Insurance Company (LIC), with US\$20.6 billion assets, and General Insurance Company (GIC), with US\$15 billion assets. The market in terms of premium paid is about the same size as the Brazilian. There is a new regulation made by the Insurance Regulator Authority allowing other Hindu companies to enter the market, but it is not clear if foreigners in partnership with local companies can operate.

The insurance act dictated by government forces companies to invest their funds in the following categories of assets: 5% - infrastructure loans, 10% - housing loans, 10% - hindu stocks and corporations (private equity), 75% - Government securities/loans.

As most of the financial institutions in India are state-owned, the Ministry of Finance assures that they have a large social responsibility. LIC, GIC and UTI has to invest in the development of Hindu companies, lending money to institutions such as Industrial Finance Corporation and Development Corporation. The State Bank of India (SBI) acts as the hand of the Reserve Bank of India.

The stock market is unique for its structure. There are 17 stock exchanges in India, being the largest ones: National, Bombay, New Delhi, Calcutta and Madras. The National stock exchange is a screen trade system owned by large institutions and launched 6 years ago to finish price

manipulation by brokers, which used to force spreads around 10-20%. They have 2,000 screens around the country, having already 50% of the volume traded.

The total market capitalisation in Rs 6,500 billion (US\$162.5 billion), with 95% concentrated in 1,400 companies. With different exchanges, companies are listed in many of them, generating arbitrage possibility. Surprisingly, there is a column in the newspaper showing arbitrage opportunities and brokers act on them the whole day.

The average daily trading volume from the stock exchange is US\$600 million. The market is quite fragmented, with the 5 largest stockbroker holding around 1-2% share each. The largest brokers for Foreign Institutional Investors (FII) are foreigners such as Credit Lyonnais (20% share) and Merrill Lynch (11% share).

Exhibit 13 - Interview notes from the Asset Management of General Insurance Company

General Insurance Company (GIC) is one of the 4 largest financial institutions in India as the monopoly in all types of insurance but life. GIC has other businesses such as housing finance and asset management (3rd largest in India). I met Mr. A.R. Prabhu - Chief Executive of the Asset Management - on 7/18/99 to discuss possibilities of business with Banco Bozano, Simonsen

Surprisingly enough for believing, Mr. Prabhu started the meeting presenting the proposal for an alliance to create a full investment banking operation even before I show Bozano's annual report. A five minutes explanation about Bozano and its intentions in Asia was enough to make his mind for the opportunity. In fact, he seemed desperate for external help to develop a full operation, starting by stock brokerage.

The big engine of GIC backs him up which can provide relationships with corporations, financial support for raising capital and brand name among local clients. In addition, GIC can develop good relationship with government and other key state-owned financial institutions. For example, GIC could develop a retail brokerage network through an alliance with Life Insurance Company, which does not intend to develop its own brokerage.

I consider this alliance the best opportunity Bozano will ever have to enter in the Hindu market. Of course, this entry will not focus on distribution of Brazilian securities, but on building local presence for a future full operation of investment banking.

Exhibit 14 - Comparison of economic and financial environment in Asia

Factors	Singapore	Taiwan	Australia/NZ	India	China	Philippines	Thailand	Korea
Macroeconomic volatility	Some	Some	Some	Some	Low	Yes	Yes	Yes
High, rapidly rising credit/GDP ratio	High	High	Low, rising	Low	Low	Low, rising	Very high	Very high
High property exposures, asset inflation	Some	Yes	No	No	No	Yes	Yes	No
High forex loans or forex liabilities	No	No	No	Some	No	Yes	Yes	Yes
Government directed lending	Some	Low	Some	Yes	Yes	Some	Some	Yes
Related-party lending	Some	Some	No	Some	Yes	Some	Yes	Yes
Regulations and accounting disclosures	Strong	Average	Strong	Average	Weak	Weak, improving	Weak, improving	Weak
Regulatory supervision and compliances	Strong	Strong	Strong	Average	Weak	Strong	Weak	Weak
Capital or loan reserve levels	High	High	High	Some	Low	High	Low	Low
Fragility for individual banks	No	Some	No	No	Yes	Some	Yes	Yes
Weak or under-regulated non-banks	No	Some	No	Some	Some	Some	Yes	Yes
Overall solidity or fragility	Solid	Solid	Solid	Some fragility	Some fragility	Some fragility	Fragile	Fragile

Source: Bain&Company, country interviews and analysis

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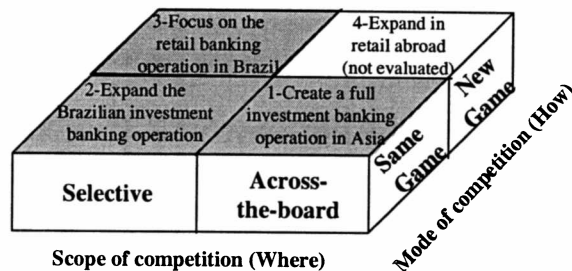
Exhibit 15 - Strategic Game Board for Bnaco Bozano, Simonsen

3- Create and pursue a unique advantage

- New key factors of success
- Focus on latent market segment
- Fundamental changes to business/industry structure
- Moderate risk, sustained commitment

4- Exploit unique advantage industry wide

- New key factors of success
- Focus on entire market
- Fundamental changes to business/industry structure
- High risk, sustained major commitment



2- Resegment the market to create a niche

- Same key factors of success
- Market resegmented to exploit opportunities
- No attempt to change industry structure, no radically new way of doing business
- Opportunity to focus limited resources

1- Do more and better of the same

- Same key factors of success
- Similar customer segmentation
- No attempt to change industry structure