

Q2 2005 Earnings Call

Company Participants

- Jean Leroy, Executive General Manager Investor Relations
- Jose Luiz Acar Pedro, Executive Vice President

Other Participants

- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcello Stein, Analyst
- Mario Pierry, Analyst
- Pedro Jimenez, Analyst
- Yolanda Courtines, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's 2005 first half results conference call.

This call will be led by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer; Mr. Milton Almocar Silva Vargas, Executive Vice President; Mr. Jose Luiz Acar Pedro, Executive Vice President; Mr. Domingos Figueiredo de Abreu, Managing Director; and Mr. Jean Leroy, Executive Investor Relations General Manager.

This conference is being broadcast simultaneously through the Internet in the web site ri.bradesco.com.br. In that address you can also find the slide show presentation available for download.

(Operator instructions.)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions. And other operating

factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Jean Leroy, Investor Relations Executive Superintendent, Banco Bradesco SA. Mr. Leroy, you may proceed.

Jean Leroy {BIO 17084785 <GO>}

Thank you. Good morning. And afternoon to everyone and welcome to Banco Bradesco's First Half 2005 Earnings Conference Call. I just also wanted to include the name of Mr. Sergio de Oliveira, Managing Director, who is also participating in this call. Let me now just transfer the floor to Mr. Acar.

Jose Luiz Acar Pedro {BIO 1895666 <GO>}

Good morning, to everyone and welcome to our conference call. Bradesco entered the first half of 2005 recording a net income of more than R\$ 2.6 billion, which represents a sound 110% increase over the same period of last year. Considering our R\$ 17.5 billion stockholder's equity, our annualized return reached 34.9%.

As occurred in the First Quarter, we continue to present a growing trend in consumer lending operations. As you can see, in 2005 this portfolio rose more than 32%, to a large extent due to the increase by more than R\$ 2.4 billion in direct lending centered by R\$ 2.2 billion in auto financing.

Regarding our operating agreements covered by year end operations representing more than R\$ 700 million, a very significant volume, even higher than previously expected when we closed the agreement with this company.

Besides the success of this partnership, we remained focused on this segment during the year, as we also acquired the Grupo Morada's Consumer Financing Network and signed operating agreements with Leader Magazine regarding private label cards and with Lojas Colombo regarding the creation of a partnership in a financial company.

We strongly believe that our activities related to consumer finance played a strategic role adding value to our company. For instance, our market capitalization reached by the end of June 39.6 billion Real, a 38.5% increase during the year and a 94% jump in the last 12 months.

In the first half of the year, our common stocks rose 39.9% and our preferred stocks by 28.5% adding stockholder value. On top of that, we would like to remind you that in early March, we had increased by more than 21% the amount of our monthly interest on all capital distribution benefiting our stockholders since that month.

Interest on own capital paid or provisions in the period surpassed the R\$ 925 million mark. The pointed market perception vis-à-vis Bradesco was proved by the success of

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the issuance of the first Brazilian perpetual bond, a \$300 million deal, which had a demand equivalent to 3 times the initially expected amount. This operation has allowed us to improve our capitalization ratios and to leverage even more our balance sheet.

Regarding our operating efficiency, we remained focused in controlling our operating costs. As shown by the steady improvement of our efficiency ratio, which reached 48.6% compared to the 60.1% recorded in June, '04. Over the years we have strongly worked to achieve ratios below the 50% mark. And we managed to accomplish the goal set by our CEO, Mr. Cypriano, reaching an international benchmark of efficiency ratio for a retail bank.

Bradesco continued to support the impressive Brazilian trade finance performance in the period. We obtained a significant 21.2% market share in export contracts and financed the volume of \$3.7 billion. Regarding import finance our market share reached 14.8% with more than \$511 million in finances.

About the Mexican foreign lending, particularly BNDS lines, we ended the first six months of 2005 with operations totaling R\$ 7.4 billion. As of June 3rd, we had R\$ 5.4 billion in agricultural finance.

In capital markets, we have been structuring R\$ 13 billion of deals for companies such as public offerings of shares, debentures. And promissory notes, representing a sizable 42.8% market share in registered operations at CBA. We have also advised several companies on the creation of a credit financed funds and on MMAs.

Asset management, besides exceeding R\$ 100 billion in assets under management, we celebrated for the third consecutive year, the highest number of funds with the top ranking rating of the Invest Tracker/Estadao ranking, as well as the most important and relevant awards.

Regarding consortium operations, Bradesco (inaudible) vehicles and the real estate segment has sold more than 47,000 quotas in the first six months of this year. Therefore, the total number of active quotas stood at 174,000, a remarkable growth of 132% over the last month.

Finally, we would like to reinforce our optimism vis-à-vis Bradesco's performance and perspectives. The segmentation strategy has proven to be, as we all had expected, a great leverage for our results. Acquisitions were cautiously analyzed and allows us to achieve a unique positioning in the consumer financing market. And the incorporation of the acquired companies generated important gains in our scale continuously improving our operating efficiency. With this, Bradesco is increasingly adding values to its stockholders and to the society as a whole.

I would like now to turn the floor to Jean's presentation and we will be available for additional explanation in our Q&A session. Thank you, very much.

Jean Leroy {BIO 17084785 <GO>}

I will conduct today a 16 slide presentation, which will compare the evolution of our main figures and ratios between the first half of 2004 and 2005, as well as between the first and Second Quarters of 2005.

Slide No. 2. In the first half of 2005 Banco Bradesco reported a net income of R\$ 2.6 billion, which represents a solid 110% jump in comparison to the same period of 2004 and a 17.5% quarter-over-quarter growth.

EPS also followed this very same turn. This result is a combination between several effects, such as one, slight base growth; two, loan portfolio expansion; three, the development of new businesses; four, strong cost control; as well as five, the maintenance of the level of the economy.

Since 2003, our returns achieved new heights as a result of our better operational performance after the incorporation of the several acquisitions, as well as a result of better revenues due to the good performance of the economy and to the success of our segmentation process.

I would also like to emphasize some additional results achieved over the last 12 months. Checking accounts grew from 15.4 to 16.4 million. Savings accounts increased from 31.4 to 32.4 million. Insurance customers moved from 9.8 to 12.3 million, an outstanding growth of more than 25%, mainly concentrated in life, property. And casualty.

Credit and debit cards grew from 43.5 to 48.5 million. In terms of volumes, I could also mention, as a matter of example, the growth in A, volumes of billings from the impressive R\$ 555 billion mark in 2004 to R\$ 673 billion in 2005. And B, e-banking volumes from 129 billion to R\$ 273 billion. These are numbers and volumes which represent Bradesco's strong expansion and market presence.

Our R\$ 69.8 billion loan portfolio grew by 19.5% over the last 12 months and by 5.8% in the quarter. In this volume, we are not including the amount of guarantees, as well as the credit card operations, which are not only related to revolving credit. Our loan book grew even more than the banking industry, which evolved year-over-year by 18.2% and by 3.7% quarter-over-quarter.

Double A to C rated credit operations represented 92.6% of the total book vis-à-vis 91.4% in June '04 and 92.5% in March '05. Our current 92.6% ratio stands above the 89.8% ratio of the banking industry as a whole.

As you can see in this slide, we are gradually improving our operational efficiency. We have been implementing several initiatives focused on reducing cost. Some of them are still in process and should affect our income statement in the short and medium run. We want to continue to implement measures which will perfectly balance the expected growth in businesses, as well as the predictive decrease in cost. As a consequence of that, we are aiming to achieving better efficiency ratios.

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Slide number three. Over the last 12 months total assets grew by more than 18 billion Real, highlighting the expansion in loans, which grew even more our exposure in individual loans. Total deposits increased in the year by more than R\$ 7.5 billion with demand deposits growing by 10%, reaching 14.9 billion and savings deposits by 9.2%, reaching R\$ 24.5 billion. As of June '05, Bradesco stockholders equity reached R\$ 17.5 billion and the reference stockholders equity achieved the important R\$ 23.6 billion mark.

Regarding capitalization, we highlight the \$300 million issuance of subordinated perpetual bonds in the international market. As a consequence of that, Bradesco became the first Brazilian company to issue this debt. Assets under management remained with a strong performance due to the quality of its management and professionals and to the decision to focus even more in this very profitable business.

Slide number 4. Regarding ratios, in addition to the previously mentioned measures, I would like to reinforce our view that our asset quality is not deteriorating despite our increasing exposure to consumer finance. The delinquency ratio calculated measuring the volume of more than 60 days of past dues dropped in the half yearly, as in the quarterly analysis. We reinforce our commitment to stockholders by distributing or provisioning 35.3% of our net income, or more than R\$ 925 million, dividends in the form of interest on own capital, in part due to our decision to increase our monthly interest on own capital by more than 21% as of March. Our 15.8% BIS ratio gives us plenty of room to increase even more our loan book. Expanded combined ratios regarding the insurance group also continued to improve.

Slide number five. Credit is our core business. We hold the largest portfolio amongst private banks in Brazil with a 21.8% market share. Our loan book is based on three pillars; R\$ 26.8 billion in loans to individuals, R\$ 22.9 billion to large corporate. And R\$ 20 billion to SMEs.

We have noticed that the portfolio of individuals continues to increase quarter after quarter as a result of one, the increase in the amount of salaries; two, the decrease in the unemployment rate of the Brazilian population; and three, our own strategy to grow in consumer finance. Based on these strategies, we closed since last December several agreements with banks and retailers such as Casas Bahia and Lojas (inaudible), Lojas Colombo and Lojas Leader. It is important to remind you that a 24.4% depreciation of the U.S. dollar vis-a-vis the real over the last 12 months also impacted our dollar denominated loan book, which mainly is originated by large corporate clients.

Slide #6. In the First Quarter some analysts believed in a trend of asset quality deterioration. At that time, we stated that in our case our belief was not like that. As we now release our earnings, we would like to reinforce our vision. We do not foresee an asset quality deterioration trend going further, attesting our vision of continued asset quality improvement -a, total allowance for loan losses reached R\$ 4.5 billion, or 6.4% of our loan portfolio vis-a-vis 7.2% in June '04 and 6.5% in March '05; b, additional provisioning remained stable at 946 million Real; c, in the last 12 month's analysis, provisions for loans increased by 11.3% vis-a-vis our 19.5% growth in our loan portfolio; d, required provision expenses of 554 million in the Second Quarter of '05 stood lower than reported amount in the First Quarter considering that on that particular quarter there was

an impact motivated by the down rating of a large utility company; and finally e, our coverage ratio continues to improve quarter after quarter.

Slide #7. Continued improvement of our credit scores, investment in training. And information regarding credit allow us to highlight the consistency of our provisioning policy. In this slide we present a quarterly improvement of our asset quality. In the upper part of the slide the two lines in red and blue are showing that our volumes of provisions are gradually dropping. This movement is also the same when one looks at the volumes of E-H rated operations, represented by the line in orange.

Finally, the line in black shows an important indicator of asset quality. It measures net charge-offs recorded over the last 12 months in comparison to the loan book 12 months before. For an adequate analysis, when we proceed to the displacement of this curve, we predict the expected outlook for net charge-offs. Based on this analysis, we can see that the percentage of past due fallen into E-H rated operations vis-a-vis the total loan book, has been showing a similar trend to the one recorded by net write-offs, thus allowing us to anticipate good asset quality trends over time.

Slide number eight. In this slide we present the behavior of delinquency and coverage ratios. We here break down the delinquency ratio between individuals and corporations. As one can see, by the end of June '05 past due operations of more than 60 days represented 3.2% of the total portfolio, with a delinquency ratio for individuals standing at 5.2% and the ratio for companies at 2%. Although both record a downward trend, especially for individuals, the coverage ratio which measures provision for loan losses over the volume of delinquent operations increased quarter after quarter, which proves our safe and conservative credit and provisioning policies.

Slide #9. Consumer finance activities continues to grow in Brazil. At Bradesco, the consumer finance portfolio grew by impressive 58.9% in the last 12 months and by 17.1% quarter after quarter. The main growth has taken place in auto finance and direct lending because of one, our comprehensive branch network; two, the 203 Finansa branches; and three, the coverage of stores of retailers of Casas Bahia and other alliances that we have. In the line of credit card, we are presenting all operations in the portfolio, including the discounted receivables.

Slide # 10. Our securities portfolio, not including repos, amounts to R\$ 57.1 billion. R\$ 34.4 billion are government securities, 9.8 billion private bonds. And R\$ 12.9 billion securities related to private pension plan, PGBLs and VGBLs, which would be the equivalent to the pension plans, the IRAs that you have. 69.4% of our portfolio was classified as trading securities, 19.8% as available for sale, 7.6% as held to maturity. And 3.2% as derivatives.

Slide #11. Net interest income increased by 30.3% over the last 12 months and by 8.9% in the quarter. As detailed in our press release, when we adjust the net interest income by the impact of, a, the sale of our stake at Belgo-Mineira, which occurred in the First Quarter. And b, the hedge of our investments abroad concentrated in the Second Quarter, we reached an 18.7% growth in net interest income between June '05 and '04 and of 7.7% adjusted in the quarter.

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In the year-over-year analysis, adjusted by the previously mentioned effects, net interest income grew by R\$ 1.2 billion because of, a, R\$ 924 million in interest earnings motivated mainly by the loan portfolio growth. And b, R\$ 274 million originated by non-interest earnings due to the impact in income from securities and trading gains.

In this quarterly analysis, the increase in the adjusted net interest income stood at R\$ 283 million, basically motivated by the impact of R\$ 300 million in interest earnings correlated to the expansion of our loan book. The adjusted net interest margin increased from 7.6% to 8.2% on the year-over-year analysis and moved from 8 to 8.4% on the quarter-over-quarter comparison.

Slide #12. In the first half of 2005, fee income totaled R\$ 3.4 billion, 27% higher than the amount recorded in the same period of the previous year. In the quarter, fees grew by R\$ 99 million. Our performance in fees has been consistent and totally recurring. Fee income has been evolving due to one, the results of our segmentation process; two, the increase in client base and assets under management; three, the growth in the general volumes of operations.

Slide # 13. Bradesco's management is fully committed to improving our efficiency and, as one can notice, our personnel expenses increased by only 2.3% in the year-over-year comparison. This 2.3% variation stands below the variation of the inflation. On the other hand, administrative expenses increased by only 0.3% in the last 12 months, proving the important rationalization in costs, mainly originated by an incorporation of the acquired banks. Efficiency ratio has also recorded a significant improvement in the analyzed period, moving from 60.1% to the current 48.1%.

Slide # 14. In the Second Quarter, Bradesco's insurance group recorded a net income of R\$ 369 million vis-a-vis R\$ 431 million in the First Quarter of '05. In the year-over-year analysis Bradesco Seguro's net income reached R\$ 800 million in 2005 vis-a-vis R\$ 375 million in 2004. Written premiums from insurance, pension plan and savings bonds reached R\$ 7.4 billion in the first half of 2005 vis-a-vis R\$ 6.9 billion in the same period of 2004, corresponding to a 7.4% jump.

The personnel and general expenses to earned premiums ratio dropped from 8.7% to 6.9%, showing our concern with cost in all the companies of the Bradesco group. The combined ratios presented herein recorded a marginal improvement when comparing first half of 2004 and first half of 2005 and do not include the recurring financial gains coming from these activities.

Slide # 15. In this slide we present the macroeconomic outlook we are forecasting for this year, as well as for 2006. Basically, we expect 2005 to be a good year in terms of economic recovery, with inflation rates lower than in 2004, appreciation of the Real vis-a-vis the U.S. dollar. And a 17.25% SELIC rate by year-end. Interest rates should remain in the current level until August or September and then they should begin to drop. For 2006, we expect the continuity of GDP growth, lower inflation and interest rates.

Slide # 16. In this slide we are showing some guidance regarding Bradesco. We believe loan growth will continue, especially to individuals. We intend to continue to improve our main revenues, net interest income, fee income. And insurance premiums and to control our operating expenses according to the percentages we are here presenting.

I thank you all for the attention and now would like to open the floor to your questions.
Thank you.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question and answer session.

(Operator Instructions)

Our first question comes from Jason Mollin of Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

My question is related to the guidance that you gave at the end of the First Quarter and now you're reiterating some of the line items here. There've been some minor changes. But my question is related to the return on equity guidance of 24 to 26% return on end of period equity for the year 2005. I would calculate that as about a 26 to 28% return on average equity. And given that you've calculated on, what I'm looking at, 30% return on equity on end of period equity in the first six months of the year and we would typically expect the second half, given what you're talking about, to be stronger than the first half, should we assume that your return on equity assumptions are too conservative and should be increased?

A - Jean Leroy {BIO 17084785 <GO>}

Hello Jason. In terms of the guidance we are showing in the last slide, actually the difference basically would be lying on the weight of the loan book where we are growing the expectancy of growth for loans to individuals and decreasing for corporate. All the other items remain the same.

We are even maintaining the 20 to 25% loan book expectation. But actually I would say looking at the behavior of loans in this first half of the year, the trend should be of reaching, I would say, closer to 25% loan book expansion instead of maybe closer to 20, 22, which was previously expected in the beginning of the year or at least by the end of last year.

So the only item which is changing is the exposure to individuals and I would say a lot of that is on the back of the growth of Finansa and the very strong success that we have in the agreements with the retailers and Casas Bahia is one of those very interesting deals that we have. Just to give you an idea, in March we had just 40 to R\$ 44 million of

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operations with Casas Bahia. In the month the agreement began, really to move on, not for the full month of March. But in April, it went to R\$ 120 million. So there was an R\$ 80 million increase just in another month.

And now we are closing the first half with a stock of R\$ 700 million, which is close to the R\$ 100 million that we previously expected of guaranteeing funding through Casas Bahia. And definitely we are very happy with this type of agreement. And we have been signing many other agreements which should be quite beneficial to increase the exposure to individuals in general.

In terms of return, I would say based on the performance, the very solid performance and recurring performance of our earnings in the first half of the year, we will -- we are going to revise up the return on equity expectancy for Bradesco for 2005. We have 24 to 26% expectancy based on the end of period equity and now we are moving to 26 to 28% based on end of period equity, not average.

It's clear that the first half was very good. But we also have good estimates because of the GDP growth and the last quarter of the year with Christmas, the payment of the thirteenth salary, which is very beneficial for individuals, we have good expectancies for the second half as well. So we are also revising up the return on equity guidance to 26 to 28% considering end of period equity.

Q - Jason Mollin {BIO 1888181 <GO>}

That's very helpful. Maybe just a very specific question, I don't know if you have a simple answer. But, in the capitalization ratio, we saw an increase quarter-over-quarter, mainly because of earnings. But I'm also looking that your risk-weighted assets really didn't change in the Second Quarter versus the First Quarter. You have approximately R\$ 149 billion in both quarters under total consolidated. And we have some information that tries to explain the variation year-over-year. But it's kind of difficult to understand what happened quarter-over-quarter. Is there a simple explanation for that given the very strong loan growth that we saw on the consumer side?

A - Jean Leroy {BIO 17084785 <GO>}

Yes. I think your answer means that maybe I was too long in the explanation of the first two questions. So I will try to be a little bit more direct in the answer, sorry. I would say we have a footnote where we basically clarify very well all of the information related to the BIS ratio, which is on Page 33, sorry, Footnote Number 33. And we are opening all of the items from the BIS calculation quarter after quarter in all the items of the Banks and the insurance company as well.

So I believe the general answer would be a line here. I would say in the First Quarter there was an impact in the BIS ratio because of the hedge. This impacted the First Quarter. But, in general terms we had basically the same BIS ratio as the previous quarter even though we have an increase in the volume of loans. Am I okay with the explanation?

Q - Jason Mollin {BIO 1888181 <GO>}

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I'm looking at it here, I guess, I mean I'm just looking. It's -- I guess it's really on the Securities portfolio. I'm just trying to understand if it's from the First Quarter to the Second Quarter, this change. Or this is from the year-over-year.

I can see from the year-over-year what was driving it; the quarter-over-quarter isn't as clear to me. I think it's -- what I would assume is that it looks like your exposure to securities or the risk weighting of the securities has gone down. And that explains why you have the exposures to loans going up. And I guess it's the hedging. But it's not very easy to, to, -- we have a negative number for example for the first time that I've seen in a while under Marketable Securities.

A - Jean Leroy {BIO 17084785 <GO>}

When I make the analysis of the BIS ratio between March in 2000 -- March and June, what has been negatively impacting the ratio I would say, lies much more in the increase in the volumes of loans, which decreased 0.39% the BIS ratio and the payment of interest on non-capital which decreased 0.38%, payments or provisioning. And this was in the Second Quarter. So actually, maybe the explanation would be lying more in those two items than in others. If we look at the impact through the Securities actually the impact is very irrelevant. Most of the explanation would be lying on those two items, growth in loans and as well as the payments or the provisioning in interest on own capital.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

The next question comes from Yolanda Courtines, from JP Morgan.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Hello gentlemen. I just want to take a step back and just look at the overall retail loan growth picture. You're showing obviously very aggressive targets still for loan growth in the retail segment for this year. What type of -- as everyone is sort of land grabbing for these loans, what type of pressure are you seeing on the pricing environment, how much more competitive do you think the market is getting in terms of the pricing for some of the specific products like credit cards and auto loans and the likes? If you could just talk a little bit about the competitive environment and about spreads.

A - Jean Leroy {BIO 17084785 <GO>}

In general terms it is a very competitive market as all the others are very competitive in Brazil. We have very large players and slowly and continuously we have a movement where the banks are penetrating much more in the finances which in the very beginning were basically handled by the retailers. When we look at the different business lines in

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autos, we definitely have a very solid edge because of the success that we had with the agreements of -- with Ford, with both Ford Credit and Ford Leasing. We have a very interesting deal with the dealers of Fiat, which definitely helps us a lot. And we are present in maybe 17,000 dealers throughout the country.

So I would say we have a very strong coverage. The competition is high. But maybe the competition is more concentrated in the large cities, then maybe in other places where Bradesco sometimes is one of the only options that you have.

In direct lending, I would say all the banks are focusing in this very profitable business. And -- but, I would say no one is destroying value to the business. There is obviously a risk implied in direct lending and you can see basically that banks have been choosing to increase the exposure to individuals based on the agreements with the payment of the retail risk, the INSF so, you have a guarantee of the payment. So at the end of the day it definitely will decrease the risk in general.

When we look at credit cards this is also a very competitive market. Here in this slide, I just wanted to re-stress the fact that we are including the numbers of all the finances not only the revolving credit. In the past Bradesco was I would say not compared on an apple-to-apple basis because we had just revolving credit for Bradesco and in maybe other peers you had also other finances. But not always have interest earnings that are applied.

So that's the reason why we are changing the way that we are putting this information on. But I would say in general terms that the competition is very strong. We have a very solid brand name, Finasa. And we have a very good quality of services and we are very strong and quick to respond. The agreements we signed with Casas Bahia and others are very successful and they are also making other retailers wanting to make agreements with Bradesco because of the expertise that we have in those businesses. It's a two-way street and it is good for the retailer, it is also good for Bradesco.

Q - Yolanda Courtines {BIO 1552757 <GO>}

I guess just to add to that question. I mean, in the last quarter have you been lowering the rates that you're charging on key products, like credit cards and auto loans, despite the interest rate environment being still stable to higher?

A - Jean Leroy {BIO 17084785 <GO>}

No. We have been basically maintaining the same type of rates in most of the lines -- in the lines that you see here in Consumer Finance.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Mr. Pedro Jimenez [ph], with Banco Pactual. ---

Q - Pedro Jimenez {BIO 6467094 <GO>}

Hello, yes. The question is regarding the dynamics of loan provisioning. It's a question regarding reduction in the loan provisions both for individuals and companies. And coming to Slide # 9, what I would like to ask is, if there is any substitution effect in terms of increase, much higher increase in individual lending, especially these guaranteed lending compared to credit cards that are -- clearly have higher -- the full rates. So my question is does the guaranteed loans increase -- reduce the personal lending before by having some substitutional effect with credit cards overdraft and consumer finance products?

A - Jean Leroy {BIO 17084785 <GO>}

Yes Pedro. In general terms, we have been seeing lower levels of provisioning needs because of the asset quality improvement that we have been posting. We are opening for the first time the delinquency ratio between individuals and companies, also to give a little more transparency to the operations and to the understanding of the analysts in general. In terms of the substitution we have been seeing -- I would say in terms of the retirees what is happening is not so much a substitution.

Part of that is a substitution. But it's much more the focus from the banks, the decision taking should extend loans to individuals where the risk is more mitigated. So for example in autos you have a real guarantee. And with the retirees you have the guarantee of the payments from INSF, the Public Pension Plan payment.

It's clear that you could have some replacement from operations that have high interest rates to a little bit lower. But I would say it's much more a decision of increasing focus. And just to give you an understanding of what we are talking about in terms of loans that we co-consignado, which is based on INSF, we have a growth in general for Bradesco from a stock of R\$ 1.3 billion in the First Quarter of 2005 to R\$ 2.2 billion in the Second Quarter. So you have an increase of approximately R\$ 1 billion just in one single quarter, in three months. So it's focused.

Q - Pedro Jimenez {BIO 6467094 <GO>}

Okay. Excellent. If I could just make a suggestion. I think from our own analysis of the dynamics in the loan portfolio, being even more important and if you could enhance the quality of your information. Put the full rates and the spreads in each one of the lines would help a lot because clearly the difference in terms of gross spread and the full rates, between each one of those lines, are tremendous. Especially Consumer Direct, Consumer Finance, Credit Card. And those Guaranteed Loans. Okay. Thanks a lot.

A - Jean Leroy {BIO 17084785 <GO>}

Thank you, Pedro. We are going to consider your information. But I would say that already we are providing information opening the differences between individuals and companies. This is I believe a good improvement in terms of the information that we are

providing. And in terms of all of the other items that you mentioned, we are going to think about that.

Are there additional questions, please?

Operator

Excuse me. Our next question comes from Mr. Mario Pierry, with Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi Jean and congratulations on great results. I just wanted to get more details on your recent ventures with Lojas Leader and Lojas Columbo. If you could disclose to us the equity contribution that you will be making and the number of stores that you plan to open and the expected investments with these two new ventures that you have created? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Okay. First of all we have a partnership with Leader. And where we are in two agreements. We are opening a company that will be financing the customers of Leader in general. We have approximately 2.3 million cards at Leader and the actual volume of finances nowadays, or by the end of June was close to R\$ 150 million. We have good perspectives of growth going forward and we definitely we believe that we can add value considering the fact that we have some million -- 2 million of customers as well as you have a good distribution to further the operations that we are planning to do.

It is also important to say that the investments that we make, they depend on the performance of the deal. So if the performance becomes better we can make more investments. If the performance is not as expected then we make a little bit less of investments. It's a joint partnership where you have a manager of Bradesco, indicated by Bradesco. And a manager indicated by Leader. So it's a joint agreement in this operation of private label cards, in general.

In terms of Lojas Columbo, we have actually just closed an operation with Columbo. It is not totally -- it is not signed, it is still in the due diligence period. I cannot guarantee that the deal will be closed. But it seems that the letter of intent was closed. We are going still to analysis the operation. But in terms of Columbo, Columbo is also a joint deal, you also have an investment from Bradesco, an investment from Columbo. You have one manager indicated by all of the two companies, the two parties. In terms of the operations we believe that this will be very good for Bradesco because we have been analyzing the asset quality of the book, it has been very good.

And on both cases I just want to stress the fact that we are not only talking about finances. We are also talking about cross selling. We are also able to sell other products like Direct Lending, like Pension Plans, like Insurance product and others. So it's a deal for distribution as well as the potential of adding value to other operations that have very strong margin contribution.

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Q - Mario Pierry {BIO 1505554 <GO>}

Okay. But could you quantify the investments that you're making?

A - Jean Leroy {BIO 17084785 <GO>}

As I said, the investments they depend on the performance. So it is still very brand new. As you know you received the press release. One of the deals was closed the other one is in the due diligence. So it is I would say, too soon for us to give you guidance about the investments. But looking at Bradesco as a whole the investments are not that relevant.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. But just for Leader for example. I think you capitalized the venture 50/50. So just to have an idea of the initial capitalization of the new entity?

A - Jean Leroy {BIO 17084785 <GO>}

In terms of the investment from Bradesco in equity, approximately R\$ 7 million.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

A - Jean Leroy {BIO 17084785 <GO>}

R\$ 7 million, Bradesco, 1 million the other party.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Great. Thank you, Jean.

A - Jean Leroy {BIO 17084785 <GO>}

Again, in Reals, not in dollars, okay?

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

Operator

The next question comes from Yolanda Courtines, JP Morgan.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Just a follow-up question on the loan story. Could you give us any way. And this might be a difficult number to quantify. But do you have a sense out of the total retail lending that you're doing over the course of this year, what%age of that is new clients that aren't existing clients of Bradesco that you're getting through all of these various other ventures. And what%age are existing clients?

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A - Jean Leroy {BIO 17084785 <GO>}

Actually Yolanda in the fact book that we have, it's actually a fact book we have, almost 200 pages. We have an analysis in credit where we see exactly the stock of operations, the new credits, the ratings of the new credits and the existing book. So it's just a question of looking at the fact book. Let me just see if I can give you the right number of this page, just a second.

Operator

The next question comes from Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hello. I don't know if the previous questioned should I go ahead?

A - Jean Leroy {BIO 17084785 <GO>}

No. The answer is Page 68. So if you analyze on Page 68, Yolanda, you can see the ratings AA to C, D. And E to H, of the existing book, the new book that is going -- that is increasing, our book. And how the stock was in June 2005. So just look please on Page Number 68. Jorge, you can go on with your question.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hello. Hello gentlemen. good morning.

A - Jean Leroy {BIO 17084785 <GO>}

Hello.

Q - Jorge Kuri {BIO 3937764 <GO>}

On Slide 11 of your presentation today, you have a line item that says Securities Trading & Others, for the first half of this year of roughly 1 billion and for the Second Quarter of 602 million. Can you...

A - Jean Leroy {BIO 17084785 <GO>}

In the line of what, sorry, I didn't?

Q - Jorge Kuri {BIO 3937764 <GO>}

Securities Trading & Others.

A - Jean Leroy {BIO 17084785 <GO>}

Oh, okay.

Q - Jorge Kuri {BIO 3937764 <GO>}

On Slide 11.

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A - Jean Leroy {BIO 17084785 <GO>}

Yes, okay.

Q - Jorge Kuri {BIO 3937764 <GO>}

Can you tell us a little bit more what are the Securities Trading, what sources do these come from. I mean, is this trading on the currency, trading on equities, trading on fixed income securities, what is the recurring nature of this level of trading against -- I mean if we assume that obviously the quarter had an increasing rate and an appreciation of the currency, is this like 602 million gain a result of that in sort of relatively stable macro-environment? Should we expect this level of trading gains, just give us a bit more color on what are these so we can try to project them in the future? Thanks a lot.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome Jorge. I believe one thing that I just wanted to stress before we begin the explanation is that I would suggest everyone to read Page # 4 of our press release where we open exactly the effects on the margin and in the net income based on the hedge that we have of our \$2.3 billion of equity abroad.

It is important to consider that you had a financial gain in the margin of 1.1 billion. But an exchange variation impacting negatively by 694 which at the end of the day makes a R\$ 409 million impact on financial margin. The counterpart of that should be analyzed on tax expenses and income tax and social contribution, because as you know, hedge is taxed when you have a gain and the loss is tax deductible.

But on the equity we have abroad when you have a gain this gain is not taxed. And when you have a loss because of the variation of the carrying fee it is not deductible. So I just wanted to stress very quickly this fact because this I believe is something that is important. We try to give more disclosure in terms of the impact of hedge and of the equity that we have abroad. So I just wanted to suggest each and everyone to read Page four of the press release.

In terms of the financial margin that we have. What we have in terms of the impact of the non-interest earning in treasury and in stocks which you can see, that actually is very difficult for us to predict over the next quarters. We have a securities portfolio, it's clear that our securities portfolio going forward should be decreasing in detriment of loans, in general.

The -- we had two -- actually one non-recurring item which you could consider as recurring because we had a stake in Goviminera and we sold the stake in the First Quarter. It affected the margin and because of the -- we have a very solid evaluation of the Brazilian currency by 11% just in three months. And when you analyze the 2.3 billion of equity abroad this definitely made the effect on hedge being very strong, R\$ 409 million in the Second Quarter vis-a-vis just 9 million in the First Quarter.

But I would say it's very difficult to give you guidance, Jorge, in terms of the -- this line, going forward.

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Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Jean thanks. And now that you mentioned the previous point about the hedges let me ask you a question, because I, I'm... on the exhibit that you're talking about it says that the tax implication of the hedge was R\$ 409 million. Now if I look at the Page 231 of your big disclosure, the big book, on Note 35 where it's explained how the income taxes are made up for the quarter. It says that the FX exchange impact was 235.7 million. So I was having a hard time matching the number that you put on your managerial discussion of 409 million taxes on the quarter.

It says that of the FX exchange impact was 235.7 million. So I was having a hard time matching the number that you put on your managerial discussion of 409 million taxes on the hedges versus what's on the audited financials which says that the exchange you gained had an impact of 235 million. Can you explain the difference please? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Jorge, what you have in terms of Page 231 is the impact that you have in terms of the provision in dollars, as a whole. What you have in Page # 4 of the press release is just the impact of hedge.

Q - Jorge Kuri {BIO 3937764 <GO>}

Sorry, Jean, can you explain that again please?

A - Jean Leroy {BIO 17084785 <GO>}

Just a second please. The impact that you have in the Footnote Number 35 is considering the rate, the effective rate of 34%. And what you have in the press release is the effect of taxes and social contributions on the position of hedge that you have.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. So that -- the real impact was then 235?

A - Jean Leroy {BIO 17084785 <GO>}

The impact on the effects was R\$ 700 million. But the income tax was of 34% of that which is close to R\$ 235 million.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you, Jean, that was very helpful. Thanks a lot.

Operator

(Operator Instructions)

We have a question from Marcello Stein [ph], Aberdeen Asset.

Q - Marcello Stein

Yes, hello. Hello. Just a quick question. I noticed obviously loan growth is growing quite impressively. But the deposit side hasn't been growing obviously as impressively as the loans. So I was just wondering what that says about your funding requirements for the rest of the year. Whether you guys are going to have a target in terms of bond issuance, whether domestic or external?

A - Jean Leroy {BIO 17084785 <GO>}

Okay. First of all the loan to deposit ratio continues to be extremely high, it stands at 97%. But it's clear, that as you've said, loans have been growing more than maybe the deposits. Actually the deposits they grow even more on asset management products than on the balance sheet itself.

What is the wrong picture in that is that you have many, many other ways of finances that are not the deposits only. BNDF and other lines. You can finance abroad, you can finance issuing debentures in the markets. So you have many ways, many other sources of funding not only the deposits.

When we look at the opportunities, it's clear that we look at the best opportunities between the local markets and the external markets. But I would say we still feel pretty comfortable and this is with the reason why in the explanation of the presentation, we have been talking about the growth in deposits in checking accounts and in savings deposits.

So I would say in general terms we still have a very strong funding, in terms of deposits and we feel comfortable about the future considering that you don't have only, those items of deposits, as your funding. You have many, many other ways.

Q - Marcello Stein

Just a follow-up on that. Obviously I realize there are other funding opportunities besides deposits. Just wondering if you could give us a little bit more color. I know you mentioned before obviously you've got a fairly large securities portfolio which you also said they're likely to decline in preference to grow the loan portfolio. I just want to get a better feel for what the opportunity of actually funding out of say your securities portfolio is versus funding out of an issuance, a bond issuance, another perpetual or whatever it maybe?

A - Jean Leroy {BIO 17084785 <GO>}

We analyze in general terms the best way of funding. What happens with the perpetual bonds, with a window of opportunity, which happens, actually this was the first bond that was issued not only for a Brazilian company. But for a company in an emerging markets in general.

It's clear that the core business of banking is providing loans and securities should be decreasing over time, vis-a-vis the loan book. And this is what you have been seeing. But the decision is taken very cautiously by the Bank. We have meetings every week to talk

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about the treasury perspectives, the funding opportunities and we have the analysis from risk management, in the sake of risk management, to basically see which is the best way of funding.

Q - Marcello Stein

Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Jason Mollin from Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

Jean, maybe just a follow-up to the prior question on the environment for deposits. I think that you're not alone in seeing the loan book grow much -- at a much faster pace than the core deposit base. Would you describe the environment or the competition for deposits as having increased, let's say year-over-year, or in the past several quarters? Banks that would like to raise their, or grow their deposit base are they having to pay more?

A - Jean Leroy {BIO 17084785 <GO>}

No. The competition is basically the same. There is nothing new in this item. What we have been seeing is that maybe over the last couple of years banks have been increasing the participation in deposits from time deposits. Which does not mean do you -- they basically look at the amount of investment in time deposit and depending on that you are going to remunerate by a specific%age.

But in general terms the competition remains the same. What we have been seeing over the last couple of years is a growth in time deposits vis-a-vis, for example checking accounts and savings deposits in general.

Q - Jason Mollin {BIO 1888181 <GO>}

Thanks Jean.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Yolanda Courtines, JP Morgan.

Q - Yolanda Courtines {BIO 1552757 <GO>}

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Hello, I just -- I don't think my question was answered correctly before. I think we misunderstood one another so, I just was asking not about the credit quality though, actually I did miss that disclosure and I'm delighted to see that you do have that disclosure between existing and new portfolio.

What I was asking more was if you have a sense of how all of these new loan ventures are bringing new clients into the bank. My question was on the new consumer loans that you're extending now do you have any kind of a sense, roughly, of what percentage of those loans are going to existing bank customers, i.e. customers that you're cross-selling that already have a deposit account with you or that are taking out credit card loans and what is a new customer that through your store ventures or through your auto lending have never worked with Bradesco before? And has that ratio, would you say, been increasing?

A - Jean Leroy {BIO 17084785 <GO>}

Okay Yolanda. Sorry if I didn't understand well your question. The question is in terms of these new agreements that we are making it's very difficult for us to give in precise the amount of customers that have been coming and are new to the banking system.

What I can say is that for example in the case of Casas Bahia, maybe 1/3 of the customers they don't have even a Social Security Number. So by definition they are un-banked. But it is very difficult to predict exactly by business line and by agreement how many are new customers. We believe that most of them are new customers. But it is difficult to predict if it is 51% or 70%, at least from now.

We are building our data warehouse. And based on that we will be able -- going forward to precise, even better the information about the customers that have been coming to Bradesco.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

We have just a question from the Internet, I just wanted to respond. The question was regarding the political situation in Brazil and if we do believe that this situation that Brazil is going through in terms of political pressure is going to affect the overall business activities of Bradesco, the question is made by an individual customer, Mr. Silva, Britto Silva, Esteras Britto Silva.

And basically what we wanted to say is that we are seeing a different situation between the political turmoil and the economic situation. Actually what we are seeing is that the economy is running much, much better and is not affected by the political scandals that we have been actually looking at almost everyday on television.

Our CEO actually talking with clients in general -- has been talking with clients in general and 85% of those customers continue to make investments. They continue to trust the

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situation in Brazil. In terms of the exporters, 89% of those exporters are going to continue their overall operations without any major change. The fundamentals of the economy are quite strong. We showed in the last quarter, last -- one of the last slides we showed the macro-scenario outlook that our -- that we have for 2005 and for 2006 and you will see that the numbers are quite strong in terms of GDP growth in terms of inflation, in terms of FX rate. And even in terms of the SELIC rate which we believe will be moving down even more next year. So in general terms we don't feel that the political situation is affecting the operations of Bradesco, as well as other companies. A lot of companies have been posting results and they are quite good, in general terms.

Maybe we could proceed to the last question. I believe you have a lot of reports to issue and we always will be able for additional questions in our area. But maybe one or two last questions.

Operator

(Operator Instructions)

At this time it shows that we have no further questions. Mr. Leroy you can proceed with your closing statements I believe.

A - Jean Leroy {BIO 17084785 <GO>}

Thank you. I thank everyone for listening to the call. And I just wanted to re-stress the fact that the Investor Relations area will be available for any further questions. Thank you. And have a nice day.

Operator

That does conclude the Banco Bradesco Audio Conference for today. Thank you, very much for your participation and have a good day.

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