

Q1 2007 Earnings Call

Company Participants

- Jean Philippe Leroy, Department Director
- Milton Vargas, EVP and IR Officer

Other Participants

- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Maria Laura Pessoa, Analyst
- Mario Pierry, Analyst
- Stephen Barrett, Analyst
- Tobias Stingelin, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's 2007 First Quarter Results Conference Call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer; Mr. Milton Vargas, Executive Vice President and Investor Relations Officer; Mr. Domingos Figueriredo de Abreu; Managing Director; Mr. Samuel Monteiro de Santos Jr., Chief Financial Officer of Bradesco Seguros Insurance and Mr. Jean Philippe Leroy, Department Director.

In that address, you can also find a banner through which the presentation will be available for download. We inform that all participants will be only able to listen to the conference call during the company's presentation. After the presentation, there will be a question-and-answer session. At that time, further instructions will be given.

(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 risk, 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 will turn the conference over to Mr. Jean Leroy, Department Director. Mr. Leroy, you may proceed.

Jean Philippe Leroy

Good morning, and afternoon to everyone. Welcome to our conference call. Let me now transfer the floor to Milton Vargas.

Milton Vargas {BIO 3347541 <GO>}

Good morning, everyone and welcome to our conference call. The First Quarter of 2007 could be analyzed as the beginning of a new period in Brazil in which the perception of the recovery of the economy becomes clear, mainly on the side of investments and same family [ph] consumption. Brazil has been probably experiencing one of its best moments of the last 10 years. Despite the needs of reform, entrepreneurs are recovering their confidence due to lower volatility in the business activities, added to interest related cuts and prices.

Considering this scenario, that Banco Bradesco recorded a recurring net income of more than R\$1.7 billion, 5.2% higher than in the last quarter of 2006. Over the last 12 months, our results evolved by 11.4%. This is the 13th consecutive quarter of net income growth underlying the sustainability of the results. Our insurance and open pension plan group, Grupo Bradesco de Seguros e (inaudible), reached R\$529 million net income. Taxes and contributions totaled R\$1.733 billion equivalent to more than Bradesco's net income. Our return on average assets reached 30.2%. This is the 10th consecutive quarter in a row we are surpassing this 30% mark.

Our results are based, one, on our outstanding position in Brazil in terms of banking and insurance; two, our focus on efficiency and three, the commitment of our whole executive team and staff. On the credit side, our loan book grew by 20.2% over the last 12 months and by 5.5% in the quarter. If one considers sureties, guarantees and credit card operations, quarterly loan growth surpassed R\$6.1 billion.

Today, despite the consumer portfolio growth, we are experiencing a strong demand from companies as the behavior of the economy is more predictable. Out of the R\$5.2 billion loan portfolio quarter over quarter growth, R\$3.2 billion were originated by companies and R\$2 billion by individuals.

Our challenge is to generate higher loan book growth in order to offset the margin compression and that is what we have been able to achieve in the last quarter as we compensated the offset of R\$127 million in rates with a R\$233 million increase in volume. On the other hand, we experienced a maintenance in asset quality with delinquencies of more than 90 days at 3.6% of our total portfolio is standing at 1.8% for companies and 6.2% for individuals.

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In terms of expenses, we have been implementing huge efforts to improve our cost to income ratios, which paid off again in the First Quarter, as it stood at 42.1%. By the way, this has been the eighth consecutive quarter at which the ratio stood below 50%.

In terms of sustainability, I'd like to remind you of certain number of important initiatives implemented by Bradesco. One, the creation of the vehicle EcoFinancing program, which promoted tree planting for vehicle financed. Number two, the publication of our first sustainability report, adopting the third version of the GRI guidelines, which is available on our Investor Relations site. Number three, the finalization of the cidad de building house [ph] got initial inventory, which will be audited in May. During the year, we will neutralize these emissions by planting more than 37,000 trees.

Number four, the organization on March 18th for the fifth consecutive year of (inaudible) Bradesco National Volunteer Action Day, during to which more than 1.6 million people were attended in 40 schools and in 149 other locations. And finally, we recently received the people oriented S.A. 8,000 International Social Responsibility Certification, which focuses on the quality of worker relations and of the workplace itself.

Next month, we will have a comprehensive agenda of challenges to face as follows. One, integrating BMC conforming to Bradesco after the Central Bank's approval of the deal and expanding the customer base, essential to the bank's growth.

Number two, we are expecting an intensification of the competitive landscape in mortgage operations, where the bank reinforces its structure in order to attend the demand. In credit card operations, consolidating our action through the Visa, MasterCard and AmEx brands, as well as fostering operation private label cards. In insurance and pension plan activities, where our leadership is strategically s positioned, will be fundamental to obtain important gains with expected future growth in premiums we should experience. And in direct lending operations, including and highlighting the pay of all deductible loans to Bradesco and our subsidiaries, Finasa and BMC in the future.

Number three, we intend to keep structuring operational agreements with retail partners, which we consider are an essential channel to reach even more customers. Number four, in capital market, we have been making strong investments with results are already beginning to pay off as we are growing the participation and coordination of important deals. The strong competition is expected to intensify, but we expect Bradesco BBI to be one of the biggest players in this business up to the end of this year.

Number five, we also intend to improve our operational efficiency, in particular in the areas of processes and IT. Finally, I would once again like to thank all our employees for their dedication and commitment to our goals. Without them, we could not have achieved these results. Thank you. And I will be available for your questions after this presentation.

Jean Philippe Leroy

So let us now move on to the 40 plus slide presentation and the First Quarter's macro scenario was characterized by some volatility in late February due to the uncertainties

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related to China and the United States. In Brazil during the quarter, the Selic rate evolved by 3.03%. The BOVESPA increased by almost 3%, CPI around 1.26% and the US dollar devalued by 4.1% vis-a-vis the real. Loans grew by 3.3%, representing 31.3% of the Brazilian GDP. Yesterday, you received our press release with several information about our balance sheet, which now will be complemented with a series of slides that we consider fundamental to understand Bradesco's performance.

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Let us now move to slide number three. Those are the bullet points used by Milton in his speech. Slide number four. As already mentioned, we posted a R\$1.7 billion net income in the First Quarter of 2007 vis-a-vis R\$1.5 billion reported in the First Quarter of '06 and R\$1.6 billion in the First Quarter of '06.

Slide number five. This slide shows the origin of our net income based on margin contribution. Banking operations represented 69% and insurance 31%. These results reflect our leadership in both activities added with our pension plan and annuity operations. In terms of banking, fees represented 29% and loans 25% of the margin contribution. These figures are in line with the percentages we posted on previous quarters.

Slide number six and number seven. On these slides, you will see an explanation on the variation of our results quarter over quarter and year over year. Compared to the Fourth Quarter of '06, we have increased fees mainly because of volume growth and reduced administrative expenses, basically advertisement costs, due to seasonality as in the Fourth Quarter, we have a concentration of ads mainly due to campaigns for Christmas. Compared to the previous year, we highlight our fee generation, which includes the acquisition of the Brazilian operations of American Express and business growth in general, especially on the credit card business.

Slide number eight. The annualized return on average assets stood at 2.5%. The annualized return on average equity reached 30.2%. We would like to highlight that this is the 10th consecutive quarter we are surpassing the 30% ROE amount. I would like to also call your attention to the fact that if we strip out the impact of the available for sale securities on the equity in the mark to market effects by some R\$1.9 billion, our return should be raised from the 30% to the 32.6% mark. In terms of the Basel Ratio, we are pretty comfortable to support our growth in the coming period.

Slide number nine. A retail bank the size of Bradesco is obliged to focus on efficiency. Therefore, an important, as important as keeping the revenue growth, we always focus on keeping an adequate expense structure. We are conscious that we can improve the cost to income ratio of 42.1% through permanently revising our processes and increasing IT investment. We believe of having an adequate expense structure which allows us to increase our assets, attending customer demand, which should happen even more in the more stable economy.

The coverage ratio shows that we have been moving in the right direction comparing fees and operational expenses. Proportionally, we have been posting higher revenues and

lowering costs. In some slides ahead, we are going to comment our combined ratio evolution as well.

Slide number 10. We are already expecting -- we were already expecting a net interest margin contraction as interest rates are decreasing and volatility is reducing. Nowadays, our NIM stands at 7.5%. However, in nominal terms we believe on a net interest income increase, especially what refers to interest gains, basically because of credit expansion and deposit growth.

For instance, what we saw comparing to the First Quarter of 2006 was an increase in operations that generate interest moving from R\$4.2 billion to R\$4.6 billion or a R\$331 million jump. This is due to expansion of R\$855 million in volumes, which more than compensated the reduction of rates by R\$524 million. Therefore, there is no alternative. It is necessary for us to increase volumes more and more and that is what we have been doing. In financial activity as well as in insurance pension plans and annuities. Just to complement the variations of these periods in red that you are seeing in the graph, it is basically due to a lower treasury gain.

Slide number 11. Bradesco's loan book, one of our main pillars of results, evolved by 5.5% in the quarter compared to 3.3% of the Brazilian financial system and reached R\$101 billion, including credit cards, sureties and guarantees the balance reached R\$122 billion. Bradesco has been making high investments in instruments of analysis as scores and risk management tools to face the challenge to attend a growing demand of our customers.

An important issue to better attend the clients is the pre-approval credit lines that help the evolution of portfolios in a more mitigated risk manner. Our aim is to add value to our customers, offering credit lines on a conscious and responsible way in order to avoid delinquencies. In terms of segments, the highlight of the First Quarter 2007 came from the side of large companies, presenting an 8% growth, where the consolidation of operations of some activities brought demand for loans as well as the need of finances for M&A deals.

Slide number 12 and number 13. To better understand our performance, we are breaking down our loan portfolio by credit line. I call your attention to the low representativity of overdraft accounts with a balance of R\$1.9 billion and revolving credit with R\$1.7 billion, which respectively corresponds only to 1.6% and 1.4% of our credit book. These movements happened just in the First Quarter, when traditionally people used more of those types of credit lines. The strong growth in credit cards is also due to the success of the purchase of American Express operations.

Slide number 14. The personal loan portfolio, which resources do not have specific destination, grew by 5.8%, in the quarter, 4.7% through Bradesco's own origination and 9.4% through the acquisition of portfolios. We highlight owned payroll lending, that increased by 11.5%. BMC, as you know, has not been included by the fact that the Brazilian Central Bank has not yet approved the acquisition. The portion we acquired from BMC in terms of portfolios impacted -- impact explains the reduction of acquisition of portfolios.

And on the top of that, middle-sized banks found other alternatives of financing, for example, through capital markets.

We are very positive about payroll lending growth. Currently, this type of credit corresponds to 39% of Bradesco's total personal loan portfolio, although in the financial system, this number already represents 55%. On the bottom of the slide, you will have an idea of how important BMC is for the segment, as the numbers of originations of BMC are very close to Bradesco's.

Slide number 15. Stabilization of the economy means the generation of new jobs, massive salary growth and interest rate cuts. This scenario tends to strengthen mortgage growth. On the top of that, there is a pent-up demand estimated at 7.9 million homes in the whole country, 71% of that in the southeast and northeast of the country.

Bradesco is conscious of the opportunity that this environment proposes and the consequent long term approach with customers. Therefore, we have been investing in the improvement of our internal structure, which attends branches and individuals. We have been actively participating in discussions, looking to improve legislation and adding entity classes, government borrowers and entrepreneurs.

And we have to recognize the strong improvement in legislation. Last year, Bradesco granted R\$2.1 billion for the sector financing more than 19,000 homes. The goal for this year is to invest more than R\$3 billion in this product as to say more than 30,000 homes should be financed by Bradesco during this year. Up to March 31, we financed R\$669 million, almost 6,000 homes. Bear in mind that with the stabilization of the economy and the reduction of volatility, Bradesco is now offering fixed rates at 12.5% for 20 years, certainly the best rate available in the market.

Slide number 16. In Brazil, auto sales have been very strong and Bradesco is a market leader counting on two strong brands, Bradesco and its subsidiary, Finasa. Our strategy is based on fostering cooperational agreements with car, truck and motorcycle producers and dealers. Bradesco's market share stands at 25.4% and we intend to raise it even more. Therefore, we have been strongly investing on increasing auto financing deals, especially in brand new cars with higher tickets. Currently, the automobile portfolio corresponds to 23.5% of our total loan book.

Slide number 17. Credit cards are beginning to be used as a means of financing. In this chart, we show some data relative to this business. Bradesco's market share stands at 18.8% on credit cards. We have issued 19.7 million plastics, of which 13.9 million are Visa, AmEx and MasterCard branded. Private label cards are picking up in terms of momentum thanks to the establishment of partnerships with more than 20 large retailers. We consider the modality an embryo to transform plastics in whole branded accounts.

For 2007, we are expecting a 20% growth in the market. Bradesco's intention is to increase even more than that, consolidating our presence in high income people and corporate through American Express. However, we believe on big opportunities with

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lower income people as well and that is why we intend to continue to intensify operational agreements and to create specific products to this type of customers.

Slide 18. This slide is fundamental to manage the adequacy of the level of provisioning and is one of the essential items at any presentation we conduct about credit. On the curve above, we have the representativeness of allowance for loan loss, compared to the total portfolio. The second curve shows the required provisions by the Central Bank's criteria, according to the client's rating and to the delay of operations. By the difference of these two curves, one can calculate that we have R\$1.1 billion of excess of provisions.

The third curve, which reaches 4.5% by March '07, corresponds to the proportion of credit past due and classified between the E and H rating. And the last curve shows the charge-offs compared to the portfolio one year before.

We see that there is a strong correlation between effective losses and E to H operations past dues of the year before. It means that in a period of one year from now, our effective losses should not differ substantially from the 4.5% ratio. That allows us to conclude that our effective additional allowance for loan losses is twice the R\$1.1 billion. It stands at a solid R\$2.2 billion, which one can see by the difference between the first and the third curves.

Slide number 19. Granting loans has a potential implication in delinquencies. Bradesco, through its technical areas of risk management and credit as well as internal committees, in which our top management participates, has a very big concern about this fee. Accurate and tight controls are what allows us to implement appropriate corrective measures.

In this line, we see that a corporate delinquencies stands on its historical level. In terms of individuals, the curve on the top, what we see is a strong growth last year. But now, it tends to slightly decrease. We considered that in spite of the positive evolution, the ratio for individuals is still not desirable. We believe also in a learning curve by the borrowers. But our expectation is on its improvement during the year due to the expected favorable economic conditions.

Slide number 20. Following, we can see that 92.2% of Bradesco's portfolio is classified in the AA to C rating. This indicator is better than the average of the financial system. The coverage ratio based on more than 60 days of past dues is absolutely acceptable and has been even better and could be even better if we had proceeded in securitizations of bad loans.

Slide number 21. We always say that this graph is what we consider essential for the correct analysis of our credit strategy. On the first curve, we present a gross margin for credit minus the opportunity cost, the Selic rate. On the third curve, one can see the allowance for loan losses added by discounts granted and recoveries. And here we notice a nominal stabilization in the last four quarters. The curve in the middle shows the net margin from credit. We believe that Bradesco's strategy is totally correct. We are changing the portfolio mix and earning more money. Below, in this slide, we separated the same graph for our multiple bank, Bradesco and Finasa.

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Slide number 22. Bradesco has made strong investments in technology training and opened new fronts in order to conquer new businesses and customers. In parallel, we invested on the acquisition of public and private payrolls and closed several operating agreements with retailers. The consolidation of our segmentation process generated an evolution in the relationship with our customers in accordance to the client's profile. All of this has reflected on improvement business -- sorry, on improvement business opportunities, getting a better performance on fees, which grew by 5.6% in the quarter and by 25.4% over the last 12 months.

We must emphasize that the strong growth of card fees is mainly due to the American Express acquisition and recently, we have been positively impacted by investment banking fees. We point out that Bradesco has a total of more than 26,000 sales points composed by 8,500 fully owned and some 17,800 from third parties like Banco Postal and other banking correspondents. From the 27,800 ATMs, 24,500 are owned and the rest belong to Banco 24 Horas structure.

Slide number 23. As we already said, cost control is a constant focus from Bradesco's senior management and staff. Due to seasonal spending in the Fourth Quarter, it was possible to post a nominal reduction in cost compared to that period. Comparing to the First Quarter of last year, we consider that the evolution is in accordance to the income growth. The decreasing behavior of the curve of costs as a percentage of total assets is another indicator that shows that we are moving in the correct direction.

Slide number 24. As mentioned, the decline in advertisement expenditures explains most of the improvement in costs in this quarter. Slide 25. Premiums increased by 9.2% in the year. Our strong growth -- sorry, our strong market share in life and pension plans explains 56.1% of the total evolution. Bradesco's share in insurance stands at a strong 25.1% and improves our comfortable leadership.

We would like to emphasize that on pension plan and VGBL products, our share moved from 38% in the First Quarter of 2006 to 41.3% in February of 2007. By the way, the number of Bradesco Vida e (inaudible) clients increased by 15% in the same period. In this quarter, Bradesco Seguros profits stood at R\$529 million, as Milton said, a 14.8% growth in the period with a return on average equity of 33%. And as we already said, Bradesco de Seguros e (inaudible) corresponds to 31% of Bradesco's total profit.

Slide 26. Finance assets and technical reserves surpassed R\$57 billion. R\$44 billion correspond to investment portfolios in pension plans and VGBL, representing a market share of 41.6%. The reduction in revenues from written premiums compared to the Fourth Quarter is expected because of seasonality in pension plan and VGBL products at the end of the year. It is worth mentioning the insurance group efforts to improve the operational efficiency as well.

Slide number 27 and 28. Here we are presenting a summary of the evolution of our insurance group in terms of operational efficiency, claims control and accurate underwriting policy and the focus on corporate health insurance problem. On Slide 28, we are presenting the combined ratio in the Brazilian calculation and the international criteria

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combined ratio calculation as well. On both criteria, we see a consistent improvement in the indicators.

Slide number 29. The increase in funding in this year is consistent with the loan book's growth. The nominal decrease of demand deposits in the quarter was expected because by year-end, there is a high liquidity derived by the payment of the 13th salary. It is worth mentioning another positive, which was the higher average balance of demand deposits in the First Quarter of 2007 vis-a-vis the Fourth Quarter of 2006. By the way, with decreasing interest rates and maintenance costs, taxes as the CPMF and VIOF, there is a tendency for increasing demand deposits, which is very positive for getting cheaper funding despite the fact that just 20% of it is not directed to any requirement.

Slides number 30 and 31. Nowadays, we can assure that the BBI project is a reality. Bradesco BBI is composed by a team of 500 employees, of which 185 investment banking, 205 in asset management and 110 in back offices. We can see on Slide 31 the main deals of BBI in the period. The revenue generation is already presented on the fee income plan, commented back in the beginning of the presentation. We have no doubt that BBI will be one of Brazil's leaders in a short period of time.

Slide number 32. We would like to ask to the audience an additional time just to show some extra slides where we are going to demonstrate the evolution of our figures, taking into consideration a longer period of time. We are going to present not only the evolution of reported results, but also our work to put our balance sheet more and more robust, building provisions we consider necessary, adopting very conservative premises.

Slide number 33. We can here observe a nominal evolution of our bottom line, starting on 2003, to reaching R\$6.3 billion in 2006. In line with the positive movement, we also highlight the operational efficiency enhancement, moving from a cost to income ratio of 56.6% to 42.1%, thanks to a rigorous control on expenses allied to business growth, consequently on revenues. In the next three years, we think that we can improve our ratio even more and we are projecting to 40% ratio by the end of 2007.

Slide number 34. The efficiency improvement at Bradesco could be attested by the fact that over the last five years, despite acquisitions, our expenses raised by only 49% vis-a-vis 154% in fees. Our coverage ratio, which compares fees and operational costs, evolved from 45.8% in '02 to 78% in this quarter.

Slide 35. We can identify in this graph the evolution of our unrealized gain, which equals the difference between market and book values of our assets and shareholders' equity. We can observe an increase of these gains moving from R\$776 million in '02 to R\$3.9 billion in '07. On the last quarters, this growth has been mainly originated by the effect of the mark to market of our security portfolio book.

Slide number 36. In this slide, we represent the accumulated amount of goodwill amortization since '02. We point out the management's decision in '06 to amortize the whole balance of goodwill. The sum of R\$4.8 billion represented here equals net of taxes 12% of our current stockholders' equity.

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Slide number 37. On this slide, we demonstrate the evolution of our additional provisions for credit in relation to the minimum requirement established by the Brazilian Central Bank. Between '02 and '07, we doubled our volume of provisioning, totaling R\$1.1 billion in this quarter. It is worth to mention and to remember that as already we said in slide number 18, we believe that our excess of provision should be considered at R\$2.2 billion and not R\$1.1 billion.

Slide number 38. We here point out the composition of our tax credits and its representativeness vis-a-vis our stockholders equity. By analyzing the tax credit, it is important to separate the ones originated from temporary differences, which have an association with provisions and loans, from fiscal losses which depend on the capacity for generating results for their realization. Anyway, in both cases we observed a decrease on their representativeness. We would like to recall that in this period, we executed more than R\$800 million of tax credits derived from fiscal losses.

Slide number 39. As everyone knows, the individual health insurance market in Brazil is limited by regulatory pricing or regulatory control. We decided to adequate the level of provisioning to ensure that people with more than 60 years on the plans prior to the Law 9656 of '98 and the redeemed plan clients and the differences between authorization of the adjustment in plans and our correspondent medical costs. For this reason, provisions grew by more than R\$2.1 billion between '02 and '07. Our expectation is to reach up to the middle of this year the needed levels of provisioning we believe are comfortable.

Slide number 40. Here we can see an increase on the provisions for incurred but not reported claims. To this type of provision, we have adopted conservative criteria. For instance, we enlarged the long term liability claims analysis of basic life and life products from 6 to 24 months and finally to 60 months respectively.

Slide number 41. We here represent the modifications made on our actuarial calculations, aiming always at adopting the most conservative criteria. In this way, from '02 to '07 we point out: one, the change in our actuarial table of mortality from the 83 to AT 2,000 with improvement, meaning the annual actualization of the life expectancy of the population; reduction from 4.5% to 4% on the calculation for the constitution of provisions for financial fluctuation; and three, the beginning of the constitution of provisions for administrative expenses. These criteria result in an increment of approximately R\$2.8 billion in provisioning over this period. We therefore are confident that our pension plan company is prepared to face a reduction in the real interest rate.

Slide number 42. We are here including our 2007 and 2007 macro scenario expectations. We would like to drive your attention that today the Selic rate is standing at 12.75% and the average Selic for 2007 should be standing at some 11.75%, meaning that most of the pressure in our results has been already impacted.

Slide number 43. Up to now, we are not seeing any reasons to change our projections related to credit fees, expenses and others. To have an idea, if we analyzed our credit portfolio based on the First Quarter performance, we would have a growth of

approximately 24%, which is totally in line with our projections of the beginning of this year.

Slide number 44. We would like here to invite each and everyone for our Bradesco Day in London, which should be -- we are going to host on May the 15th. This event follows our Bradesco Day on the New York Stock Exchange we hosted by the end of November of 2006 for the celebration of our five-year listing. Please feel free to contact our department in the case of accepting this invitation. Thank you, all for your attention and let us now move the floor to your questions.

Questions And Answers

Operator

(Operator Instructions)

Our first question is from Jorge Kuri from Morgan Stanley. Please ask your question or comment.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have two quick questions. The first one is, can you provide some guidance on where you think the effective tax rate is going to be for 2007/2008, given the changes in VLGP [ph] and the link between that and your ability to pay yield on capital?

And the second question is, net interest margin -- actually, many thanks for providing the numbers for FX position and the mark to market and for us to be able to then just calculate what was really the pure net interest income you generated. If you look at those numbers, your net interest margin actually fell quite a bit year on year and quarter-over-quarter. Actually, quarter-over-quarter it was around 40 basis points.

Given that as you pointed out, interest rates are heading to around 10.75% at the end of this year from 12.5% where they are today, what is your expectation in terms of basis point reduction? I mean, we saw a 40 basis point reduction the First Quarter. What basis point reduction do you anticipate for the rest of the year? Thank you.

A - Jean Philippe Leroy

Hi Jorge. First question, I would say we posted this quarter and the previous quarter a 25% effective tax rate. It is clear that we have a tax rate of 34% in Brazil and that a lot of the possibility to reduce the tax rate lays in the fact of the payment of interest on capital. And now the long term interest rate, the TGLP is standing at 6.5% per year which is almost like half it was one or two years ago. So the possibility for you to reduce the effective tax rate by the usage of interest on capital has been reducing.

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And did you notice that on the top of interest on capital, we have been paying dividends to complement our bylaws that say that we distribute 30% profits to our shareholders? But responding to your question, I would say that we are working with an effective tax rate of around 28%. So maybe a little bit higher than what we have been posting over the last couple of quarters. But lower than the 34% we have.

In terms of net interest margin, it is always very difficult for us to give a projection about the NIM. That is the reason why in our guideline, we always give a projection of the net interest income. You know that for example if we proceed in more or less, for example repos, we can change the net interest margin from one quarter to the other. I am not saying that this is the fact. We expect that the net interest margin contraction because the interest rates are moving down and we have a very intensive competitive landscape in banking in Brazil.

So I again, I would prefer to give a guideline based on the net interest income that we believe is going to expand by 4% to 10% than to give you a precise or at least a guess for the net interest margin behavior for this year.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Thank you Jean.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Mario Pierry from Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. I have two questions as well. The first one is related to your reserves for the health insurance business. As you have shown on Slide 39, you have been increasing your reserves there quite aggressively and my understanding was that this quarter, you also booked about R\$236 million in additional reserves. I just didn't understand you clearly, if you plan on increasing these reserves or you feel comfortable with these levels?

And my second question also then is related to asset quality. As you have shown on your presentation as well, asset quality appears to have stabilized. If you could give us the outlook, when do you expect actually to see an improvement in asset quality? If you expect to see an improvement in asset quality this year, or when should we expect to see this improvement? Thank you.

A - Jean Philippe Leroy

Mario? Hello? Mario? Here is Samuel. How are you?

Q - Mario Pierry {BIO 1505554 <GO>}

All right. How are you?

Samuel Monteiro de Santos Jr.: Yes, I would say to you about the health reserve, this is not reserve as we call the reserve for risk variation. We feel comfortable to make the R\$236 million in the First Quarter and we will be try to close this reserve in the end of the semester. But in conservative terms, I would be extend this possibility to complete the reserve, this reserve until the Third Quarter of the year. I would say to you the level is comfortable for us as this kind of reserve that we will completely, until the end of 2007, really does not affect the profit of the insurance group as well.

Just is it true then that I understand clearly, you say that you are comfortable with the level of reserves but you plan on increasing them even more?

Samuel Monteiro de Santos Jr.: Yes, comfortable in terms of the what amount I will be allocated to in these reserves each quarter, in the Second Quarter and the most part of this would be in the end of this semester. This is the reason why I pledged to closing this in the end of this semester. Because I would say to you why? Because the claims ratio of health is very good for us, is now is lower than 100, is about 82 average of claims ratio in health is very good, in terms of health. In terms of --

Okay. So I would expect though for you not -- I don't see then the need for you to keep building these reserves. If as you said the claims ratio is already very low, it seems like you are overly reserved. I am just trying to understand --?

Samuel Monteiro de Santos Jr.: When I mentioned to you that we need to complete this reserve in the future, we were talking about the future. You know, we depend on the approval of the government for the price of individual parts of our portfolio. In terms of regulatory laws in Brazil, only the government can approve the price of the individual health.

A - Jean Philippe Leroy

If I could add just a second, we have been basically maintaining, growing our exposure in health for corporate. So individuals, we have been trying over the last years not to expand more. And the idea is to build provisions. We built provisions a lot in Fourth Quarter of last year, R\$387 million. We built some provisions in the First Quarter, R\$236 million as you said. And we should be complementing in the Second Quarter another amount which should be close to the one that we provisioned in the First Quarter.

But there are some discussions about the correction of -- the annual corrections of the plans for individuals. And depending on what happens in these discussions, we might be proceeding to a little bit more provisions. But it is not certain now what is going to happen. So in your calculation, maybe you can take into consideration based on the fact that the government has been, over the last years, respecting the calculation that the companies have been showing in terms of medical inflation, that most probably we should have provisions in the Second Quarter.

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In terms of your second question, we believe that the asset quality already is beginning to improve as you see in slides number 18 and 19. If you look at the past due loans for the E to H operation, they already began to fell from 4.6% to 4.5% if you look at slide number 18. And if you look at slide number 19, you can see that in terms of individuals, you are beginning to see a reduction in delinquency ratio for 90 days. Obviously, it is difficult for us to predict what will be the level in the future. But we are looking at each credit line for individuals and for companies and we are seeing improvement in the delinquency ratios of all the credit lines.

Obviously, when you look at the slide number 18, you have the consolidation of all the operations of the bank. So if you continue to expand more into individuals, and by definition individuals have more risk than corporate, then by changing the mix you increase in percentage terms the delinquency. But it doesn't mean that it will continue. We feel quite comfortable about the behavior of the curve this year as we said in the presentation, that we have very good perspectives for the macroeconomic security, the growth of GDP, the massive salary and the behavior of the unemployment ratio.

Q - Mario Pierry {BIO 1505554 <GO>}

Just to follow up then on the asset quality, this improvement or this stabilization that we are seeing, is that related to the initiatives taken by the bank in order to slow down some lending or do you think that this stabilization is related, like you said, to the improved macroeconomic environment in the country?

A - Jean Philippe Leroy

No. In general terms, the conclusion, the improvement in the asset quality is based on the improvement on the general conditions of the economy. Obviously, we always are investing in systems cores and trying to implement ways to mitigate most of the risk. The fact is that the general economy behavior has been better and this has been helping our bank and I believe you have been noticing that in the system as well.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Daniel Abut from Citigroup.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. If we go to the slide in which you provide some detailed guidance and actually we appreciate the effort you make and understand that it is not that easy to give guidance when so many pieces are moving, particularly rates are declining faster than we thought. But there are two lines there that called my attention because are lines that you

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have a bit more control of and they are less dependent on the evolution of interest rates, is that the income line and particularly the operational expenses line.

And I noticed that you are reaffirming your old guidance of 18% to 23% growth in fee income for the year and 12% to 16% expense growth for the year. And if you look at the First Quarter numbers, which you explained very well in prior slides, the year on year performance comparing this quarter with the year ago quarter, will show expense growth at below the lower end of your range, at less than 10% actually, and fee income growth at above the high end of your range, above 25% actually. So I was wondering in light of what we see in the year on year performance in these two lines in this quarter, your guidance can be characterized as conservative, or whether there was something that was specific about this quarter that should not be repetitive in the rest of the year?

A - Jean Philippe Leroy

Hi Daniel. I would say by definition, our guidance is conservative. All the lines that we have been presenting over the last years, they normally have been beaten. We normally have been growing more in the lines than what we have been estimating, for example one year before.

So yes, there is a kind of conservativeness in the guidance. But I would say in general terms, we believe that the numbers will be close to what we are posting in this guideline. Don't forget that this is just the First Quarter. We have another three quarters to look at the prospect, to post the numbers for 2007. So I would say, even though the growth in fees has been maybe higher and the costs have been a little bit lower, we feel more comfortable if you follow our guidance.

Q - Daniel Abut {BIO 1505546 <GO>}

Okay. Thank you Jean.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Victor Galliano from HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. One of my questions was already asked. But just focusing on that slide number 10, Jean, and looking at the interest income and non interest income, that figure though has been declining on the net interest side. The one at the top consolidated well at all levels. That I assume is just the realization of bond and trading portfolio gains, is that correct?

A - Jean Philippe Leroy

Sorry, the R\$411 million you are talking about?

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, yes.

A - Jean Philippe Leroy

Yes, part of that is a Treasury gain, mainly the Treasury gain. And part of that is relative to selling some securities and recognizing gains. But I would say most of it is on Treasury gains.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay, okay. So we are seeing an underlying growth on the pure interest income of 7% or 8%, is what you are saying. So which lies within it.

A - Jean Philippe Leroy

Exactly.

Q - Victor Galliano {BIO 1517713 <GO>}

On the year on year, you are seeing a 7.7% growth there. And just to follow up on the guidance again, within -- I mean, I know it is hard to say, but would it be fair to say that in the individual portfolio, the fastest growth will be coming in areas like payroll? Or is it going to be a mix of payroll plus credit cards plus autos? Can you give us some sort of feeling as to where the bulk of the growth is going to come in the individual portfolio?

A - Jean Philippe Leroy

Okay. Now we have a positive in the payroll deductible operations as we have the expectancy of the Central Bank approving the deal. So with BMC integrating into Bradesco, actually the operations of Bradesco from payroll deductible loans, most probably should be transferred to BMC because they have a very strong expertise in managing the payroll deductible operation. So we expect on a growth part of that because of the acquisition of the company, but most of that because in this because, BMC has an incomparable edge vis-a-vis the competition. So they have the expertise and they should be growing more.

On the other items, we are seeing for example in Brazil we are selling a lot of cars. The sales this year should be 2.8 million cars and 2 million was last year. So a very solid growth and 70% of the cars are financed. So obviously, as we are a very solid player in auto finance, we should also grow a lot in this credit line.

The rest, you have other types of credit lines like credit card itself, which is beginning as I said in the presentation to be a tool of financing and we are trying to expand this operation through American Express and through the private label cards. We issued to give an idea, 2.5 million cards of Casas Bahia and we have a plan to achieve 3.5 million cards very shortly. And we want to include that in the rationale of our operation.

So I would say responding your question, payroll deductible loans, auto finance and credit cards will be very strong. In percentage terms, the highest growth should be from mortgage because the basis is very low and we are expecting to grow a lot. But in the total portfolio of Bradesco, individuals is not yet substantial. It represents 2.5% of the book.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Excuse me. Our next question comes from Mr. Tobias Stingelin with 3G Capital.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Yes. Thank you very much. Congratulations on the results. I have to apologize, but I have to go back quickly to 2006 results just to clarify something that I think might also help me to understand the First Quarter of the year. If I take your insurance business and if I add the financial income for the insurance business for the pension business and also for the capitalization business, I get a value which is somehow close to R\$300 million different from the total by adding up all of the values.

So I just wanted to understand if I am making any mistake or if there is any other business that might explain the difference in R\$300 million for the year of 2006? And my question really is because I just want to make the same exercise for the First Quarter of 2007 and understand if there are also maybe there is some other business which can be also explain the difference?

A - Jean Philippe Leroy

Yes, Tobias, you are very quick to talk.

Q - Tobias Stingelin {BIO 18290133 <GO>}

I repeat the question, I am sorry.

A - Jean Philippe Leroy

Just to understand, you are comparing the insurance operations of 2006, the First Quarter, and 2007?

Q - Tobias Stingelin {BIO 18290133 <GO>}

No, let me be more precise. And I am sorry for that, really, because usually at the end of the year you have much more detail. And I just went back to 2006, to the year of 2006, but I am trying to understand here the First Quarter.

But let me just rephrase the question. If I take your insurance business, which is Bradesco Seguros, Ingiorna [ph], Finasa and if I also take your pension business, which is Bradesco

Vida e (inaudible) and if I take also the capitalization business and if I add all of the financial income that has altado financiero [ph] that you have in these operations for 2006, you have like amount of close to R\$3 billion in interest income.

And when I compare this with what you report, I am sorry, when I add the individual values and when I compare with what you say is the total, there is a difference of around R\$300 million. And I am just wondering if there is any business which I was not able to find in the footnotes which might explain the difference? And I am sorry again, I am just going back to 2006 but it is because I want to understand if in 2007 maybe the same happened or not?

A - Jean Philippe Leroy

Tobias, we have to double check that. But I would say it could be because of impact of equity of other participations. But look, I really have to, when you consolidate, maybe you have a difference of R\$300 million because of that. But if you would like maybe to send me your --

Q - Tobias Stingelin {BIO 18290133 <GO>}

Yes, I will follow up. I totally understand for that, and I am sorry, I just went back to your 2006 because I wanted to see if maybe 2007 there could be something like that or not. But I talk to you later.

A - Jean Philippe Leroy

No. It is okay. And Dan, I will provide the response in the site of Bradesco so each and everyone will have access to the same information.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect, thank you very much again and congratulations again.

A - Jean Philippe Leroy

Thank you, Tobias.

Operator

Our next question comes from Ms. Maria Laura Pessoa with Fator-Doria Atherino.

Q - Maria Laura Pessoa {BIO 15006438 <GO>}

Hi. Good morning all. I would appreciate if you could give us some color on how are the partnership with retailers especially Casas Bahia doing, whether the contributions are basically on credit card front, as I understand, or was there any impact in individual loan growth in this quarter? And my second question is regarding the guidance for this year, if you could give us some refresh on the fee income and administrative expenses for this year? Thank you.

A - Jean Philippe Leroy

Again, sorry Maria Laura, the second question was the guidance and the quarter about what?

Q - Maria Laura Pessoa {BIO 15006438 <GO>}

No. If you could give us the guidance for the fee income and administrative expenses growth for this year? Thank you.

A - Jean Philippe Leroy

Okay. I would say -- let's talk in some block. I would say the retailers, they have been making more and more agreements with banks and Bradesco has been one of the leading companies joining efforts with retailers. We established a very good relationship with Casa Bahia and more than 23 other retailers and we are always trying to develop more agreements. I would say one more with regional players because the large players, they already have an agreement with Bradesco or with other banks.

In terms of the beginning, Casas Bahia began very strongly to use Bradesco as a way of finance and mainly through CDC operation. The book grew very strongly as you remember and now the book of Casas Bahia is standing close to R\$1 billion, approximately. And this is the level that we feel comfortable and that was the level we have been establishing with Casas Bahia and we feel okay.

What is happening on the top of that is that there is a merger, a change in the operations that more and more the retailers are using less CDC and they are using more credit cards. So we have been issuing a lot of cards of Casas Bahia and others. We have a series of agreements. So part of the loans are entering through CDC in personal loans. Some others are entering through credit card operations.

And what we are trying to do is to develop the usage of private label and cobranded. So you have the Casas Bahia card, for example, and you have a Visa credit limit, an example could be Master Card or others. So a credit limit inside Casas Bahia and a credit limit outside. It has been working very well but the business has been changing. It has been changing, moving more into credit cards vis-a-vis the regular CDC.

In terms of the guidance that we are providing, I would say the guidance that we give in terms of expenses, 12% to 16%, takes into consideration that part of the agreement that we have with retailers, they are fee-based. So they generate fee for us and these fees, they answer in the line of fee income. And the counterpart, when we give back the fee to the retailer, it answers in the administrative expenses and this increases our expenses.

If we take out the fees and the expenses, I would say most probably we are running with expenses close to some 7%. This is what we feel comfortable about the number. And if we add the fees that we receive and the fees that we give back, you come up with 18% to 23% in fees and 12 to 16% in operational expense.

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Q - Maria Laura Pessoa {BIO 15006438 <GO>}

Okay. Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question is from Stephen Barrett from Nevsky Capital.

Q - Stephen Barrett {BIO 20736781 <GO>}

Hi, I just wanted to clarify one point on your guidance. In the Third Quarter of last year, you booked an exceptional provision in your staff expenses of about R\$300 million. I was wondering if your guidance on operating expenses this year basically includes that in the base or actually strips it out? Thank you.

A - Jean Philippe Leroy

No. The guidance that we provide includes everything. When we look at -- if we strip out the agreements with retailers, which was what I was saying before, we take into consideration that we have the annual agreements with the union of employees of banks, which happens every year in September and discussions, they can be longer or shorter. But they normally they impact the Fourth Quarter, because September is the last quarter - the last month of the quarter and normally, they impact more the Fourth Quarter. So everything is booked and in our guidances, we are taking that into consideration.

Q - Stephen Barrett {BIO 20736781 <GO>}

But I think when your Third Quarter results came out and you talked about that 300 million supplementary labor provision, you classified it as like an extraordinary provision. You were basically saying your guidance this year actually includes that within your '06 operating costs?

A - Jean Philippe Leroy

Yes. It includes it. We add everything that we had as expenses that are the regular ones, everything that was based on the agreement that we signed with the union, and we compare that with the expectancy of the regular expenses in personnel and administrative plus the expectancy of the annual negotiation of wages with our employees as well.

Q - Stephen Barrett {BIO 20736781 <GO>}

Okay. Thank you.

Operator

(Operator Instructions)

A - Jean Philippe Leroy

Okay, I would like to thank everyone to take part in this conference call and the Investor Relations area is available for further questions through e-mail or through the telephone. Thank you very much and see you next quarter or next Monday. Thank you.

Operator

That does concludes the Banco Bradesco's audio conference call for today. Thank you very much for your participation and have a good day.

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