

Q1 2010 Earnings Call

Company Participants

- Alexandre Rappaport, Planning Director
- Domingos Figueiredo de Abreu, EVP, IRO
- Paulo Faustino da Costa, Market Relations Director
- Unidentified Speaker, Unknown

Other Participants

- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Larry Batali, Analyst
- Rafael Fahas, Analyst
- Saul Martinez, Analyst
- Unidentified Participant, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First Quarter 2010 Earnings Results Conference Call. This call is being broadcasted simultaneously through the Internet and the website, www.bradesco.com.br/ir. In that address, you can also find a banner through which the presentation will be available for download.

We inform that all participants will only be 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 guarantee of performance. They involve risks and 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 Paulo Faustino da Costa, Market Relations Director. Mr. Paulo, you may proceed.

Paulo Faustino da Costa {BIO 6436050 <GO>}

Good morning, everyone. Welcome to Bradesco's First Quarter 2010 Conference Call. I would like to announce the participation of Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer, Mr. Antonio -- Marco Antonio Rossi, CEO of Bradesco Insurance Group, Mr. Samuel Monteiro dos Santos Jr., Executive Vice President of Bradesco Insurance Group, Mr. Alexandre Rappaport, Director of Planning, Bradescards. And Mr. Luiz Carlos Angelotti, General Accounts Committee and Director. Let me now give the floor to Mr. Abreu, who will conduct the presentation.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good morning. Welcome to our conference call. Brazil maintained its outstanding performance in the global economy, having proved to be remarkably resilient through the crisis. It has now moved into its own growth trend.

All sectors of the economy are undergoing expansion, even those that did not benefit directly from the government incentives. This has its roots in the strong job market and income growth, leading to a big upturn in industrial investments, which are proving to have one of the highest diffusion rates in the recent history.

The 31.4% increase in capital goods production since the beginning of the recovery in March last year shows just how much Brazilian companies are gearing up for the expansion of demand. Bradesco has a positive outlook of the country's future and believes strongly in this increase in economic activities. We have, therefore, been investing strongly in Brazil, expanding its business and its national presence.

The first part of 2010, it adds almost 2,000 points of service to its distribution network and invest around BRL770 million in infrastructure and IT. Also, in the First Quarter, Bradesco acquired more than 3 million new clients, reaching an impressive total of 57 million customers. Our aim is to always do more and better, with a constant focus on improving client service processes and quality.

I will now be going into more detail regarding our numbers, results and financial indicators. I would just like to qualify that in order to ensure a better understanding in the analysis of the data, in line with our press release and reports on economic and financial analysis. All the numbers and financial indicators in this presentation have been calculated based on adjusted net income. In other words, after adjustments for non-recurring items in the respective periods.

Slides two and three, on the following two slides, we outline our results and key financial indicators. Specifically, I'd like to point out, in slide two, our adjusted net income with total BRL2,147 million in the First Quarter of 2010. Approximately 10% more than the BRL1,956

million reported in the same period of last year and a 17% increase compared to adjusted net income in the First Quarter 2009.

In slide three, assets under management totaled BRL740 billion, 15% higher than in March in 2009 in other labors relation [ph], recorded substantial reduction compared to the increase, of course, in 2009. We'll be dealing with the other items in more detail subsequently.

In slide four, this slide shows there're non-recurring items, which impact our results in the respective periods. We therefore refer to the red line at the bottom, as our adjusted net income, our recurring net income, if you prefer. In the First Quarter, our results were adversely impacted by the constitutional provisions for tax contingencies and the economic plans, totaling BRL397 million and BRL36 million respectively.

On the other hand, we were able to realize tax credits on previous periods in the amount of BRL242 million. I just like to draw our attention to our First Quarter and annual returns on average equities, both in terms of reported and adjusted net income, which stood at around 20% to 22%.

Slide five, I'd like to point out our operational efficiency ratio, which closed the First Quarter of 2010 at 41.2%, a substantial improvement over the first three months of 2009. As a result of the increase in our fee income and net interest income. In the quarterly comparison, the upturn was caused by the increase in other alternative, achieved in personnel expenses, impacted by higher organic growth and partially due to incorporation of Banco Ibi.

Slide six, total assets grew to BRL533 billion, a 10.5% increase from March 2009. The return on assets stood at 1.7% and return on average equity, as we already mentioned, was 22.2% in the period. The Basel ratio closed the First Quarter at 16.8%, another % basis point -- 100 basis points lower than in the previous quarter, as a result of lower imports volume growth and the reduced level of subordinate net debt, due to the deadline for the usage of this debt to calculate the valuation.

Even with the ratio at this level, we will be in a very comfortable position to sustain expected growth in the coming years, even in light of the ongoing regulatory changes. One of these changes, the removal of surplus allowance for loan losses from the capital base, our Basel ratio should reduce to around 15.7%, which is still keeps us well positioned for the coming years.

Slide seven, in terms of net income breakdown, this slide shows that 33% of net income came from insurance premiums, pension plans and savings bonds. In bank activity, the loan portfolio increased its share of total net income to 29% versus only 18% in the First Quarter of 2009, essentially due to reduced provisioning needs, given the reduction in delinquency, as we shall see later on. The relative reduction in the share of the security line was due to the decline in treasury gains in comparison to the outstanding treasury results in the first three months of the last year.

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Slide number eight, realized gains totaled about BRL11 billion in the First Quarter 2010, close to BRL1,800 million more than in the last quarter of 2009, mainly due to the appreciation of our investments, especially our stake in Cielo. And of the security in our insurance and pension plans portfolio. Without question, these figures underline the strength of our balance sheet. We should also emphasize that these numbers do not include the potential goodwill from our own properties, of almost BRL2 billion, nor the tax spread of BRL736 million from the social contribution raised in (inaudible).

Slide number nine, on this slide, I'd like to highlight the excellent performance of the interest components of our net interest income, which climbed by 50.3% over the First Quarter of 2009, strictly as a result of higher average volume and improved margins, partially due to the incorporation of Banco Ibi.

Slide 10, net interest margins remained flat over the previous three months at 7.8%, after having recorded substantial growth in previous quarters. This performance was fueled by growth of our loans and insurance operations, whose sustainability strategy was to focus on the individual and SME segments. However, we believe a more normalized scenario will show a gradual decline in the mid to long term, similar to historical rates until 2008, due to the increase in lower margin operations and their subsequent relative share gains.

Slide 11 gives a breakdown of net interest income. Then in comparison, they highlight the performance of net interest income from loans, which increased by 23%. As I mentioned in the previous slide, this was mainly due to the growth of the loan portfolio and the change in its mix. The reduction in funding results reflects the period of decline interest rates, partially offset by the increasing funding volume. A 29% increase in the insurance line was -- seems to be due to the higher returns on assets indexed to Apacia [ph], the consumer pricing index and multi-marketed funds.

In slide 12, the highlight on this slide is the 29% increase in the net margin from loan operations, the blue part of the graph. Once again, the best results of the series, driven by the reduction in provisioning expense from loan operations, the red part of the graph and the expansion of the gross margins. In comparison with the same period last year, the net margin increased by around 90%, reinforcing our belief that the worst is over in terms of provisioning mix.

Slide 13, Bradesco's total loan portfolio reached BRL235 billion, increasing 3.1% in this quarter and 10% in the last 12 months. Growth was chiefly driven by loans to individuals, which moved up by 4.8%, led by variable deductible loans and to SMEs, which increased by 4.2%. It's worth noting that new borrowers, in other words people or companies who had no loans with Bradesco in March in 2009, accounted for around BRL32 billion of the total loan portfolio, demonstrating that we had grown with quality while diversifying this.

Slide 14 confirms the trend started in the previous quarter, the delinquency ratio for loans overdue by more than 90 days continued to fall, declining to 4.4%. It's also important to notice that these reductions in delinquencies was observed in our segments. We believe these ratios will continue to improve, reaching 4% by the end of the year.

Slide 15, this slide shows the behavior of early stage delinquency of between 61 and 90 days. As in the previous slide, we can see a continuous reduction, although I would particularly draw your attention to individual delinquencies, which is very close to its pre-crisis levels. The corporate duration also recorded continuous declines since August 2009 and given the promising economic outlook for 2010, we believe it will also return to its pre-crisis levels shortly.

Slide 16, this slide, which we always present, shows we are continuing to maintain comfortable credit provisioning levels, with a surplus of BRL3 billion in relation to the amount required by the Central Bank or BRL5.5 billion in relation to expected gross losses in a year. Or even BRL7.5 billion in relation to expected losses, net of recoveries, also for a year.

Slide 17, this slide shows the coverage ratio of the allowance for loan losses, to loans overdue by 90 and 60 days. As you can see, this quarter we recorded our highest ever recovery ratio under those criteria. As a result, we believe that there is no need to constitute additional provisions in the future. Furthermore, we believe we will not have to use the additional provisions we already set aside. Since as mentioned before, we expect delinquency to continue to fall.

Slide 18, the income remained stable over the previous three months, which we consider to be an excellent performance, given the difficult seasonality of the First Quarter. In comparison with the First Quarter of 2009, fee income increased by close to 15%, chiefly driven by charge fees, with 16.5%, including the incorporation of Banco Ibi, asset management, with 60.3% and underwriting, thanks to increased business volumes. Excluding the incorporation of Banco Ibi, income moved up 10.6% when compared to the First Quarter of 2009.

Slide 19, operating expenses fell by 1.2% in the quarter, due to the reduction in administrative expenses, as you can see in detail on the next slide. The upturn in personnel expenses was especially due to the non-structural [ph] portion, given the higher provisions for property sharing.

Slide 20, the 3.6% quarterly decline in administrative expenses was chiefly due to reduced expenditure on advertising and other variable expenses, given the seasonality of the previous quarter. The 12-month upturn is compatible with the growth of the service network, with a consequent increase in business volumes and the incorporation of Banco Ibi. Excluding the incorporation of Banco Ibi, those expenses would have grown around 16%.

Slide 21, this slide shows our income from insurance premiums, pension plans and savings bonds, which fell by 10% in the quarter, essentially due to reduced income from life insurance and pension plans, given the high level of income from these products in the final quarter of the year for seasonal reasons. In relation to the same period of last year, I point out that there was a significant increase of 30%, involving practically all products. First quarter net income moved up by 17%, reaching BRL703 million, chiefly due to reduced plans and the improved financial results.

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Slide 22 presents some of the main figures from our insurance activities. Beginning with the combined ratio which remained flat over the previous quarter, mainly due to reduced claims, despite the heavy rainfall in San Paulo State, partially offset by reduced revenue and increasing personnel expenses, due to the collective bargaining agreement. All financial assets as well as technical reserves guarantees totaled BRL87 billion.

Technical provisions to the BRL77 billion, of which BRL67 billion were related to licensed pension products. Here, I would like to point out that we worked with actuarial assumptions that give us a very high comfortable level in relation to our future commitments with the beneficiaries of our insurance and pension plans. We used, as our actuarial table, the 80 2,000 [ph] model with an improvement of 1.5 per year.

In addition, in terms of expected interest rates for our assets in 2009, we have adjusted our provisions levels by adopting a real rate of 4% per year versus 4.3% at the end of 2008. Which required, just remembering, more than BRL500 million in the provisions in the last two years.

Slide 23 provides you with an overview of the projections of our economic department for 2010 and 2011, regarding GDP, interest rates, inflation and the US dollar exchange rate. Given that the favorable scenario is likely to continue, we expect a 2010 GDP growth of 6.4%. At this rate, it will be well above average growth for the last 30 years, hence one of the highest rates in the world. As economic recovery becomes stronger, inflationary pressures increase, demanding a response from monetary policy. We therefore believe that the selective base rates will increase in 2010. Albeit, with no adverse impact on economic growth [ph].

Slide 24, as already disclosed, we are maintaining our guidance for 2010, with the loan portfolio growth between 21% and 25%, driven by core [ph] corporate loans in certain specific lines in the individual segments, especially payroll deductible loans. We expect to originate around BRL6.5 billion in new mortgages, around 50% more than in 2009. We expect increase in the net interest income, incorporates our expectations of an upturn in the selected base rates and a reduction in gross margins. And we are confident of meeting our fee income guidance, mainly thanks to the expansion of the client base.

As regards the expect increase in operating expenses, it's important to note that this includes the expansion of all of our distribution channels, especially the operating of around 270 new branches. Given the performance of the First Quarter, we are reviewing our projections for our insurance premiums from 10% to 12% to 16% to 20%.

Finally, I would like to finish this presentation by saying that our First Quarter results reflect the maintenance of economic growth, whose positive impact on our operations has proved to be both solid and consistent. It's worth emphasizing that the healthy economic scenario, in addition to enabling substantial asset growth will help mitigate the crisis, with a favorable impact on delinquencies, whose improvement is already evidenced in our balance sheet.

Other factors favoring [ph] lowers in 2010 includes the gradual recovery of global activities, prospect of national infrastructure investments and increased employment and family income. Given all this and in order to meet the health expectations generated by the pace of business growth, we will continue to expand our sales network and invest in technology, always searching for the maintenance of service excellence and with a continuing focus on improving our operational efficiency. Thank you, all for your attention and we are now available to answer any questions you may have.

Questions And Answers

Operator

Excuse me. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning everyone. I have two questions. The first one is, if the market share targets that you have set for your new credit card venture with Banco do Brasil, Elo are met, meaning 15% market share in five years, what would be the contribution of that business to your bottom line? That's my first question.

And the second question is the provisioning effort this quarter had a very sharp decline versus what we've seen over the last two or three quarters. Provisions on an annualized basis were 4.4% of average loans, even that was down sharply from around 6% in the previous two, three quarters. And if I look back at the last kind of like two, three years, this number is actually the lowest you've done -- you have made over the last almost three years, it's already well below pre-crisis levels. Is this number sustainable? Were provisions probably a little bit lower than anticipated? What do you think provisions should be for the full year in -- relative to loans? Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. It's Abreu speaking. I will start for the second question, then I will pass to Alexandro to answer the first one, all right? I agree with you that this quarter, the provision level was the best, if you look at the recent history that we have, with the sense that we are optimistic about this year in terms of -- because we are doing a very good job in terms of recoveries. The part of the provision that we did the last two years.

I don't think it's possible to keep the same level. But it's something that is lower than we have presented in the past. But definitely, we don't have specific guidance to say that that should be. And the way that we look for this, we consider that this quarter was 38% of the gross margin. If you look at the history, it's very close to 40% to 44%.

I think to work with this year. But something close to 44% should be good. For the coming years, I need to (inaudible) what's going to happen. You know that the -- we have a good space to recover credits [ph] that we published the last year and then we'll have a

different scenario, all right? I'll turn it to myself -- to Alexandro to talk about this agreement with Banco do Brasil.

A - Alexandre Rappaport {BIO 17606555 <GO>}

Hi, Jorge, this is Alexandre. We are not, at this time, providing guidance on the yearly financials of Elo Holdings. We are just beginning to complete the status to prepare the launch of this company. Just want to clarify. The 15% market share we talked about is not 100% in addition to what Bradesco and Banco do Brasil have today in the market. 15% is in relation to overall market billings. So some of it comes out of the market share that the banks already have. And the financial guidance that we provided is that we expect BRL1 billion in synergies over the next five years. That's the only guidance that we are providing at this time.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you. Just -- let me just add one more thing. Can you tell us what is the level of expenses that you expect to have in order to set up this venture over the next 12 or 24 months? I guess we're probably going to see further expenses and then the profits?

A - Alexandre Rappaport {BIO 17606555 <GO>}

The expenses that we have will be related to setting up a new company. But a lot of the expenses of the new venture, they already exist in one way or another. Because you are talking about private label deals that already have call centers, they have processing fees and they have many other expenses that go in there. So the incremental expenses are not substantial, relative to the size of the businesses that are moving into the venture.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Great. Thank you, very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Daniel Abut with Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. Domingos, three questions on your guidance for long loans, which you are reiterating in the slide number 24. You are still seeing, according to this slide, that the loan portfolio will grow 21% to 25%, with the commercial side, both corporate and SMEs, even corporate, growing above the overall level and individuals below. Why is that, given the strength that we saw in the individual portfolio in the First Quarter? Why is it that what we saw in the First Quarter, you don't think it's sustainable as the economy picks up even more strength throughout the rest of this year?

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A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Daniel, just to clarify, it's important to say that when we gave this guidance at the beginning of this year, we've talked about that the large corporate that maybe we won't - will not be able to see this growth in the credit portfolio.

Once we are in the moment where the companies are using more instruments -- capital market instruments, like the debentures and other types. We have been observing a very good growth in this portion of -- we are trying to separate this business, just to understand, to show in the way that we are feeling that it is growing a lot. But unfortunately, we don't have specific numbers to say that what comes from the credit portfolio, what was the normal growth of this portfolio, right? But we are seeing that, it is growing and growing a lot in terms of large corporates.

We are really confident when we see that bulk growth in terms of SME. We observing a growth. We know that the First Quarter normally is not the best in terms of growth in credit in Brazil. But we -- what we -- if you consider that what we are posting in the last two quarters, we are very, very confident about the rest of the growth.

Q - Daniel Abut {BIO 1505546 <GO>}

And in the individuals, in particular, why do you think that the pace that we saw in the First Quarter where they led the overall loan growth will not be sustained?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, if you think of, for example, about the -- it is very normal in terms of cards for them, in line in the credit cards. Normally when you compare with the last quarter of the year, it's very normal to reduce during this period. Of course once the time is going, we observe growth in this line, for example. Just one example, right? You see very clear this.

Q - Daniel Abut {BIO 1505546 <GO>}

Domingos, my point if you're post that -- we saw close to 5% quarter-on-quarter growth in individuals overall this quarter, the fastest growing segment of your portfolio. Why do you guide for the year as a whole, it will be the lowest growing segment of the portfolio?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look we have specific points, like we bought some portfolios, for example, that we consider individuals. You have to look, for example, in terms of -- when we buy a portfolio, we want to post in terms of in account numbers, we post these as individuals, for example. We have -- it's explained why it grows a little bit higher during this period, one point. One part will have some specific movement about out loan, for example, where it has specific movement, very big growth in terms of selling cards during this month. Even in the last month, in March, it was the record of sales in Brazil. So that's -- could explain a little bit this (inaudible).

Q - Daniel Abut {BIO 1505546 <GO>}

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Okay. That's helpful. Do you have any sense of what the loan growth would have been in individuals if you exclude the portfolio purchases?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

(inaudible). Consider BRL1.6 billion in the total portfolio.

Q - Daniel Abut {BIO 1505546 <GO>}

You purchased BRL1.6 billion in individual loans during the quarter?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes, we can see this in the -- you have this figure in your slides. What you see in --.

A - Unidentified Speaker

31, 31.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Not in 31 (foreign language). Sorry -- you see on slide 35, you see the losses. You see that we acquired a portfolio, right?

Q - Daniel Abut {BIO 1505546 <GO>}

Okay. Okay. Thank you, very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

All right.

Operator

Excuse me, our next question comes from (inaudible).

Q - Unidentified Participant

Yes. Hello, everyone. My first question is related to the insurance business. You've raised the guidance for insurance premium growth to 16% to 20% from 10% to 12%. Can you comment on which segments you see the growth? In addition, we saw Bradesco grow its policy holders in the insurance segment by almost BRL3 million in the first three months of the year. That's over 20% year-on-year growth, can you comment on where you saw that growth or in what kind of products?

Okay. It's Samuel speaking. I would like to clarify your question, that in terms of the change of our guidance for premiums. It's -- it relates to the sort of price for everybody in Brazil in the First Quarter, which are very hugely increasing in terms of the premiums all over the markets. Mainly in our portfolio.

Basically in three kinds of products. The first one was dental, which will be hugely increased. Second, we would -- it was pension, which combined pension and life and VGBL. And the third was in auto [ph], which represented a very huge increase jointly with the home [ph]. Home insurance, which increases so very, very strong increase in the First Quarter, which plan -- which project was to increase this kind of a permanent flow [ph] in the rest of the year.

It's the reason why we changed our guidance or premiums in this year. The same with -- the same of the insurance federation, which (inaudible) all companies in our federation. They have the same projection to -- for the rest of the year. About the BRL3 million of policies in the really is related to the policies for very, very few tickets of -- tickets like BRL18 or BRL19, is related to the products for the Class C, the class which movement now from the class D to Class C.

As you know, everybody knows, in Brazil about 20 million people move from the Class D to Class C, really is a very strong challenge for us to present a product -- offer products for these kinds of people. It's very successful for us on the first movement we had to offer products for these kind of people. It's the reason why we haven't really changed our guidance for premiums in the rest of the year.

Were the -- just a follow-up there, quickly. These policyholders, these are individuals. These aren't the number of policies? This is distinct individuals. So if a policyholder has two separate policies that would show up only as one in this data, correct?

No, the -- really is individual.

Okay.

No -- there is a policy for each one. It's not a group policy of really.

A second question is related to the -- your credit card business. You're now showing in your release that Bradesco has 135.6 million credit and debit cards. And that's a -- almost a 60% increase year-on-year. Can you tell us what portion is credit and what portion is debit? And also give us a sense of what you anticipate in this business, particularly given some of the press reports and -- that will see more regulation on card fees and what your expectation in that space is.

A - Alexandre Rappaport {BIO 17606555 <GO>}

The first question, we have 54.6 million debit cards and 81 million credit cards.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You have this, Jason. Also there is slide 37, correct?

A - Alexandre Rappaport {BIO 17606555 <GO>}

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And a lot of the growth or part of the growth in credit cards came from the acquisition of Banco Ibi. So it's not all organic growth. And going to your second question, the market will for sure change after July 1st with the end of the exclusivity agreements between Cielo and Visanet. And there are a number of reports on what the impact should be.

And as far as we know, this should be for now, the big impact that we have. It is true that ABECS, the card entity association is still in discussions with the Central Bank on whether or not there will be other measures. But we still don't have a clear indication if that's going to happen or not.

Q - Unidentified Participant

But is that related to some of the articles that we've been seeing or some of the comments about regulating, let's say, card fees, annual fees, inactivity fees. Is -- are you expecting those fees to be reduced going forward that are charged on the card by the bank, not at the acquiring subsidiaries?

A - Alexandre Rappaport {BIO 17606555 <GO>}

Yes, those are still preliminary discussions. None of them are yet to become law. The card entity association is really in discussions with the Central Bank about what the impacts could be out of any regulation that could prevent this market from continuing to grow and to provide the benefits to the country that we have seen. So for now, the big impact that we should expect in the market is the end of exclusivity. Our other articles that we have seen are still preliminary discussions and it's too early to say if they were going to have an impact or not.

Q - Unidentified Participant

Thank you, very much.

Operator

Excuse me, our next question comes from Mr. Victor Galliano with HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. Good morning. Yes, my questions are really firstly on the -- on the sort of guidance you were giving us in terms of interest, interest margin. And I just wanted to confirm what Domingos said earlier, which you're saying that he was expecting a gradual decline on the margin, looking ahead. Is this because of the interest rate environment? Are you guiding in this way because rates are rising? Because of the changing mix? Or is it just increasing competition that you're seeing across the board in terms of credit?

And my other question is about your level of comfort with the capital adequacy ratio when you adjust for the two impacts that you spoke about, which is the end of excess credit provisions being included in tier one and the take out of that subordinated bond as well. That brings you down below 16%. What would your tier one ratio be after those adjustments? Thank you.

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A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay, Victor. When I said that the net debt in terms of (inaudible) 13% to 18%, we consider whether -- as I said in the speech, that we are considering everything. We want to give this guidance, we already have in mind that we could have increasing interest rate in Brazil that was happening -- that was -- happened yesterday. And we would have to consider that we have a -- we understand -- we understood at the time and we understand, yes, that the spread stands to reduce during this time.

I think we both know that what happened the last year, we're having a jump in the spreads in the worst of the crisis, when this has the more risk in the market and now it's a moment to go back to the previous level. We don't expect to reduce the spread and the level that we was before the crisis. We are -- but I think it's very fair to expect that this stands to reduce the level that it was before. That's why we mentioned that.

I'll just say that we are -- just to the normal question is what's going to happen with the increased interest in data. Just to make sure that it is understandable for everyone that you -- we already consider that in our projections, let's say. About the Basel level, let's say the reduction would be -- when they're considered, the big reduction would be -- would not be able to consider the excess provisions. To be honest, now we are not able to use all the rest [ph]. The reduction, we said that we could be reduced something around 12% - 15% to 8%, let's say 0.9% should be in tier one.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes. Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

It will be going to around 13.4%, let's say.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. All right. You're comfortable -- you're happy with that?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We're not as happy. But we are comfortable.

Q - Victor Galliano {BIO 1517713 <GO>}

You're comfortable with that in terms of the growth rate you're -- the growth portfolio you're assuming?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Of course that we understand that we have space to grow the portfolio. But we understand that we don't grow in the same -- in just one shot. We arrive at this pace -- to their own generation of results will be enough to increase our capital going forward, it's one thing. But we understand that we have space to grow in terms of subordinate debt. We are just using, for example, less than half the capacity that we can have. Of course we

don't -- just don't want to test the marketing approach that we consider that's not necessary. But once you have opportunities to increase subordinated debt. Of course we'll be awake, in order to do so.

Q - Victor Galiano {BIO 1517713 <GO>}

Okay. Great. Okay. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question is coming from Maria (inaudible) from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hello? Hello? Can you hear me?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes. Thank you. This is Saul Martinez from JPMorgan. Want a couple of questions as well. First one you're -- can you talk a little bit about your expense evolution? You mentioned that the efficiency ratio did improve a bit year-on-year. But we're still seeing fairly sizable growth in expenses if you look at it year-on-year in the decline -- the seasonal -- the decline in the First Quarter was only 1%, although you had some impact from Ibi there. Can you talk a little bit about whether you're comfortable with the expense levels that you're generating, whether you expect to see some efficiency improvements going forward? Obviously you continue to want to grow. But you comfortable with your levels with expenses? You think there's room for improvements there?

Secondly, in terms of your market share, can you talk a little bit about the competitive situation? You're -- you lost market share, loan market share, last year, obviously to public banks. And I think your loan share is about 12.5% roughly, currently. Do you feel like -- I mean, can you talk a little bit about your plans to expand your share? Do you think you have room, given the fact that you're one of the few large private banks who's not going through a merger integration process, to expand share? Where do you think your ultimate from market share could trend to in the coming years? Thanks.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. So let's start for the efficiency ratios. We are running something around 41%, 41.2% nowadays. So we have a small acceleration this quarter, in order to incorporate the Banco Ibi at one point. But not towards the net necessary. But in fact that a big change here was that when we are considering this on an annualized basis, we consider the 12-month

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insight, I think the big difference is -- was that the we are taking out very, very good quarter, that was the First Quarter 2009.

We mean that you are not considering this efficiency ratio, the provision for credit. If you consider the First Quarter 2009, if you don't -- once we have a very good performance in treasury. And this time we don't have the same performance. So it should be the big difference in this time. But in common sense, let's say that we will be running around with 41% -- around 41%, if you are able to keep this during at least the next two, three years, I think we'll be very, very happy.

I think you are familiar about our project in terms of IT and where we really expect to have conditions to improve more this efficiency ratio that we can be, for now, from maybe three or four years from now. But -- so, until there, I think we can -- we are very, very -- looking very carefully about expenses. When we see this growth in expenses that be sure that it's necessary because we are expanding the operation. We are growing organically. So it's -- there are no ways to grow without expense, not investing. So with this, is explained why. But if we're able to keep this around 41%, I would be more than very happy.

About the market share, I think we just finished -- saw the number for the last data for the banks, Central Bank. We understand that we gain a little bit, a portion, we used to have in December, 12.6% and now we are posting 12.7%. So it's not good -- not very good scheme. But we are at least recovering the -- a part of the market share that we used to have.

The newest thing that the public banks, they keep the same share that they used to have. So I think we are -- we understand that to have space to gain market share. Not something substantial. But once we are working in terms of growing organically, I think we have space to gain. But don't expect for us to have a big change in a way that way.

And we don't think -- I think that the -- I think the -- if one looks at the history of our market share, the focus [ph], the bank is what is happy, just recovered the common market that they used to have. The fact they used to have the same movement that they have.

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Okay. That's helpful. If you could just talk, obviously, the Central -- the (inaudible) meeting the (inaudible) meeting yesterday, raising 75 basis points, could you just talk a little bit about how you're positioned for that? What you think the impact will be on your financial markets going forward and what you expect for your NIMs and throughout the rest of the year?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Sorry, Saul, we didn't get your point. Can you ask again, please?

Q - Saul Martinez {BIO 5811266 <GO>}

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So, can you just talk a little bit about the impact of higher -- of a higher solidity on your financial margins during the rest of the year? Then what you expect for (inaudible)?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Oh. Okay. Look, I think it's something that you already expect for almost everyone, right? We -- when I gave this guidance of growth on our (inaudible) economy seeing, they gave the guidance of growing 6.4% with GDP. They had in mind that the Central Bank should increase its rates in order to keep that. If they don't do that, they -- you should have a growing much higher. I don't think the impact should be substantial in this sense, let's say. It's enough [ph].

For example, in our guidance, when we gave our guidance, we already have this in mind. So to be honest, I don't think it should be something very important. For us I don't -- I can tell for now at least, it's inside in our projections. So unless you have a big change in this direction, something like this, we don't expect there to be a change.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thank you, very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Rafael Fahas [ph] with Banco Safra [ph].

Q - Rafael Fahas

Hi. Good morning, everyone. My question is regarding your new brand, Elo. First, if you have -- if you see another bank adopting the same strategy of launching its own brand and if it makes sense for you someday to sign a partnership or acquire a local brand, such as Soto Criagi [ph] or other brands? Thank you.

A - Alexandre Rappaport {BIO 17606555 <GO>}

Hi, Rafael. Like we said in the conference call, Elo is going to be open for any other banks to issue it. And on the acquired front, it's going to begin with Cielo. But as it becomes more relevant, other networks, other acquiring networks, could also work with Elo. And we are still beginning to set up the company. So it is possible that in the future we could go for acquisitions. But for now, the big force behind it will be the distribution channels of both banks working together to make it a success.

Q - Rafael Fahas

Okay. Just another doubt [ph]. But is it possible for you to guarantee that only Cielo will process and do the acquiring in the beginning, considering that exclusivity should end as of first of July?

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A - Alexandre Rappaport {BIO 17606555 <GO>}

For technology reasons, we will begin with one acquirer and there are lot of efforts that go into launching this operation. As it becomes sizable, then we could be looking into adding other acquirers. But to your question, yes, in the beginning, we intend to begin with Cielo only.

Q - Rafael Fahas

All right. Thank you.

Operator

Excuse me, our next question comes from Mr. Larry Batali with Moore Capital.

Q - Larry Batali

Yes. Hi. Thanks. You were talking earlier about subordinated debt and I just wanted to ask you how you, at this point anyway, intend to fund the loan growth that you expect this year?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. What I said about subordinated debt, just in a matter of capital. Right. So not using subordinated debt or funding operations.

Q - Larry Batali

Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We expect to fund our operations in the traditional way that we have. We can use internal funds. We use more internal funds, like timed deposits. We -- I think we have space to continue to expand that. And we are looking for some external funding, when it's proved that it's compatible with the same costs that we have internally. We can issue some bonds, like we had last -- a couple -- two weeks ago, in a way that we can use this funding in our internal operations when it proves that it is lower than the costs that we have inside. But in normal terms, we use more timed deposits.

Q - Larry Batali

Okay. Do you have any intent. And maybe you've already done this and I missed it. But have -- do you have any intention to issue (inaudible)?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

The what?

Q - Larry Batali

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The new vehicles that have recently been approved?

A - Unidentified Speaker

(inaudible)

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We had some -- we had some issues, two different bonds, that we launched. We have a -- we have launched recently BRL750 million bonds over five years. It's just to use this funding for our external operations. We just launched a recent 250 that this one we are using now internal operations. Once we have space to launch these bonds, we don't have -- we don't have not -- we don't have any intention nowadays. But once you have opportunities that the cost is good, we can use the same instruments. But we don't have - I don't know that we have now something in the movement. But normally we can use that.

Q - Larry Batali

Okay. Okay. Very good. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you, very much.

Operator

Excuse me, (Operator Instructions)

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

(inaudible)

Operator

Excuse me, ladies and gentlemen, since there are no further questions, I'd like to invite Mr. Domingos to proceed with his closing statements. Please go ahead, sir.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. I'd like to thank the participation of each and everyone in this call and our investor relations area. We'll be more than happy to respond to any further questions you may have. Thank you, very much.

Operator

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

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