Q1 2011 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP, IR Officer

Other Participants

- Boris Molina, Analyst
- Daniel Abut, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First Quarter 2011 earnings results conference call. This call will be conducted by Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer, Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros Group Insurance, Mr. Luiz Carlos Angelotti, Assistant Executive Officer. And Mr. Paulo Faustino da Costa, Market Relations Department, Director.

This call is being broadcast simultaneously through the Internet in the website, www.bradesco.com.br/ir. In that address you can also find a banner, for 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 guarantees of performance, they involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer. Mr. Abreu, you may proceed.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good morning, everyone. Welcome to our conference call. Despite the risks in global economics, it now remains favorable for Bradesco. Backed by a (inaudible), international liquidity's low aversion to risk and high commodity (technical difficulty). In this context, the domestic (inaudible) will continue to be favorable for financial and insurance activities. The special upgrade through the year based on solid fundamentals, such as the improved job market and (inaudible). Consequently, Bradesco intends a very optimistic view of (technical difficulty).

Operator

Excuse me, ladies and gentlemen. Please hold while I wait for the reconnect of the (connector). Thank you.

Excuse me, Mr. Abreu, you may proceed.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I don't know where we stopped. Sorry for the inconvenience. That (inaudible). I will start again please. (inaudible) the beginning.

Good morning, again, everyone. Welcome to our conference call. Despite the risks in global economics it now remains favorable for Brazil, backed by abundant international liquidity, low aversion to risk and high commodity price. In this context, the (inaudible) will continue to be favorable for financial and insurance activities. The expansion of credit, including real estate lending, is based on solid fundamentals, such as the improved job market. And intensive social mobility. Consequently, Bradesco maintains a very optimistic and constructive view of Brazil's future.

Looking ahead, 2011 tends to be a year of more moderate growth. The long-term outlook however, remains highly promising. But this objective is always to do more and to do it better. In other words, the business objective is to continue to -- on the same path, which has proven to be successful while improving at each opportunity. We will therefore maintain our presence throughout the entire country while focusing on enhancing process and the quality of our customers' (inaudible).

We will now discuss in greater details our numbers, results. And indicators for the First Quarter.

Slides two and three show Bradesco's main highlights. I would particularly like to draw your attention to our adjusted net income, which as you can see on slide two total BRL2.738 billion, 27.5% higher than in the same period last year. I'd also like to highlight our total assets, which increased by 27% in the last 12 months, reaching BRL675 billion in the First Quarter 2011.

And slide three shows our funds under management that totaled BRL919 billion, presenting an evolution of 24.2% from March 2010. And our delinquency ratio, with resistor, saw the special decline in the yearly comparison. We'll discuss the other items in the next slide.

Slide four. On this slide we present the reconciliation between book and net income and adjusted net income, summarizing all the events that in our judgment are non-recurring. And which affect our results in the respective periods. This quarter our results were negatively impacted by the constitution of provisions for civil contingencies for economic plans in the gross amount of BRL54 million. After these adjustments, our book net income of BRL2.7 billion goes to an adjusted net income of BRL2.738 billion, generating annualized return of 24.2% in the quarter.

Slide five shows a historical series of our quarterly net income. (inaudible) in the First Quarter was chiefly due to (inaudible) in the net interest income and the reduction in personnel in the administrative expenses. Partially offset by the reduction in net income, reflected for the quarter's seasonality. And high provisions for loan losses, due essentially to the greater volume of loans operation, given that delinquency, as we shall see later on, remain stable.

The 28% improvement in our net income over the last 12 months maybe resulted from 1), the upturn in net interest income due to the high volume of operations, 2), increased revenue from our insurance group. And 3) higher fee income led by revenue from credit cards and checking accounts all of which we will discuss in more details later on.

Slide six shows our efficiency ratios. The blue line shows efficiency ratio adjusted risk, which fell for the fifth consecutive quarter to 52.1%, a 0.3percentage point improvement over the last two quarters of 2010. And 3.3percentage points in comparison to the First Quarter 2010, reflecting an improvement in delinquencies and the consequent reduction in provision for loan losses.

The 12-month efficiency ratio, the red line, remained flat over the last two quarters 2010. When analyzing the quarterly ratio, we can see that the improvement in the relation to the previous quarter was due to 1) the reduction in personnel expenses as a result of loan expenses with profit sharing, 2) the decline in administrative expenses. And 3) the increasing asset (inaudible), resulting from higher fees this quarter.

Despite our recent organic growth, we believe the 12-month's addition to ratio will remain close to its current level in the short term. In the mid term however, we expect it to improve, thanks to the conclusion and maturation of projects related to organic growth, improvement of client segmentation. And IT.

Slide seven. As already mentioned, total assets reached BRL675 billion, record an evolution of 27% when compared with March 2010. The return on average assets remain at 1.7% while adjusted return on average equity, as mentioned before, totaled 24.2%.

The capital (inaudible) Basel ratio closed the period at 15%, a level we consider comfortable to sustain the expected growth in our operations. The improvement this quarter was mainly due to the capital increase for BRL1.5 billion last February and the year comparison it increased in this ratio, just to remind you. It is explained because in the First Quarter of 2010 we were still allowed to add the addition of provision for loan losses to the calculation of this ratio.

Slide number eight. This slide shows the relative share of our main operations and net income. In the quarterly comparison, financial activities account for 72% of the net income. Securities did particularly well, raising their share from 7% in the Fourth Quarter to 10% thanks to higher (inaudible) gains.

Slide nine. Unrealized gains remain high, totaling BRL9.6 billion in the First Quarter. The quarterly variation was due to 1) the reduced price of loan operations, reflecting an increase interest rates. And 2) the relative devaluation of the mark-to-market of securities. Essentially fixed income securities, partially offset by depreciation of some of our investments, especially in Cielo and Odontoprev.

Please note that these figures do not include the potential to drill from our own properties in the total amount of BRL2.6 billion.

Slide 10. On this slide you can see that our net interest income increased by 3.8%, again due to the high volume of operations. Growth of the non-interest earnings portion was driven by gains from treasury and securities operations. In the annual comparison, I would particularly like to draw your attention to the interest earning portion, which increased substantially by 90.5% in comparison to the First Quarter of 2010 mainly due to the high volume of operations originating from the credit and funding segment as it shows here later on.

Slide 11. Annualizing net interest margin grew (inaudible) to 7.8% in the First Quarter of 2011, thus remaining at the same level as both the previous quarter and the same period last year. In the short term, we expect as indicated to stabilize or even present a small increase. However, we expect as indicated to decline in the mid term, due to the inclusion of lower margin operations, which should be offset by the increase in business volume. Therefore, net interest income should continue to widen.

Slide 12. This slide presents a breakdown of net interest income. Reported highlights were income from funding and insurance operations, resulting from both the high volume of business and the increase in the average spread. In the annual comparison, the highlights were the funding line, which grew by 70%, chiefly due to the increase in the average volume of funding as well as the increase in interest rates.

Slide 13. This quarter, net interest income from loans remained virtually stable in comparison to the previous quarter. The red area shows the provisions for loan losses, which represented 38% of the gross margin, increasing by 2.8% primarily due to the growth in loan operations.

In the annual comparison, the 11% evolution in net interest income was chiefly due to the increase in business (inaudible). Given that the average balance of the loan portfolio grew by 23% in the period.

Slide 14. The slide shows our standard loan portfolio, which reached more than BRL300 billion in March 2011, thus recording a 3.7% increase in the quarter and a 22.6% increase in the yearly comparison. This growth was mainly driven by loans to micro businesses and SMEs, which increased by 4.4% in the quarter and 29.4% in the last 12 months. As well as loans to large corporations, which grew by 5% in the quarter and 22% in the year. The corporate portfolio highlights were BNDES, (inaudible). And (inaudible) as well as operations with (debentures) and other securities.

Slide 15. As expected, the delinquency ratio for loans overdue by more than 90 days remained stable at 3.6% following five consecutive quarterly declines. Expectation is for delinquency to remain at the current levels.

Slide 16. This slide shows that we continue to maintain high provisioning levels, with a (inaudible) surplus of BRL3 billion in relation to the amount required by the Central Bank, or of BRL8.1 billion relation to expect gross losses for the next 12 months. Those are blue line. Or even BRL10.5 billion in relation to expected losses net of recovers, the dotted purple line. Also for the next 12 months.

These provisioning levels leave us in a highly comfortable situation should there be any reversal in the currently stable economic scenario. We do not expect that to happen, however it is important to maintain this provision (inaudible).

Slide 17. Underlining what I mentioned in the previous slides, here you can see the coverage ratio of the allowance for loan losses, which have been maintained at comfortable levels. This is like the reduction this quarter was already expected due to the nominal increase in non-performing loans, which then should follow the growth in the loan portfolio.

Slide 18. First quarter fee income reported a slight decline in the relation to the previous quarter, primarily due to the seasonal increase in business in the Fourth Quarter and to reduced business in investment banking. In the annual comparison however, fee income increased by 12.4%. The best performers were income from consortium with 24.7% increase, credit cards with 18.8%, checking accounts with 19.7%. And the loan operations with 16.7%, chiefly due to the expansion of the client base in turn driven by organic growth as well as the greatest number of service we provide to our clients.

Slide 19. Operating expense fell by 3.7% in comparison to the last quarter 2010. The reduction in personnel expenses was mainly due to the non-structural portion, which was impacted by the reduction in the profit sharing. In the annual comparison, the increase in these expenses was primarily a result of the 2010 collected by gaining agreement and the net addition of 8,700 employees. We will discuss administrative expenses in detail in the next slide.

Slide 20. On this slide we have segregated impact of organic growth to provide a better idea of the behavior of our operating expenses. We opened 23 new branches in the First Quarter and this strengthened our resale (inaudible) structure by hiring around 1,500 new employees. As you can see, if these impacts were excluded, our operating expenses would have present a larger decline in the quarter and an evolution of 15.2% if compared to the same period last year.

Slide 21. Administrative expense fell by 3.6% in the First Quarter, chiefly due to the results in expense with advertising and data processing. In comparison to the same period of 2010, the growth in the administrative expense was in our understanding comparable with the expansion of the distribution network and the increase in business volume.

Slide 22. This slide shows the revenue from the insurance segment, which fell by 13% in comparison to the Fourth Quarter, basically due to the life and pension plans, whose contributions are certainly concentrated in the final quarter of the year. The annual comparison, there was an increase of 9.1%, led by health insurance and savings bonds.

Net income totaled BRL761 million, impacted by 1) the reduction in the revenue, 2) the increase in the claims ratios. And 3) the increase in expenses from the collective (inaudible) agreement for insurance and insurance related professionals that took place in January. Improvement of 8.3% over the last 12 months was mainly due to higher revenue and gains from the financial results.

Slide 23. This slide shows some of the main (inaudible) from our insurance activities. The combined ratio reported 86.1% in the first two quarters does present an increase of 1percentage point in comparison to the previous quarter mainly due to the increase in claims in the health segment and decrease in revenue to again to Fourth Quarter seasonality. Our total financial assets amounted to around BRL100 billion, while technical provision reached BRL90 billion of which BRL78.5 billion are related to the life and pension funds.

Slide 24 shows our economic department GDP, interest rate, inflation. And exchange rate estimates for 2011, 2012. While considering the current scenario of the inflationary pressure, following a period of strong GDP and (inaudible) expansion. Despite the lower economic growth expected this year, we would like to highlight the excellent prospects for the recovery of these indicators in 2012.

I'd like to add that our economic team just revised the expectation for (inaudible) in 2011. Now we predict 12.5% or a modest true increase of 0.25%.

Slide 25. As previously disclosed, our projects for 2011 will be maintenance. With the exception of fee income, to which we are increasing our guidance from 6% to 10% to 9%

to 13%.

To conclude, we would like to say that our First Quarter results in our understanding were highly satisfactory. We were particularly pleased with our delinquency ratio, which remains unchanged, despite the growth in the loan portfolio and the reduction in liquidity in compared to the Fourth Quarter.

Our operations have reported consistent growth, thanks to a solid customer base and distribution network. The expansion of which has been the focus of our (inaudible), supported by constant investment in IT and interest structure, thus ensuring improvement in operating efficiencies. This quarter alone we expanded our network by more than 2,300 new sales points, among which I'd like to highlight 23 new branches and 1,545 new Bradesco's express.

Certainly the maintained (inaudible) activity, although at the slower pace, has allowed everyone to carry out their activities and meet their targets in a sustainable manner. It's within this context that Bradesco maintains its long-term vision, supporting social mobility and institution of progress, thereby providing the productive sectors with a more solid platform for continuous expansion, thus generating more jobs and wealth for the country.

Thanks very much for your attention so far. And we are now available to answer any questions you may have.

Questions And Answers

Operator

(Operator Instructions) Jason Mollin, Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Abreu, you just mentioned that Bradesco's economics team has raised their forecast for interest rates for this year slightly by 25 basis points. And I believe, given the (inaudible) minutes that were published recently highlights that we won't see the inflation meeting its target, not even in 2012. I mean do you think. And -- or does Bradesco think that there's upside risk that that forecast is base case 12.5%?

And really how should we think about higher rates impacting the guidance that you've given us? The one change we saw was, as you mentioned, was in fee income. But how would it impact the other guidance that you give? And perhaps you could also talk to us a little bit about why you're raising your fee income guidance at this point in time. What's driving that new expectation?

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

When I say this changes for 0.25%, I would say that should be -- have a big impact in a different lines. Just, let's say, refine the projections let's say. I don't think the impact should be -- would have a significant impact on this.

Q - Jason Mollin {BIO 1888181 <GO>}

Abreu, do you see that there could be -- I mean is the bias for higher rates for more increase in expectation of rates? In fact we've seen some economists raise, including Goldman Sachs, raise their interest rate forecast on the back of the (inaudible) minutes. That's what we've done. I'm not sure if this is a trend or not.

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

I don't think so. I think we were more optimistic about the increased interest rate than the market as a whole I guess. Because the market was already have that in mind, this 12.5%. I don't think it's necessary to -- okay, I need to see what's going to happen. But in my understanding we were I think behind the market -- this expectation I guess. Right?

In terms of the guidance for fees, I just said that we just fixed something that we -- I think we made some -- we have some -- when I gave the guidance in the beginning of this year, when we consolidated numbers for our many activities that we have, we made some mistakes in the numbers, to be honest. So we are just fix it (inaudible), let's say. Right? To be honest with you, we did --

Q - Jason Mollin {BIO 1888181 <GO>}

So really it's just reflecting -- what line items will be the fastest growing in fees?

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

In the general, in credit cards, in the credit lines, in the assets and management. They're all lines that we're not so -- we don't have -- the projection is more uncertain, it's normally the lines related to investment bank. Right? So it's more -- depends more the market is available. But the rest, I think we can observe a sustainable growth in all the lines that we have.

Q - Jason Mollin {BIO 1888181 <GO>}

And just from the monetary policy perspective as a follow-up on the prior question. And we've been talking about macro prudential measures since they were introduced in December. How is Bradesco thinking about further measures and are you anticipating that we see some? And does this guidance anticipate other macro prudential measures?

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

I think that we understand that the economic environment in Brazil, the market has been, let's say the impact for -- by the current level of inflation. Right? So that's why the market is demanding more pressure in terms of central bank in order to increase more interest rate, or to claim for a new -- to expect more market potential.

I think we have expectations of a reduction in the inflation, the current inflation the next quarter -- this quarter to be honest, in order that you see that you now understand that it won't be necessary to have new macro prudential measures I think. With this scenario, with 12.5% (inaudible) rate, we don't think it's necessary to have more additional market potential measures. But of course, we don't discard it at the -- if you can have.

Operator

Daniel Abut, Citigroup.

Q - Daniel Abut {BIO 1505546 <GO>}

A quick question. On slide eight where you show the contribution of the different business lines to net income, insurance that traditionally contributed about a third of your bottom line and indeed that was the exact number a year ago in the First Quarter of 2010, 33%. For the last two quarters however, it had fallen below 30%, it's been 28%, 29%. Is that the new structural level? Could you explain what has produced that decline? Or do you think that over time it will come back to represent about a third?

I think a lot of people would have agreed. And you have made a point in the past, that insurance has very good profit, like anything probably even better gross profit than banks. And so I'm a bit surprised that the contribution seems to have settled below what has been traditional.

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

Daniel, it's important to emphasize that the financial -- it's important to see that the financial sector has lost a relative participation in this point during the crises period. We suffer more in the factor of -- in credit factor mainly due to the increase in delinquency in those times. So that's why the insurance gain more represented dividends. For example, the First Quarter 2010 was 33%. So it's natural to expect once you have the recovery in the credit portion that the other lines should lose their participation.

I think the insurance lost their relative participation. But the result of insurance has been successful. There has been good results. There is no (inaudible). With the extent that something around 28% to 30% it should be that sometimes you have the bank -- part of the bank in the financial portion being better, sometimes you have insurance being a little better. But I think something around 28% to 30% should be what you have in mind. 33% I think was too much. It was more because the reduction in the result in the credit portfolio.

But we have very good expectations of the insurance business it's important to emphasize. Why not have a movement like this, when you have increased interest rates like that, you gain more in securities, gain more in funding, for example. So it will of course -- you just change always your alliance of gain. But insurance continues to be very important.

Q - Daniel Abut {BIO 1505546 <GO>}

And quickly on your outlook for the NPL rate, I think you mentioned that you were very pleased with what you saw in the First Quarter. And that you expect that your delinquency rates will stay pretty much at current levels. If I look at the performance of Brazilian banks here in recent times, it seems that the market is more nervous and expects that as interest rates go up and the economy slows down we could see some increase in NPL ratio and in some cases even more pronounced. How comfortable are you with that outlook of flattish NPL ratio in the context of an increasing interest rate scenario and slowing down economy?

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

Look, we have in mind a scenario where the Brazilian economy will (3.8%). We have a -- it's a big reduction when you compare with the growth in 2010. But it's still a very good growth. So in this scenario we have in mind, we understand that the unemployment rate will continue to be in a good path. So that's why we are comfortable to give new guidance that to be our NPL ratio in the -- is stable let's say.

Of course we are the beginning of the year. We have the short-term delinquency. Normally it increased. We have observed this in our numbers too. But we understand that this is seasonal movement. Normally it (inaudible). We had the same movement in 2010 and we see the same movement now. But I don't think it should transfer to the high -- the more than 90-day delinquents, for example, going forward.

We're not seeing any signs in this direction that we can have at the duration of the year or (inaudible) to be honest.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Quick question on your net interest margin. I'm trying to understand your guidance. You're guiding for 18% to 22% growth in net interest income, which is ahead of long growth guidance of 15% to 19%. So you're assuming expansion in net interest margins. We did not see that in the First Quarter and I guess the expectation was that we were going to see that, especially given the big increase in lending spreads, due to the macro prudential measures. But yet your income from loans grew less than 1% whereas your loans grew actually -- grossed to 4% and consumer loans grossed to 2%. So it seems that we're not seeing that trickle down the margins. Can you walk us through the expectation for the rest of the year? How do you get to those numbers? Thanks.

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

Well see you have this slide 12. In fact loans, you cannot see this growth during Q. But you look funding side you see this growth is 10%. But the total growth in this was 3.5%. Right? Consider -- not consider.

We think that we have some factors in the First Quarter, for example, in terms of when you consider -- I don't know -- business days, when you compare the appropriation, you have some difference here to see. We understand that you can see in (inaudible) in portfolio that recovers. And the growth in the spreads you see going forward, because we are going spreads. So you are the same time living with the lowest spread in the portfolio. So you can see that.

Or in terms of funding, once you have growth in the (inaudible), you have growth in this portion too. Right? So that's why even securities you see that when they're growing it's (inaudible) to have this portion growing too. That's why we are -- the guidance that we give in net interest income is from 18% to 22%. I would say we are comfortable with that, Jorge. We are not seeing any -- we are not see any signs that we cannot miss this guidance going forward.

Q - Jorge Kuri {BIO 3937764 <GO>}

And is it possible that the reason your loans -- interest from loans grew less than 1%, even though the portfolio grew more because of the duration in the mix, whereas consumer loans are growing much slower and they have much higher margins. And if that just continues to be the case the rest of the year. And given that we've already seen probably most of the increases on SELIC, I still don't know how you got to those numbers. I'm sorry.

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

You have a part of that it could be explained for the point that you mentioned. But it's important to emphasize when these numbers, when we give these numbers, we consider loan and we have a kind of a mix about loan funding. Because we consider the cost of funding, to calculate it as margin lower. We consider the cost of the funding, not the fixed rate that we gave you, for example.

So sometimes you see in -- when we have this movement of growth of the SELIC going up you can see -- maybe you can see it not grow as much through in loans. But you can see in funding. So when you have the opposite situation and have a reduction, maybe you can see the improvement in loans and the reduction in funding. Right? Just it's a kind of -- just the way that we calculate it is to (inaudible). It's not -- it's important to see both together and it should be better at this time.

Apart the explanation is of course going more in, for example, large corporates where the spread in loans is too.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. So let me ask a different question. On the taxes, you still have the same 32% effective tax rate in the First Quarter as well was the case in 2010. At what point are we going to see the increase that you guided during the last -- during the Fourth Quarter conference call? Does it start in the Second Quarter? How is it going to play out through the rest of the year and what magnitude of increase should we expect to see?

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

It will start the next quarter. It will increase the next quarter. You can consider something close to 4% to 5% at the currency level.

Operator

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions. First one, on your loan growth guidance, you maintain your guidance of 15% to 19%. And this guidance was given before the most recent introduction of macro prudential measures. So does it mean then that you expected the impact to be fairly small on your loan growth?

And my second question is related to your expenses. They are running at 17% above the year ago level and with just one quarter we shouldn't make it too big of a deal. But you have maintained your expense growth guidance at 11% to 15%. So if you can just give us an explanation why you expect your expense growth to start slowing down. Thank you.

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

Mario, I think the reason -- when we gave the guidance, we already have noted the biggest market prudential change if you remember, it is in the beginning of December. Right? The following measure wasn't so big in order to give you big impact in our projects. That's why we are keeping the same guidance.

Maybe once you have a guidance from 15% to 19%, you can't adapt the expectation at all to that. If you are more in the high level now, we are more close to the middle of the guidance let's say. But this doesn't -- you can't accommodate in the range. Right?

In terms of expenses, we have in this quarter, in fact two things that impact that we understand it won't continue to have. We have implementation of the -- we know that we bought the payroll of (inaudible) State last year and for the implementation of this process, we expanded a little bit more during this quarter. We don't think we have going forward.

In the same time you have a change in some kind of expenses that we have changed in the way that we post it. Used to be in other operating expenses. We changed this for administrative expense. So we have this impact. If we continue to have but maybe -- but to think we can absorb this in our guidance. So don't think it should be a big movement of this (inaudible).

In fact we are running in this quarter was we gave the guidance based on our budget. And the expenses is quite -- if you don't consider this extra movement that we gave -- I mentioned right now, it's below our budget. That's why we understand that we are comfortable to be in this level.

Last we have a big change in the expectation. For example, in the new agreement to the employees going forward, we don't think it should be necessary to change that.

Q - Mario Pierry {BIO 1505554 <GO>}

And if you can just remind us also about your branch expansion plans for this year and how many branches you're actually opening in the First Quarter.

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

We opened 23 this First Quarter and our expectation to finish this year with another 160 new. And the total year should be 183.

Operator

Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

I have two questions as well. I want to drill down and ask again about the asset quality because you mentioned, Domingos, that you've seen -- that this -- the short-term delinquencies, you see seasonality there. But the central bank data did show a very meaningful increase in early stage delinquencies, 15 to 90 days for those individuals from 5.9% to 6.5%. Your loan book had a bit of an uptick in delinquencies below 60 days.

And they also see -- your new non-performing loans before charge-offs also did increase sequentially quite a bit. Can you just discuss what exactly you're seeing? You said you're not seeing any signs that things are getting worse. But can you just discuss -- if you can discuss what you're seeing that gives you confidence, gives you so much confidence that NPLs will be flat? Because it seems like the indicators seem to be pointing in the other direction that we will see an increase in the non-performing loan ratio this year.

Then secondly, I do want to ask about net interest income from lending activity. How long does it usually take for lending spreads to start to translate into better net interest income growth for lending activity? If I recall in '08 it too two, three quarters for higher spreads to start to lead to higher NIMs. When do you start to see net interest income from lending activity to start to accelerate at a stronger pace? Is it Second Quarter, Third Quarter? If you can just kind of give us some colors as to when you think the lending spreads start to really have an impact.

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

Start for delinquency ratios. We see the data for the Central Bank, we see that should have some -- that the ratio isn't in the more than 90 days for the market. In our case we don't have that. Right? I don't know if you are kind of mix of our portfolio or not. But we are -- in fact we are performing better with the market if you make this comparison.

Whether look in the additional slides that we have, the 38, you see that the most -- between 61 and 90 days our delinquency ratio continues very stable too. Correct? What you don't have here is the delinquency from 15 to 60 days. Correct? To (inaudible).

In our case we are observing these. We have a growth in this early stage delinquency. But we understand that this (inaudible) factor. We had the same movement in 2010. And to did adjust this for the delinquency more than 90 days. Because it's very (inaudible) to have this movement at the beginning of this year. We are to put in this movement for seasonality. Right.

You are not seeing -- we understand that the unemployment rate in Brazil continued to be in the good movement where we don't see any movement. Maybe to have some companies that can suffer more with that (inaudible) to something that has some movement like that. But assuming that -- we are assuming that we will continue to grow our bottom in 3.8%. It means that the unemployment rate should continue in the level that there is no reason to imagine that you can transfer this for delinquency. It's why we have in mind.

In terms of the margins, we understand that the next quarter we can -- we already can see some movement. Once we are replacing the (inaudible), I think the next margin you see a better movement in the margin, lower margins I guess.

Q - Saul Martinez {BIO 5811266 <GO>}

You're not seeing any sign in your own portfolio of any stress emerging? Your portfolio, the performance is doing well from a credit quality standpoint. You're not seeing any signs of trouble there.

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

So far we're not seeing. We're not. I know that the market is seeing some movement in the market. You see the (inaudible) Central Bank yesterday. But if you see our numbers, we are not disappointed with them. Maybe we're more (inaudible) the market. But I don't know if it's a kind of mix of portfolio or the portfolio (inaudible) more of that with the portfolio that we have. But in fact our numbers, we are posting numbers in terms of delinquency better than the central bank posted yesterday.

Operator

Boris Molina, Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Thank you. My question's already been answered. Thank you.

Operator

Victor Galliano, HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, I mean my questions have been largely answered. But just to stay with what Saul is talking about on the asset quality, I mean we did see a slight tick up. It was only 10 basis points in SME NPL ratios. Anything there that stands out? Is there -- can you give us any color in terms of maybe any sector or any type of export industry that perhaps may be suffering here from a very strong real? Any sort of color you can give us here in terms of the worst thing? Or is this again, do you believe this to be more of a seasonal thing?

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

Look, Victor, I actually put this more for the mix of the portfolio. You know that (inaudible) more in the very small SMEs than in the larger SME, let's say. So I have to put this more for a change in the mix than the duration in a sector. We're not seeing -- again to reinforce what have been -- we talked before with a question.

Q - Victor Galliano {BIO 1517713 <GO>}

So it's basically a higher natural rate of delinquencies and not higher risk?

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

Yes. When I see the long-term perspective, look that all the lines you see for individuals. For example, now days we are in the lower left of that we even have before the crisis period. Right?

Q - Victor Galliano {BIO 1517713 <GO>}

True.

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

We have a big improvement. And see the large corporates we are in the (inaudible) level. But what we see there (inaudible) see that we are in 3.5%, that is much more than -- to us in the period of prior the crisis. It is really very clear for us that it was a change in the mix portfolio because here what you see for segment-by-segment, you are not see this, the duration. The duration in the long-term.

We see -- to see again, we see some movement in the low -- the short period between 15 to 60 days again. We see this movement to increase. But it's the same movement that you had, for example, at the beginning of 2010. That we understand that if you want to transfer for that it's more seasonality (inaudible).

Q - Victor Galliano {BIO 1517713 <GO>}

Just one quick follow-up on maybe on costs. Could you update us, Domingos, on where you are in your IT investment program and how you see that? What's the timeline on that in terms of conclusion of that? I know you saw it running into 2012. But is there any change in terms of that?

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

So far we don't have any change. We expect to be finishing this year around the 8% computed as (inaudible). We'll talk about just the last front of this project. All right? Remember there's 28 fronts. We are just about finishing the most challenging part of that.

It is the new (architectural) system. We expect to be around 80% at the end of this year. We expect to finish this by the middle of 2012. We don't have (multiple speakers) change so far about that.

Q - Victor Galliano {BIO 1517713 <GO>}

So basically you did 40% in 2010, 40% in 2011. And the final 20% in the first half of 2012. Is that right?

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

Yes. That's correct.

Q - Victor Galliano {BIO 1517713 <GO>}

And what's the total? Can you disclose to us what your total budget is on this?

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

In our budget. The total budget.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes. What's the total real value of this investment program?

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

Total project in IT (inaudible) update. The investment this year we are investing BRL5 billion, BRL4.3 billion is in IT and the telecommunications. So that's only this program. It's something close to -- the total program is BRL1.8 billion let's say. And just (inaudible) is actually something close to BRL700 million, the total.

But look, it's just a number that we are investing in IT. All right? You don't have the numbers that we have for -- for example, for the department that they need to -- the department that we need to deal with the new system. You have to have people working in two different systems during this period. So of course we are absorbing this in expense. We are not posting this as an investment.

Q - Victor Galliano {BIO 1517713 <GO>}

So you're taking that full hit.

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

Yes.

Operator

Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

I have two questions. I wonder, I'd like to go back to your long-growth guidance for this year, the 15% to 19%. Can you comment a little bit on the opportunities for you to gain market share in this market? And which segments you see some opportunity? Because my impression is that your guidance does invite some market share gains versus the market.

And the second question, regarding your provisioning policy, I mean it seems that there's a trend for some of your peers to start provisioning according to IFRS, other -- in Brazilian GAAP. And I think I understand that it's -- I mean you still provision base on the 2682 resolution. So are there any plans on Bradesco's side to start adopting expected loss provisioning instead of incurred loss provisioning in Brazilian GAAP? Thank you.

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

We saw that again a very small portion of the (inaudible) this quarter when (inaudible). And we are again using more in (inaudible) segments when I say in the large corporates, let's say. In individuals I think we keep the -- even loss a part of this. I don't know exactly which segment to us. Maybe in very good -- in (inaudible) probably we are loss. We are trying to (inaudible) it's a more competitive environment we are to actually keep the spreads higher. So that's we are not looking for much in this market, to be honest.

We are again, I think, in payroll we are again much share, we have a little bit. And for companies we are getting more in different segments than (inaudible).

In terms of our provisioning policy, we continue to use the 2682. We are not planning to in Brazilian GAAP to change that. Right. We have -- if you look here, we posted our numbers in IFRS. You see that we -- for that last year we consider part of the additional excess a part of using the expected loss.

We understand that if you adopt this expected losses at the moment I guess, I thought we probably should have less provision levels, we understand at the moment. But we -- to be honest, we don't have this number to tell. But in our case we continue to use 2682 because you understand that we have the discussion of additional provision in excess of 2682 is enough to face the changing in the -- when you need to change, when Central Bank adopt that. And we understand that the best -- we don't think that the Central Bank will use exactly IFRS audit. I think they will continue to use 2682 and change something. But again, we (inaudible).

But again, to reinforce this point, we understand that the discussion of provision that we have is enough to make this adjustment. We don't think that it will be (inaudible) to have an impact when we need to change that.

Operator

Regina Sanchez, Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Actually I have a follow-up question on the question I made on the Portuguese call regarding Bradesco's (inaudible) stake that we saw on yesterday's release that it went down from 7.1% of the (own) shares to 6.5%. And the (inaudible) stake was acquired by one of the holding companies of the controlling group, NCF participation. And so just to repeat for the audience that wasn't in the Portuguese call, if there is intention, I mean to acquire the rest of this stake if Bradesco (inaudible) has intention to sell it. And the follow-up is is there any relation to this -- to the request for approval of an ADR program for the all-in shares?

Then my second question is regarding the other operating expenses that went up more than BRL300 million in comparison to the Fourth Quarter. You mentioned in the release that the major regions were related to the incurred but not reported and health insurance provisions, as well as provision for civil contingencies. Could you explain with more detail the nature of these expenses and also if you expect to have this type and amount of expenses again in next quarter? Thank you.

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

In fact when we see this movement, we bought a part of the portfolio there and the (inaudible) the last quarter. We understand that if they decided or if they need to sell this portfolio, our holding company should be I think the natural buyer of this position.

The second part of this question, it has not to do, I think this acquisition has not to do with this or in other words this ADR common share ADR program that we launched has nothing to do with this movement. We didn't even have an idea that they should sell this portfolio. Right? So it's, no. Not necessary to -- there's not any correlation between this situation. Right?

Q - Regina Sanchez {BIO 16404038 <GO>}

Thank you.

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

In terms of other expense, let's say the health insurance we think a technical department inside our insurance company. But they revised their model, they calculated the provision is -- it -- (inaudible), let's say. And they are preparing, they understand that they need to have this to increase this provision. That's why they built this (inaudible) of provision this First Quarter. They will analyze in the next quarter, that's when it has to, the definitive calculation, it is necessary to increase they need to make more or maybe they came even to revert to a part of that. I don't know exactly what we did to have the calculation going forward.

The other expense (inaudible) contingencies. It's very difficult for us, this line's off balance. Normally the most difficult part to predict. I think this quarter we have two big events that have created this close to BRL100 million more than normal that we have.

It's again, very difficult for us to give a prediction for this line. But I think it should -- could nowadays we are with BRL90 million, BRL100 million, the last part was BRL6 million. Out of work with some things in the middle of that, with BRL750 million. But again, it's important to emphasize that it's very difficult to predict this (inaudible).

Operator

(Operator Instructions) Since there are no further questions, I would like to invite Mr. Domingos to proceed with his closing statements. Please go ahead, sir.

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

I'd like to thank you, everyone, for participating in our conference call. Just a reminder, everyone, that Mr. Paulo Faustino and his team at the Investor Relations department and I are available to any other further questions that you can have. Thank you very much.

Operator

That does conclude the Banco Bradesco audio conference for today. Thank you very much for participating. Have a good day.