Q2 2004 Earnings Call

Company Participants

- Jean Philippe Leroy, IR Executive Superintendent
- Jose Luiz Acar Pedro, IR Officer

Other Participants

- Carlos Gomek, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Katie Blacklock, Analyst
- Mario Pierry, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to the Banco Bradesco 2004 first-semester results conference call. This conference is being broadcasted simultaneously through the Internet on the website ri.bradesco.com.br. In that address, you can also find the slideshow presentation available for download. We inform that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks are over, 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 involves risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

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

Jean Philippe Leroy

Thank you. Good morning. Good afternoon for everyone. It's a pleasure to conduct this conference call for the first-half results. In our meeting room, we have present Mr. Marcio Cypriano, Chief Executive Officer; Mr. Milton Vargas, Chief Financial Officer; Mr. Jose Luiz Acar Pedro, Investor Relations Officer; and Managing Directors Sergio de Oliviera and Domingos Figueiredo de Abreu.

I would like now to turn to Mr. Acar, who will be making the introductions.

Jose Luiz Acar Pedro {BIO 1895666 <GO>}

Good morning, ladies and gentlemen. and welcome to our first-half 2004 earnings results conference call. This year has been characterized by a continuous improvement in the Brazilian economy pending the demand for loans in general. As a consequence, we increased our loan portfolio during the Second Quarter by approximately 3.5 billion reais, corresponding to a strong 6.4% jump, which on an annual basis represents almost a 28% increase. It's worth mentioning that Bradesco's credit incorporations [ph] increased in individuals as well as in corporate. Our book is expanding, but our allowance for loan losses has fallen slightly based on our asset quality improvement.

Besides Bradesco's organic growth, credit expansion allowed a 6% net interest income improvement, which moved from less than 6 billion reais in June 2003 to more than 6.4 billion reais in June '04. Retained [ph] premiums also increased from 5.4 billion reais to approximately 6 billion reais during this period, consolidating our leadership in this business, which represents nearly 30% of our net income.

Fee income has increased due to the solid growth of client base, cardholders and assets under management. I also want to highlight that by no means a coincidence, Bradesco Asset Management has received a AAA rating by Moody's, based on its quality of management.

Concerning expenses, despite A, the banks organic growth that always requires high investments in IT ph; B, CapEx for Bradesco's prime creation [ph]; C, several price increases of the utilities; and, D, the acquisition of Banco Zogbi and BBV Banks, we managed to maintain during these last 12 months an evaluation [ph] in line with inflation of approximately 8.5%.

Tax expenses increased, mainly due to the higher ISS and compliance [ph] burdens, and we amortized 135 million reais of extraordinary goodwill. That being said, we posted a net income of 1,250,000,000 reais, 21.7% higher than the result presented in June of last year.

I also want to highlight Bradesco Consorcios' performance, which now leads (inaudible) for real estate [ph], with more than 34,000 quotas [ph] sold. All together, Bradesco Consorcios corresponds to revenues of approximately 3 billion reais, with 92,000 quotas. Bradesco Consorcios' breakeven was reached in only one year, compared to our initial estimates of 2.5 years.

Our cardholders base grew sharply, adding over the last 12 months more than 6.6 million cards. 500,000 of those were credit cards, and 6.1 million were debit cards. Last June, our cardholders totaled 43.5 million, divided into 7 million credit cards and 36.5 million debit cards.

At the consumer finance level (inaudible) we continue to lead in automobiles, but after Bradesco Zogbi [ph] acquisitions we expect to increase our market share to repay with (inaudible). In terms of trade finance, we ended this first half with a portfolio of more than $3.3 billion in export finance, and almost $400 million in import finance. In agricultural loans, we generated over 5.6 billion reais in transactions, confirming our strong position in this important segment, a critical driver for the Brazilian GDP.

The total of (inaudible) operations, mostly originated by BNDS [ph], reached the important volume of approximately 7.5 billion reais. Also in the BNDS ranking, we lead in lending operations for micro, small and medium-sized companies.

The Postal Bank increased our client base, with over 608,000 new customers during the first half of 2004, and continuous to outperform its original (inaudible), and should reach its payback over the next year.

Finally, I would like to highlight our focus in capital markets, in that we feel enthusiastic with the recent number of IPOs and the increasing investments of individuals (inaudible). Anticipating this movement, which we believe is just beginning, we have decided to restructure the sell-side area of Bradesco Corretora, our brokerage house, hiring several renowned analysts who will be covering all the economic sectors. I would like to refer to the recent release of an article in the Valor Economico newspaper, which highlighted Bradesco for its dividend distribution to stockholders, and the three award grants [ph] for the best APIMEC presentation in 2003 in Brasilia, Fortaleza and Porto Alegre. APIMEC is the Brazilian Association for Analysts and capital markets professionals.

Now I give the floor to Jean, who will conduct a presentation about our recent performances. Thank you, very much.

Jean Philippe Leroy

We are going to use a 21-slide presentation which summarizes the main figures and ratios of our company. Just to remind you, during the first half, we received approval from the Brazilian Central Bank to acquire Banco Zogbi. We also acquired, in an auction, Banco do Estado do Maranhao, BEM. In addition, we incorporated Banco BCN's branch network and concluded the stock grouping process [ph].

Let's move to slide number two. The net income for the period reached 1,250,000,000 reais in comparison to 1,027,000,000 reais recorded in the first half of 2003, representing almost a 22% jump. The 641 million reais income reported for the Second Quarter of 2004 is 5.3% higher than the one recorded in the First Quarter. This quarter, we also had some nonrecurring events which will be commented during this presentation.

Our EPS followed the same trend, reaching in the first half 7.90 reais, a 21.5% increase in comparison to the first half of 2003. In a quarter-over-quarter analysis, our EPS increased from 3.85 to 4.05, a 5.2% variation.

Total assets surpassed the 176 billion mark, reaffirming our leadership amongst Brazilian private banks. In a year-over-year comparison, we grew our assets by approximately 22 billion reais, or more than 14%. During the Second Quarter, total assets increased more than 15 billion, corresponding to a 9% increase. Our loan portfolio reached 58.4 billion by the end of the first half, a 10% increase when compared to the amount recorded in June 2003, growing impressively in the Second Quarter by 6.4%. This increase is higher than the financial sectors as a whole, which according to information released by the Brazilian Central Bank showed a 6.1% jump for the same period.

Total deposits presented a strong increase, both in terms of annual as well as quarterly comparisons. Stockholders' equity stood at 13.6 billion, increasing by more than 1.1 billion between June 2003 and 2004. On the quarterly analysis, despite the recorded net income, stockholders' equity did not increase, due to a 290 million reais effect of marked-to-market of securities available for sale, and also given the 326 million reais distribution of interest on capital.

Slide number three. In this slide, we present the main ratios for the analyzed periods. One can see the improvements of our return on average equity, which went from 18.7 to 19.4%, and the return on average assets, which moved from 1.4 to 1.5%. The return on equity in the Second Quarter reached 20.5%, in comparison to the 19.3% presented in the previous quarter.

We want to highlight that the return ratios improved despite the large number of acquisitions, structural incorporation of costs and CapEx on our client-based segmentation program.

To better illustrate, I would like to mention that during these last 12 months, we shut down 308 branches due to overlapping. Dividends paid as interest on loan capital [ph] continued to represent a higher than 50% payout ratio. We highlight, once again, that our preferred stocks receive an additional 10% amount in comparison to the common stocks, and that in our bylaws we guarantee a minimum of 30% of net income distribution vis-a-vis the mandatory 25% in our legislation. Our delinquency ratio is under control, as one can see in the slide, considering our past-due and falling-due loans B to H rated. If we consider past-due loans only, the percentage in June would have been of 2.6%, vis-a-vis 2.9% in June of 2003 and 2.8% in March of this year.

Our BIS ratio reached 15.7% in the consolidated financial standard, maintaining a strong capitalization regarding the minimum 11% established by the Brazilian Central Bank. Our fixed asset ratio reached 41.4% in the consolidated financial report, remaining stable at a comfortable level. I remind you that this ratio has to stand lower than 50%.

Slide number four. Net interest income surpassed the 6.4 billion reais mark, 7.3% higher than the same period of 2003. On the quarterly comparison, a 249 million drop was recorded. These movements will be explained further in this very same presentation. We are, as one can notice, confidently improving our fee income, which can be explained by the increase of our client base and by the improvement of our mix of fees from asset management products. It is also worth highlighting the solid improvement of revenues coming from Bradesco Consorcios.

Regarding costs, operating expenses, which include personnel and other operating expenses, were impacted, one, by the annual wage agreement settled at 12.6% last September; two, by the incorporation of BBV, Zogbi and BEM banks; three, by the increase in utility prices, which were partially offset by, A, lower payroll expenses and B, by the incorporation of the acquired institutions into Bradesco and Finasa. We remind you that Banco Zogbi and BEM impacted our financial statements for two months during the First Quarter, and by three months in the Second Quarter. As you can see in this slide, the coverage ratio defined by personnel expenses or operating expenses divided by fee income, showed evolution during both periods, reinforcing our focus on the Company's operating improvements.

Slide number five. On this slide, we show the evolution of our net interest income, which on a semester basis grew from 6 to 6.4 billion, and was reduced from 3.3 to 3 billion on a quarterly basis. These movements also will be explained in the next slide.

I would like to reinforce our asset quality improvement, which can be noted by the lower provisioning needs. The decrease in required expenses was of 54 million reais, when compared to the first half of 2003. If we do not take into consideration the downgrading [ph] impact of 120 million reais occurred in the First Quarter, the drop would have been even higher, reaching 174 million. During the Second Quarter, excluding 21 million of additional provisions and nonrecurring events based on improvement in rating measurement criteria, the required expenses would have increased by just 79 million reais, just due to the increase of the portfolio which we accept [ph], part of that in consumers.

We can also notice that a strong increase of additional provisioning occurred in the first half of 2003. The balance of total provisions reached 4.2 billion reais, equivalent to 7.2% of the total loan portfolio. Our excess provisions is standing at 905 million reais.

Slide number six. In this slide, we focus the net interest income evolutions. In the first line we highlight interest earnings income, and in the second non-interest earnings income, which, added together, represent our net interest income. One can notice that between June 2003 and June 2004, net interest income increased by 7.3%, due to the increase presented in the interest earnings income explained by average volumes of transactions increases. Non-interest earnings income, on the other hand, decreased due to lower gains in securities and trading. On a quarterly comparison, we notice the very same movements. Concerning net interest margin, the drop was also motivated by the increase of our average assets.

Slide number seven. We present in this slide our loan portfolio evolution, breaking it down into individuals, large, small and medium companies, as well as our total volume of guarantees. As one can notice, Bradesco is increasing consistently its exposure to individuals.

From the 5.3 billion increase of our loan portfolio between June 2003 and now, our exposure to individuals grew by 3.4 billion. And quarter over quarter, from the 3.5 billion total increase in book, 1.4 billion came from individuals. Additionally, we noticed higher demands of credits from large corporations during the Second Quarter, due to a better macroeconomic scenario.

Nowadays, the factor in which we have the highest exposure in is food and beverage, representing 8.1% of our portfolio. On the other hand, the largest borrower has an exposure equivalent to 1.3% of our total book, showing the strong dilution [ph] of our portfolio.

Slide number eight. In this slide, we present our consumer finance positioning segment, in which we have been actively focusing since 1998. Besides the organic growth, we also acquired some important players such as Continental, Finasa and Zogbi. We also acquired Ford [ph] Credit Portfolio and established important operating agreements with ANAMACO, which is the Brazilian Construction Retailer Assertion; Scania; Volvo; Komatsu and Randon; exclusive agreements with Microsoft and ABRACAF, which is the Association of Fiat Dealers; and also agreements with IBM, Dell and Xerox.

The Zogbi operation reinforced our positioning structure and distribution, in particular, on direct lending and finances through repairs. We continue to see a strong demand for automobile and direct lending operations.

We increased our portfolio by more than 28% in the one-year analysis, corresponding to approximately a 3.2 billion jump. And in the Second Quarter, consumer finance increased by more than 5%.

Slide number nine. You can see on this slide that our D to H graded operations decreased when comparing June 2003 and June 2004. This movement was motivated by the improvement in the average rating of the portfolio. Our coverage ratio, which faces total provisions and past-due plus falling-due rated D to H operations, is close to 160%. We reaffirm once again that our write-off policy strictly follows the Brazilian Central Bank's criteria.

Slide number 10. In this slide, we present the marked-to-market balance of our securities portfolio. As of June, trading securities represented 73.8% of the total portfolio; securities available for sale, 16.7 [ph] percent; securities held to maturity, 8%; and, finally, delivered [ph] deals [ph], just 1.5%. There were no relevant changes in the portfolio mix between March and June, as one can see.

We highlight that securities held to maturity that do not impacted neither stockholders' equity nor net income in terms of marked-to-market, represented back in June an amount of 762 million reais of non-realized gains.

Slide number 11. In this slide, we present the breakdown of our fee income. From the 600 million increase in the half-yearly analysis, the highlight goes to asset management, services, cards and credit operations fees. On the quarterly analysis, the 56 million increase is related to the best performances in credit operation, asset management and consortium [ph] fees. Fee income performance is closely followed by our senior management, and is mainly due to client-based increase, as well as because of higher volumes of operations.

Slide number 12. Our operational expenses, in which we add up personnel with administrative expenses, represented 5.7% of our average assets vis-a-vis 6.1% in the first half of 2003. Our efficiency ratio did not improve. Nonetheless, based on our CEO's goal, we continue to focus on reaching a 50% ratio target by the end of 2005.

Slide number 13. In this slide, we compare quarterly and half-yearly personnel expenses, making all the adjustments to show our performance in a more comparable manner. Therefore, adding the first-half nonrecurring labor provisions for the insurance group of 40 million reais with the acquisition impact of 168 million reais in terms of expenses and, finally, the annual wage agreement of 12.6% back in September of last year impacting by 221 million reais, in comparison to the 2.4 billion reais personnel expenses we called at [ph] last June, we reached a conclusion that there was a 219 million drop corresponding to an approximate percentage of 8.3. Following the same exercise [ph] on the quarterly comparison, we noticed a 9 million drop in expenses or approximately 1%.

Slide number 14. Concerning administrative expenses, following the same exercise as the previous slide, but now adjusting utility prices by inflation indexes such as IGP-M and IPCA, in the half-yearly analysis we can see a 178 million impact in these expenses, due to the incorporation of costs of acquired banks, and administrative expenses adjustments by the inflation of 154 million reais. By that, we reach 162 million drop or nearly 6%. In a quarterly comparison, this drop would have been of 34 million reais, approximately 2.7%.

Slide number 15. In this slide, we present our half-yearly and quarterly efficiency ratio chart, with and without taking into consideration nonrecurring events. At the half-yearly analysis, we can notice a 59.3% ratio vis-a-vis 52.4% presented last year. After the adjustment, this ratio would have been 56.7%. As a quarterly analysis, the 61.4% ratio drops to 57.8%. Nonrecurring adjustments will be discussed on slide number 19.

Slide number 16. Bradesco Seguros Group continues to be the market leader, with a 24.6% market share last May, according to SUFET [ph] and AMF [ph] data. Total assets surpassed the 36 billion reais mark, and guaranteeing assets surpassed technical reserves by more than 1.3 billion. Technical provisions presented a strong 6.7 billion increase, due to premium and contribution to pension plan evolutions. Stockholders' equity for insurance, pension and savings bond activities reached 3.86 billion, and net income for the first half of 2004 was 374 million reais, surpassing net income presented in the very same period of 2003 by 43.8%. Net income posted in the Second Quarter reached 211 million reais, 47 million reais higher in comparison to the previous quarter. Return on average equity reached 21.6%.

Slide number 17. Premiums grew by 8.1% in the year, from 5.8 billion in the first half of 2003 to over 6.2 billion this year. Sales increased mainly in life and pension plans, representing more than 44% of the premium growth, health, mainly corporate plans, and savings bonds. On a quarterly comparison, there was a 49 million reais sales drop due to VGBL sales decrease, partially offset by the increase in automobile insurance and premium bond revenues.

Slide number 18. In this last slide, regarding the insurance group's performance, we just summarize the most important lines of the income statement. On a half-yearly comparison, financial net income increased from 955 million in June 2003 to over 1 billion last June, due to volume increase that offsets the fairly great [ph] drop. On a quarterly analysis, financial net income was lowered due to higher stock trading gains during the First Quarter.

Slide number 19. We now turn our attention to the adjustments of nonrecurring events that we did during the first half-year periods. In the claims, benefits and redemptions line, we increased IBNR incurred but not reported provisions by 276 million reais, of which 131 million in the First Quarter and 145 in the second one. The provisionings in the First Quarter were meant to change the calculation criteria of tail [ph] average from 12 to 24 months. In the Second Quarter, on the other hand, the provisions were increased from a movement of 24 months to a calculation based on a 24-month tail. We highlight that those levels of provisioning are above the mandatory 12 months calculation, and were implemented in order to give us additional cushion.

In the Second Quarter, we increased labor provisions by 40 million reais, as we were allowed to -- as we operated in Bradesco Seguros Group following the very same average methodology of calculation as in the bank operation. Nonrecurrently, we have been positively impacted by the lag [ph] of equity in the earnings of associated companies by 79 million, as referred and mentioned in footnote number 15. We also increased in this quarter provisions for legal suits in the amount of 109 million reais. We have amortized goodwill on acquisitions of several subsidiaries that is mentioned on footnote number 17 by 135.1 million reais in this Second Quarter. It is important to mention that these nonrecurring events are gross of taxes. Finally, we have activated tax credits in the amount of 89 million reais originated by Securitisadora Boravisa [ph], which is a securitization company.

And summarizing slide number 20 and slide number 21, we present the perspectives that we have for the Brazilian economy as a whole and for Bradesco. In general terms, we continue to believe that 2004 will show good economic growth, with FX and selling rates [ph] close to the actual level and inflation rates below the recorded last year. (inaudible) for Bradesco itself, we maintain our perspective for credit growth at 18 to 20% for this year, so comparing December '03 and December '04, the growth should be of 18 to 20%. Fee income should continue to present good evolution, in the range a 15 and 20%. For the insurance group, we continue to show a good amount of premiums that should be growing between 12 and 15%, again, year over year.

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

Questions And Answers

Operator

(Operator Instructions) Jason Mollin, Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

My question is really related to the decline in what I would categorize as market-related gains. In your presentation, on page six, you call that non-interest-earning income as part of the net interest income. And we saw that decline by 379 million reais from the First Quarter to the Second Quarter -- 447 million in the First Quarter to 68 million in the Second Quarter. My question is, where did this significant decline in income come from? We saw in your trading account a decrease in the balance that you highlighted in your presentation and in your results that, I guess, if you took the balance at the end of the First Quarter to the balance at the end of the second, would generate about 115 million reais lost. Is it fair to say that the remaining portion is from realized losses on your available-for-sale that was sold? We saw the balance in the available-for-sale accounts decline substantially. Is that a fair assessment?

A - Jean Philippe Leroy

Actually, it's always very difficult to precisely tell you this information because the book, the securities book, changes between the periods. When I can say is in terms of non-interest earnings, this drop between the First Quarter and in the Second Quarter was motivated by two events. On the first part, we have a drop of 185 million gains in treasuries. And the second part would be a lower amount of 153 million reais. Part of that is what you mentioned -- the impact of marked-to-market trading securities. And part of that is also because in the First Quarter we had a higher volume of gains in the insurance group from selling some equity in the market.

Q - Jason Mollin {BIO 1888181 <GO>}

I guess a follow-up question would be, should we take kind of a normalized -- if we kind of normalize, let's say, take some kind of average of what you've been generating in that line item over time, is that a more reasonable expectation of what we should look for going forward? Has that accounted for a very substantial decline in, let's say, your pretax income?

A - Jean Philippe Leroy

Yes, it's true. And I would say that, based on our assumptions of growing loans the way we expect, and the evolution of assets that we also expect, you should consider, for this net interest income, a range that should be in between the two quarters. So between the first; and the Second Quarter numbers that we have posted.

Operator

Mario Pierry, Deutsche.

Q - Mario Pierry {BIO 1505554 <GO>}

My question has to do with your headcount reductions. Apparently, you made some more headcount reductions this quarter. Can you quantify for us how much severance expenses you incurred in the quarter? And also, during your presentation you mentioned that you still plan on achieving a cost-to-income ratio of 50% by the end of next year. Well, we haven't seen any progress in the line yet. Can you just also try to clarify to us when we should see some improvements on your cost-to-income ratios? Thank you.

A - Jean Philippe Leroy

Okay, Mario. Maybe we did not in this quarter see a major improvement in the efficiency ratio, but this was motivated by the impact of net interest margin, but definitely we will continue to follow this goal that was settled by our CEO for 50%. This quarter, we have severance costs of 31 million reais. In the First Quarter, there were 34 million reais. We had a decrease in our staff of 1,406 people.

So I would say, as we have costs related to severance that we present, on an average basis, six months of wage and that the average wages is standing around $1,000 per month, you can make your calculation in terms of the expectations of improvement. But I would say that we try to post in our presentation a slide showing numbers comparing the bank on a yearly basis, as well as on a quarterly basis, where you see much better performance. We continue to follow this path of achieving a higher improvement in efficiency, but this efficiency comes not only by the cost side; it also comes from the revenue side. And from the revenue side, we have the margins, and on the other front we have fee income. So I believe you have been looking improvements in fee income, and on the cost side we are trying to show what we are doing in terms of performance.

But I would say most of the improvement of efficiency ratio will be seen next year, and not only this year but more by the end of this year we should see better improvements in efficiency ratio.

Q - Mario Pierry {BIO 1505554 <GO>}

If I can also follow up, the figure that you show of total employees of 74,784 people -- does that include contract labor, as well, or no? If it doesn't, can you tell us what has been happening to contract labor or third-party services?

A - Jean Philippe Leroy

No. It does only take into consideration the number of registered employees in the bank. In terms of people, third parties, people making projects for the bank, we should have a number of approximately 10,000 people, but this number is also moving down. So in the improvement task that we have for efficiencies growth, we have not only the focus on our personnel side of our employees, but also on the usage of third parties. So this number should be moving down, and should be impacting the administrative expenses. When you look at the personnel expense line, you just consider employees of the bank and all the impact from their costs. These third parties are related to administrative expenses, but I believe that our administrative expenses are reaching good numbers already, that we will be improving them going forward.

Operator

Katie Blacklock, Thames River Capital.

Q - Katie Blacklock {BIO 17145068 <GO>}

My question is just regarding the funding side. Could you talk a little bit about what you're seeing in terms of the cost of funding on the deposit side, particularly in light of the very strong growth you saw in time deposits in the quarter versus demand deposits? It looks as though the cost of those deposits has risen quite sharply on an annualized basis; I see it going up from about 16.5% to 19.5%. Could you give me some idea of what trends you're seeing there, please?

A - Jean Philippe Leroy

Yes. Actually, what we are focusing is to increase our deposit base as a whole. What we saw last year was a very good year for the asset management industry, and this year, we have been seeing investments moving a lot to deposits, and our asset management company has been growing more than the industry itself.

In terms of our focus, it's clear that we wish to have more and more demand deposits, as well as savings deposits. But when we have customers coming for time deposits, we are not obligated to give remuneration so close to 100% of the interbank rate. We give a lower amount of that, so you should have to take into account that, going forward, we expect to increase our overall basis of deposits, trying to increase more in demand and savings deposits. But in this quarter, we saw a higher growth, as well, on a year-over-year analysis in time deposits.

As far as costs are concerned, you have to consider all the costs of deposits, not only some of the costs like the deposits that you mentioned. And what we do is basically to see that the liability cost is much lower than what you have on the asset side. What we try to do is to bring deposits to the bank and to lend the money. What we saw in the First Quarter was a very, very low demand for loans, but in the Second Quarter it began to improve. And what we are seeing year over year is that what is growing more is loans to individuals who, as expressed, are definitely much higher. So we are following this direction of trying to increase the loan book and trying to have a lower cost of funding.

Q - Katie Blacklock {BIO 17145068 <GO>}

Are you seeing rate pressure on the time deposits, or have those rates been relatively stable? And would you expect, for the second half, time deposits to be growing less than demand deposits?

A - Jean Philippe Leroy

It's very difficult to predict. We have actually, in the Third Quarter, the impact of the investment accounts. And the investment accounts will be maybe changing the behavior of investments, as you will allow through the elimination of PPMS tax [ph] movements between time deposits and mutual funds and savings accounts. So I would say it will be interesting to follow what is going to happen in the Third Quarter. And this is why it is more difficult to predict the behavior for the quarter itself.

In terms of competitive landscape, I would say there is a very competitive landscape overall; all the banks are competing against each other. But we definitely have a strong differential because of our very large customer base, and our positioning not only in the large cities but in the Brazil as a whole. So I would say, based on that, we believe that we have an advantage, as well as we believe that more and more the positive impact from the Postal Bank should be adding better deposits in terms of costs, lower costs to the bank itself.

Operator

Carlos Gomek [ph], Citigroup.

Q - Carlos Gomek

My question regards the capital ratio. Given your expected growth in your portfolio and the decline that we saw this quarter, especially in the Tier I, do you expect it will go back to having the much right easier [ph] at the beginning of each year as you had in the past?

A - Jean Philippe Leroy

Always the same question. But I would say that we have to consider not only Tier I but Tier I plus Tier II. And considering both, we have a possibility to expand our loan book by another 46 billion reais. We have, actually a loan book of 58 billion reais. So I am not saying that we're going to proceed in the very same way as we made most of the years, but I would say that we have plenty of capital to face the expected growth of loans in the coming quarters and years.

Q - Carlos Gomek

Would your mobilization [ph] ratio also be comfortable with an expansion of that amount?

A - Jean Philippe Leroy

Oh, totally. I believe that what has been more improving over the last years, and that was very important with the spinoff of Bradespar, was the very strong drop in our fixed asset ratio, which should be standing lower than 50% for both the consolidated and the financial consolidated numbers. And it's standing on the highest of both at 41%. On the other one, it's standing at 20 plus percent. So actually, we are extremely comfortable in terms of both ratios -- the BIS ratio, as well as the fixed asset ratio.

Q - Carlos Gomek

And if I could finish there, what would be your target Tier I, if you have such a thing?

A - Jean Philippe Leroy

I would say, considering Tier I plus Tier II, we should have ratios higher than 13, 13.5% is the target that we should have for both, considering both, obviously.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Can you share with us some details of what's going on with your SME [ph] portfolio? I was a bit surprised that it only grew 4% quarter on quarter. Information from the industry pointed more or less towards 8% quarter-on-quarter growth for the industry as a whole. One of your peers reported almost 13% quarter-on-quarter growth today. And given that's roughly 30% of your total loans, and your estimate for year end is of 20% growth, can you comment on what is going on now, and how you expect that to change in order to meet your forecast?

A - Jean Philippe Leroy

So again, we continue to expect this 18 to 20% growth for the loan book. Based on this expectation, that did not change. We should be growing, if we consider the same numbers and considering the evolution of December '03, we should -- for achieving the target, we should be expanding individuals by 14%, large corporate by some 11% and small and middle-sized companies by just 4%.

What happens, when you analyze these quarters, is basically that in the First Quarter, as well as over the last year, individuals have been growing very much. They grew, between June '03 and June '04, by 3.4 billion reais. It's more than $1 billion, if you consider the rates that we have nowadays.

In the First Quarter, on the other hand, the large corporate had a lower performance, because there was a large amount of capital market operations that were done. And, based on that, the growth of large corporate which, by the way, is the highest participation amongst all the different classes in our portfolio, is 24.3 billion vis-a-vis 16 and 17 billion with SMEs and individuals, had a very good performance. Large corporates grew, just in the quarter, by 1.5 billion reais. It was a good amount of growth, and I would say that we continue to expect SMEs to grow, but definitely the best performance in terms of economy is always the second half of every year. And in the second half of this year, we should see individuals and also SMEs growing more.

Q - Jorge Kuri {BIO 3937764 <GO>}

Is there any particular reason why you have grown at a much lower pace in the industry, so far this year? Can you just comment a little bit more on your strategy to attend that sector specifically?

A - Jean Philippe Leroy

A couple of years ago, we created a structure called Bradesco Impreza [ph], focusing in the niche of customers with annual revenues between 15 and 180 million reais. So first I would have to ask you to compare on an apples-to-apples basis. I don't know if what other banks consider as SMEs is also 15 to 180 million reais of annual revenues. Maybe the cut is different. And also, when you analyze the numbers of the Central Bank, I don't know if they exactly consider also between 15 to 180 million reais of annual revenues. Maybe part of the growth is -- maybe the growth of SMEs, part of that is considered more than 150 million. And these would be on the large corporate side. So it's difficult to compare on the same basis. Bradesco Impreza is prepared with more than 70 branches, with a very good portfolio of products and services. We have been investing a lot in terms of training, and we are prepared to deal with the future growth in SMEs.

Operator

(Operator Instructions) Ladies and gentlemen. since there are no further questions, I would like to invite Mr. Jean Philippe Leroy to proceed with his closing statements. Please go ahead, sir.

A - Jean Philippe Leroy

Thank you. It was a pleasure to have another conference call this quarter, and we would like to repeat that the investor relations area of the bank is open with Louise and myself and, obviously, with Mr. Acar, for any further questions. Thank you.

Operator

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