Q1 2006 Earnings Call

Company Participants

- Jean Leroy, Executive General Manager
- Milton Vargas, EVP and IRO

Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Stephen Baird, Analyst
- Tomas Orad, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First Quarter 2006 earning results conference call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer, Mr. Milton Almicar Silva Vargas, Executive Vice President and Investor Relations Officer, Mr. Jose Luiz Acar Pedro, Executive Vice President, Mr. Domingos Figueiredo de Abreu, Managing Director, Mr. Samuel Monteiro dos Santos Junior, Chief Financial Officer of Bradesco Seguros Insurance. And Mr. Jean Philippe Leroy, Executive General Manager.

This call is being broadcasted simultaneously through the Internet on 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. (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. Jean Leroy, Investor Relations Executive General Manager. Mr. Leroy, you may proceed.

Jean Leroy {BIO 17084785 <GO>}

Thank you. Good morning, to everyone. And welcome to our First Quarter 2006 conference call. Let me now turn to the floor Milton Vargas, our Investor Relations Officer.

Milton Vargas {BIO 3347541 <GO>}

Good morning, ladies and gentlemen. and welcome to our conference call. In the quarter we reached a net income of BRL1.53b, an increase of almost 5% over the previous quarter. And 27% vis-Ã -vis the First Quarter of 2005.

68% of this net income was generated from Banking. And 30% from insurance, private pension plans and saving bonds activity.

Return on average stockholder equity reached 34.6%, with a 2.9% return on equity. The results can be explained by several factors such as, first, a strong growth in the loan portfolio. Second, the operational improvement of Brazil Seguros Insurance. Third, fee income growth. And fourth, a strong control over operating expenses.

Regarding credit, our loan book reached BRL84.4b, increasing by 4.1% in the quarter and by 28% vis-Ã -vis March 2005.

From the loan-book growth of BRL3.3 billion in the Third Quarter, it is important to notice the BRL2.5 billion increase in loans to individuals due to our expansion strategy in this segment, as well as to the demands created by Bradesco's account holders and by the non-account holders served by (Genari).

Regarding insurances, net income achieved BRL461m, a 7% growth vis-Ã -vis the Third Quarter of 2005. And an increase of 24% in relation to the last quarter. Insurance premiums amounted to BRL4.4b, 22% increase when compared to the same period of 2005. On the top of that, combined claim ratio improved. This increase proves our correct underwriting strategies and our sales force to be effective.

Our fee income continues to grow. This is the 16th consecutive quarter in which this revenue has increased. The annual growth was 23% due to customer base growth, higher business volume, as well as the success of our customer segmentation process.

When comparing quarters, we highlight the management of certified funds, which increased 10.10%. And in the annual comparison, earnings from loan operations which increased more than (26%).

We also observed the continuing improvement in Brazil's efficiency ratio which will be shown next in more detail in Jean's presentation. We have constantly focused our efforts on cost control, as the 42.9% ratio can tell.

Our market capitalization reached BRL73 billion by the end of March, vis-Ã -vis BRL65 million last December, an increase of 12%. Bradesco's market capitalization currently is BRL70b.

Regarding dividend distribution, Bradesco preferred shares increased by 15% against 13% of the Bovespa index. Bradesco's stock liquidity is at a very high level, both in Sao Paulo, where we have the advantage of 5% of the stock exchange transaction volume. And in New York, where our day-to-day volume increased over 10 times since our listing in November 2001. It's worth mentioning that our stockholders received a 60% increase in the monthly dividend payment in March.

Operationally, beside the acquisition of Banco do Estado do Ceara, we have been very active in the credit card segment. We believe that the credit-card market should have potential growth in the future.

Regarding the corporate card segment, if we add Bradesco's number with American Express, which we recently acquired, we have the market leadership.

With regards to individual cards, we added value to our high income in the private segment with the Centurion line. In addition, the operation with the Fidelity Group will allow Bradesco Bank and ABN Amro Bank to substantially decrease their processing costs, as well as improving the management of the cost basis, the cost and collection service and risk management.

This means that we have strategically positioned ourselves in a business that is. And will increasingly be, about for the growth of bank activity in the country.

Regarding our structure, I would like to reinforce the importance we have to put to the creation of the market relation department, which is responsible for the Investor Relations and for social environmental responsibility areas. Two faces of the same coin, headed by Jean, Executive General Manager of the Bank.

(It's true) on social environmental responsibility, I would like to point out the launch of our institutional marketing campaign, which presents the main initiatives of the Bradesco penetration, regarding occasional bank activity growth by means of micro lending in the total bank, sports, culture and products aimed at stimulating certain ability packages.

In this quarter, we also publish our social responsibility report, which presents, in a broader way, Bradesco's actions in 2005.

Finally, I would like to thank our employees, once again, for their dedication and commitment. I would also like to wish much success to the employees of the Banco Ceara and American Express, who are now part of the Bradesco Group.

I would like now to give the floor to Jean. Remember that we will be available to answer any questions you may have after his presentation. Thank you, very much.

Jean Leroy {BIO 17084785 <GO>}

You have been hearing Milton Vargas and he was following the slide number two. Let's move to slide number three. In this slide we present our net income evolution over the last nine quarters, showing a sustainable nominal growth, reaching BRL1.53 billion in the very First Quarter. Improvement in our efficiency ratio reinforces the importance of reaching an equilibrium between cost and income generation. Thus, it is a consequence, not a coincidence, that our results are totally correlated to our efficiency improvements.

Based on the contribution margin, our First Quarter results were basically generated by loan operations 30%, insurance, private pensions and savings bonds 30%, revenues from services rendered or fees by 25%. And securities by 15%. These numbers do not diverge significantly from the historical levels.

Slide number four. We would like here to analyze the net income evolution. As one can see, the main items of comparison are net interest income, growing by BRL831m, of which BRL459 million derived from income from derivatives to face the financial impact of taxes because of negative effect variations not being tax deductible.

Another important impact relates to securities and securities gained in the amount of BRL311m, complemented by interest earning adding BRL61m. Operating costs are also reduced by BRL64 million net, if you add the administrative and personnel expenses because of seasonality impact on marketing costs in the previous quarter.

Insurance, pension plans and savings bonds reduced the gross income by BRL148m, based on the natural increase in sales by year end, in particular in pension plans.

Though we notice the bottom line of the insurance operations growing from BRL372 million in Q4 to BRL461 million in this quarter. Relative to allowance for loan losses, the BRL168 million increase is in line with the loan book growth and the change in the mix of the portfolio, with increasing concentration in consumer finance.

On the top of that, asset quality normally deteriorates marginally in the First Quarter of every year. The BRL593 million jump in income tax and social contributions are impacted by the higher level of profit. And because of taxes on derivatives used to hedge our equity abroad.

Slide number five. EPS stood at BRL1.56. And BRL539 million were directed to dividend payments to our 1.3 million shareholders. By the way, responding to some doubts from the market, even though it is worth to comment that we benefited in fiscal credit up to the amount of BRL420m, which is the authorized limit for the quarter. And not totally BRL539 million that we had as dividend payment.

Total assets reached BRL216b, a 13% increase, with loans representing 39% of that volume. Last year, this ratio was just 34%.

Loans grew by 28%, standing at BRL84.4b. Including guarantees, we reached BRL95.1b.

Our funding grew in line with our loans. Considering total deposits and debentures there was a 22% jump. Most of the increase was generated by issuances of Bradesco Leasing. Assets under management grew by 25.3%, reaching BRL131b.

Slide number six. The profitability continues to stand high vis-Ã -vis the average of the market, even more if one considers our BRL20.3 billion equity, the highest in the market. ROE stood at 34%. ROA close to 3%. The efficiency ratio has been improving as a result of the focus of Bradesco's management. The BIS ratio improved from 15 to 16.7%, even though loans continued to expand.

This ratio increase is justified by the BRL2.8 billion issuance of subordinated CDs. Considering the 11% minimum BIS ratio in Brazil, Bradesco could increase its loan book by 90b, which is, give or take, roughly today's book.

Next slide, slide number seven. The adjusted net interest margin grew by BRL372 million in the quarter, an 8.1% jump. Non-interest earnings increased by BRL311m, due to greater securities and treasury gains. Growth of BRL61 million in interest earnings were derived from -- are now in line with the growth of the book, given that the Fourth Quarter normally has higher volumes than the First Quarter.

Slide number eight. Our loan portfolio grew by 28% year over year due to the improved economic environment which encouraged individuals and companies to take more loans. In this quarter, growth was 4.1% which is a normal growth given the high basis of December. Considering the Brazilian banks grew over the same period by 2.9%, Bradesco continues to outperform the loan book once again.

The individual loan portfolio grew by 50.6%. From the BRL11.9 billion growth, BRL3.2 billion came from operational agreements with retailers. And loan operations that were acquired in the market place from other banks.

Individuals' representation in the overall book moved from 35.9% in March '05, to 42.3% in March '06. In this quarter, the growth was 7.5%. Regarding the large corporations, there was a growth of 9%, influenced negatively by the depreciation of the U.S. dollar vis-Ã -vis the Real, considering 18.5% appreciation of the Real over the last 12 months.

Additionally, we noticed that companies are opting more and more for other sources of alternatives to raise capital in Brazil and abroad by issuance of debentures, de-securitization of receivables, IPOs and others.

SMEs grew by 22.9%. These figures prove Bradesco's strong advantage in fostering the economy. And particularly the strongness in consumer finance, as we are going to see on the next slide, which is slide number nine.

As one can see, consumer operations increased by 59.5% reaching BRL29.5 billion in March '06. Autos, with a 39.4% strong growth because of the various agreements we have with dealers and car makers. It is worth pointing out that growth was entirely organic. Our market share in auto finance stands at a strong 26.7%.

Direct lending grew by 80.7% and by 10.5% just in the quarter. From the nominal growth of BRL4.2b, 60.2% came from organic growth. We point out the improved loan granting process through pre-approved credit lines, with alternative distribution channels, like ATMs and Internet.

And 39.8% through acquisitions, due to payroll guaranteed loans acquired from other banks. 94% of the growth was definitely organic.

In the line of goods, the substantial BRL1.6 billion growth over the First Quarter of '05 was basically due to operational agreements with major retailers. Excluding these agreements, organic growth was, give or take, approximately 42%. We believe this behavior is normal for this quarter, given the Fourth Quarter demand increases due to the holiday season.

Slide number 10. We believe this chart to be extremely important to identify the appropriate level of the loans for doubtful accounts. In the red line, we can show the total volume of allowance for the loan portfolio. In the blue line, the allowance required by the central bank according to clients' credit ratings and the degree of non-performing loans.

In the yellow line we can see the first part operations created between the ratings E and H. And finally, in the black line, we can see the write off, the charge offs after one year.

The historical data and the trends between the lines in yellow and in black show a very strong correlation. And it gives us a pretty strong comfort about the level of provisioning being adequate. We can see a very strong correlation, over time, if we compare the effective loss that we see and the non-performing loans of 90 days. So the lines in yellow and in black.

It is important to mention that notwithstanding our comfortable steps of monitoring loans and loan losses level, it's permanent. It involves not only the loan granting and risk-management areas. But also cost management, through aggressive committees and even the CEO himself.

We remember clearly that the financial system passed through difficult times in the years of '86, '90 and '95. And we do not want problems to happen again. On the other hand, we believe that there was a considerable improvement in the financial system over time and also on the economic scenario. The legal framework in terms of bankruptcy law and others have been definitely a plus. And also the risk-management instruments have been improving over time.

In addition, borrowers became and become more and more aware of their power of purchase. All of this makes us believe that we will not see a repeat in crisis in our horizon.

Slide number 11. We highlight delinquency ratio of 3.9%, considering more than 59 days of non-performing loans which do not earn interest any more vis-Ã -vis the whole book. The deterioration is based in the change in the mix of the book and which was previously mentioned. Individuals represents 42.3% of the book. And 35.9% one year ago. This change in mix impacts the coverage ratios.

It is important to mention that this coverage ratio drop is based on one-third on the decision, the discretion of the bank not to increase the excess of provisions more. So it's not totally derived from higher level non-performing loans.

One has to notice that non-performing loans grew. But the margin in loans to individuals more than compensates this movement. In a quarter-over-quarter comparison seasonally impact the power of purchase of individuals, as people have to face concentration of expenses relative to tax, then school in the First Quarter of every year. And in the previous quarter, in Fourth Quarter, we have an increasing level of salaries because of the payment of the 13th salary.

Slide number 12. Our fee income continues to grow, as Milton mentioned. This is the 16th quarter in a row of growth. On a yearly comparison, fees grew by 22.8% and 1.5% just in the quarter. We highlight that all the lines improved and we are continuing to focus on their expansion.

Given the growth of our customer base, the increase in the number of products that we sell to our clients and improved individual earnings, the mass of salary and the GDP growth, the prospects for the year continue to be very strong.

Slide number 13. Bradesco has been making continuous efforts to manage its costs. This becomes clearer within incorporation of the banks we have been acquiring. There is an internal awareness that cost control is crucial for the good performance of the Bank. This culture is widespread among employees, managers at all levels.

They mean to constantly improve our operational efficiency. We have made significant investments in IT and process revisions, not withstanding the fact that expense has grown more than inflation, 13.4%. Then one can see there is an important thing to analyze, which is the improvement in the efficiency ratio which improved dramatically from 52.7% in March '05, to 42.9% in March '06.

Slide number 14. We highlight here the representativeness of the life and pension plan operations, whose share vis-Ã -vis the total premiums grew to 50.5%. Although there was growth in all segments in terms of sales, the pension funds contribution increased by a 39.5%, showing a strong customer interest in this product and Bradesco Vida e Previdencia, our pension plan company, capacity to meet this demand.

We also draw attention to the fact that our insurance premiums, pension plans and savings bond accounted for 24.7% of the market. And 37.7% of technical reserves, showing a very strong, conservative approach in terms of the provisioning for Bradesco Seguros Group vis-Ã -vis the market, as the numbers can prove.

Our assets that serve as guarantees for these technical reserves corresponds to 43% of the market. Our income grew by 7%. And comparing quarter over quarter, they grew by 23.9%.

Slide number 15. Here we can see the main ratios for the insurance, pension plan. And savings bond operations. And we see basically an improvement in most of the lines, in most of the quarters. Combined ratios are getting better. Claims ratios are falling.

Slide number 16. The position of the Brazilian operations on American Express reinforces our interest in this industry. We are convinced that investing in this segment will add value, as this market becomes more mature, like in the U.S. and Europe.

This deal is the result of a strategic analysis which began back in 2004 in which we tried to project the market in the long run and the positioning we wanted to have in the very same markets. By the way, this same report has been used to explain our decision -- our strategic decision, to grow in the market of product label cards.

Cards are a way of payment in Brazil up to now. And will be a way of finance in the future. With American Express, we complement our mix of products. And we will add 650,000 customers to our portfolio. The price paid in this deal is BRL1b, comprises BRL450 million of equity. So goodwill will range around BRL590m.

So the real cost per card paid stands close to BRL531, BRL881 being don't consider the equity paid. If we just look at the BRL531 we are stripping out the equity from this calculation.

Slide number 17, for the AmEx acquisition, the benefit that we see in this deal. AmEx activities closely complement those of Bradesco. Just to give you an idea, more than 0.5 million AmEx customers have no connection no relation with Bradesco Bank. This increased our possibilities to grow in the higher-income bracket. Bradesco will have the exclusivity to issue the Centurion credit card lines. And continues to offer the membership rewards program. Its mobility also will be in the corporate card segment, where Bradesco now, with the acquisition, has by far the leadership.

We are growing in scale consumer financing. Besides leading the corporate segment, as I said, we are complementing the line of credit cards. And we can definitely assess that we have the most comprehensive line of credit cards in the market. We work with Visa, MasterCard and now American Express.

Slide number 18. We are here showing the goodwill amortization flow, including BEC's; Banco do Estado do Ceara we acquired in 2005. We amortized BRL453m. Bradesco continues to have the visibility for fiscal purposes within the legal time framework of 2.5 years on average.

Slide number 19, we can see the macroeconomic outlook for Brazil in 2006 and '07. We can see the behavior that we see on GDP, interest rates, inflation, the CPI and FX rate, year end on average for most of this data.

On the next slide we are providing the general guidance that we believe for the Bank in 2006. And you can see that we continue to believe in a strong loan book growth with a 20 to 25% expansion. Basically again driven by individuals growing by 35%, fees growing by some 20%, net interest income (inaudible) by 5 to 10%, insurance premiums by 8 to 10% and fixed operational expenses by a little bit less than 6%. Considering that in these operational expenses we are not taking into account the additional investment in IT platforms as well as the expenses relative to fees that we give back to companies. For example retailers when we are making our agreements with those.

So basically this is the presentation and I would like to thank for your attention and to open the floor for your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Jason Mollin with Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone. I have two questions related to provisions. One, for loan off provisions and two provisions are technical reserves made for the individual health segment. Regarding the loan loss provisions we saw a charge in the quarter, in the First Quarter of BRL938 million or about BRL168 million higher than what you reported in the Fourth Quarter and we saw that that represented about 5% of your average loans, up from 4.3% in the past. You did show some increasing delinquency in your presentation. My question is if we should expect this range of delinquencies and therefore provisions to be sustained? Should we expect this trend to continue increasing and therefore is this BRL938 million kind of a recurring level?

And as part of that question maybe you could comment on the corporate segment because this is the first time that we've seen such an increase in delinquencies in that segment.

And the second question is just related to the individual Health business where you made a large provision this quarter. I guess we saw a much larger provision made in the First Quarter of last year so I'm wondering if we should expect this kind of on an ongoing basis in the First Quarter of each year?

A - Jean Leroy {BIO 17084785 <GO>}

Okay Jason. Good morning. This point in your first question, talking about provisions, I believe that you should from this BRL938 million take out the BRL18 million makes up the provisions that we increased. So actually we are talking about BRL920m.

We -- as we have been presenting, we have been telling that number one, there is a change in the mix of the portfolio. So it is expected that as you are moving more and more into the individual segment that you have more provisioning needs. But again, you have higher margins to compensate this.

And second, in the First Quarter you normally have the seasonal effect because of higher expenses concentration for people and lower revenue increases which normally occur in the previous quarter.

The idea that we believe is that we should have a higher level of provisioning for the year. We are talking about a recurring number of close to 3.5 or a little bit more than that for the year, which is closely to BRL1 billion more than the previous year. We posted BRL1 billion provisions for loans in 2005 and approximately BRL1 billion more should be needed this year as we are moving more into the operations of consumer lending.

We are showing, by the way, in the slide 11, the opening of our non-performance loans divided into individuals and companies. And we don't see a higher level of deterioration in the corporate sector. Relatively speaking yes, if you analyze the comparison between December and March '06 moving from 1.9 to 2.2. But if you analyzed March '05 with March '06 we are talking roughly to the same number of 2.1, 2.2%. This does not in any way bear us much more doubt about the needs of provisions for companies in general terms.

In terms of the second question that you asked about health, the fact is that we have been discussing with the authorities A&F and based on the discussions we have been populating a provisioning need for health, also approximately 149, as we disclosed in the line-by-line analysis. And actually we feel comfortable about the provisioning for the general business of health.

And this depends going forward on some movements that could occur in terms of sales, in terms of the ratios, claims ratios and so on. But we feel okay in terms of the level of provisioning and you should maybe take that into consideration, this number being like a one-off.

Q - Jason Mollin {BIO 1888181 <GO>}

But Jean, just as a follow-up, then the guidance that you're providing in this presentation is the same numbers that we've seen in the past. However, you did indicate to the market that provisions should be between I believe it was BRL3.1 billion to BRL3.5b. So with the comment you just made I guess we should anticipate that that is going to be on the high-end of the range?

A - Jean Leroy {BIO 17084785 <GO>}

Actually we, based on what we are seeing in terms of the expansion of the loan book we are talking about 35% expansion for individuals. But it could be maybe a little bit more than that.

The idea is to have, I would say, close to BRL3.5b. But it's very difficult for us today to guarantee exactly what is going to happen for the year. Based on our analysis on the projections that we see, maybe it would be on the upper range of this range that we have been passing to the market before.

But this doesn't give you â€" it will be depending on the evolution of the book in the next quarters. And depending on what we see in the next quarters this might be a little bit higher or a little bit lower.

Q - Jason Mollin {BIO 1888181 <GO>}

So I guess you're also suggesting that depending on the growth in loans to individuals that's obviously a key measure in the expectation for provisions. So if that growth is higher then that would lead to higher provisions?

A - Jean Leroy {BIO 17084785 <GO>}

It is okay, That's correct.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much Jean.

Operator

The next question comes from Mario Pierry of Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. I have three questions. First one, Casas Bahia, can you talk about the size of the loan portfolio there and what kind of growth rates have you been seeing? This was a portfolio that you were talking a lot about at the beginning of last year or the middle of last year. But we haven't heard much about the Casas Bahia portfolio. So just wanted to know what's going on with that agreement.

Second, on the AmEx acquisition, I think one of the main attractions of that transaction was to get AmEx accepted in the Visa network. Can you tell us if you have been able to make any progress towards that?

And then finally you mentioned about your -- the creation of the credit card processing company in association with Fidelity and ABN Amro. And you mentioned that you should be able to reduce your processing costs. Could you try to quantify how much in cost savings it can generate from this company? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Okay Mario, relative to the first question Casas Bahia has been really a very huge success in the consumer finance strategy of Bradesco. And it has also been adding a lot of other businesses from other retailers because Casas Bahia is the leading company in Brazil, by far. And a lot of retailers have been trying to work with Bradesco because we have been making deals, for example with Casas Bahia.

In terms of the operations the scope of operations in March '06 stood close to BRL1.4 billion vis-Ã -vis BRL1.5 billion of December '05. Definitively you have to consider that this BRL1.4 billion is a very good number because in the last quarter of every year, as we have, for example the Christmas effect. It affected the sales of Casas Bahia and it affected also the book of Casas Bahia with Bradesco.

In the First Quarter you don't have this. So BRL1.4 billion is very close to the level we have in the last quarter of last year. So it's a very good performance that we are seeing in this operation.

In terms of American Express we have a wish, a desire that maybe we can use the acquired -- you know that we have a 38% stake in Visa net and Visa net being such a used card in Brazil with more than a million points of sales in Brazil definitely using this company for the operations would be very interesting. But the discussions are still in the process and no decision has been taken yet. And this would be a belief, a desire from Bradesco to have Visa net being the acquirer of American Express. But this was not concluded. We are still talking with Visa net, our other partners to see if the deal will be happening going forward.

In terms of credit cards as Milton Vargas said in the very beginning, we rely a lot, we believe a lot, that credit cards will be a very important business going forward. This is the reason why we have been more and more positioning Bradesco in this business and some deals like American Express and Fidelity they just are proof, a living proof of what we are doing.

With Fidelity, in the case, we have a 36% participation in the company. You have other shareholders like ABN Amro and Fidelity itself. The desire is for this Fidelity company -- Fidelity holds more than 51% of the company and the desire is this company to pick up more and more operations, not only with Bradesco and ABN. But also with other companies.

Up to the specific moment, the best moment we could be decreasing our profits and costs of up to 36% which definitely, we think, is a major plus. But this is in the long run. This is more on the optimum level.

In the first level, in the first moment this is not the decrease in operational processing costs that we see. But the optimum level would be a decrease of up to 36% in our processing costs.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. If I can just follow-up a couple of things? On the Casas Bahia loan portfolio I think the portfolio also did not grow that much in the Fourth Quarter. I think it was closer to the BRL1.5 billion level. So I am just wondering what is your outlook for the growth with this portfolio?

And then on the credit card process and I guess you would have to lay off people in order to achieve this cost savings. Is that how it works?

A - Jean Leroy {BIO 17084785 <GO>}

In this deal with Casas Bahia actually we have a potential of achieving up to BRL3 billion of credit portfolio. But this does not mean that it's going to be BRL3 billion by the end of this year. We believe that this book will be growing and you are correct, there was a relative growth between September and December and a -- roughly the same number in March of '06. But we believe that going forward this book could be representing up to BRL3b. But this actually is under a long-run prospective.

Operator

And the next question comes from Jorge Kuri of Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hello, my question has been answered. Thank you.

Operator

The next question is from Stephen Baird of Thames River Capital.

Q - Stephen Baird {BIO 18299007 <GO>}

Good morning. I have three questions if I may. The first one is on other operating costs and revenues. If I take the net amount of other operating costs and other revenues then this line item has been a cost of around BRL300 to BRL500 million for the last two years. This jumped around BRL750 million in Q4 and was around BRL700 million in Q1. I know previously you've been reluctant to give guidance. But I was wondering if you could give a sense of what would be the full year number for this line item?

And the second question was on your cost assumption. I'm trying to get my head around and rationalize your 6% expectation for fixed costs this year and the 13% growth that you reported in Q1. You mention on the call that the 6% growth assumptions strips out a number of items. I was wondering if you could give more detail on that?

And finally on fee income, in asset management fees you reported very strong growth in asset fund management in the First Quarter. I was wondering if you could comment on some of the recent trends in the industry. And if you expect that growth to continue? Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

Okay Stephen actually there is no reluctance from the Bank to give guidance for operational expenses, other operational expenses and revenues. It's actually a group of several, several lines, like 20 lines that are difficult to predict between -- they are not so correlated between themselves.

Q - Stephen Baird {BIO 18299007 <GO>}

Right.

A - Jean Leroy {BIO 17084785 <GO>}

It's true that over the last quarter it has been close to BRL700m. It was BRL764 million in '05. In the last quarter in fact BRL700 million in the First Quarter.

The last -- in this last quarter of 2005 there were some additional provisions that we billed, for example, for (inaudible). But I would say that considering BRL700 million per quarter. So BRL2.1b, BRL2.2 billion per year minus gives a pretty decent guidance that we could suggest for your modeling in the future.

In terms of cost assumptions, 6% of the other fixed portion as we mentioned before. You have other costs that are relative to expansions and it's difficult for us to guide you exactly how successful the operations will continue to grow in terms of the Postal Bank, in terms of the agreements with other companies that we actually give the feedback on some fees there made in the expenses line and they are not netted out in the line of fees.

It's difficult to give a precise data. But if you consider this fixed portion of 6% and the overall expectation that we have for the several agreements that we have it could vary between 13 and some 15% for the full year. This is the general expectation. So a fixed portion fixed and the total expectation between 13 and 15. But again it really depends a lot on how successful the continuous growth will be on the agreement for Postal Bank and others. But at least it's a guidance that you could be modeling in.

Q - Stephen Baird {BIO 18299007 <GO>}

And in terms of -- sorry is that a one-off impact this year, or is it a case for next year cost growth will be a similar magnitude?

A - Jean Leroy {BIO 17084785 <GO>}

No this is a continuous basis because Bradesco is more and more making deals with companies with retailers and the Postal Bank is working better and better. The volumes are growing more and more and actually we have the payment of part of the fees are given back in terms of expense.

So it's an ongoing basis. But again this depends a lot on the success of these deals and also on the growth, continuous growth in GDP and other factors that you have also as an impact.

Q - Stephen Baird {BIO 18299007 <GO>}

Right.

A - Jean Leroy {BIO 17084785 <GO>}

In terms of your last question for assets under management, the trends are a very interesting (parameter). As I've mentioned the Company has been working very well. We have been not only growing in terms of size. We have been also increasing the average fees. It has been pretty -- pretty well expressed in the numbers of the Fourth Quarter where you can see that one, there is a strong asset management growth. But, two, there is also a very strong impact on the fees coming from asset management. Part of that because of volume part of that is because we are growing the average fees -- it is overall. So this is part of the structure of the bank.

In terms of the trends, more and more we should see brands selling products that are more differentiated as Mr. Milton has been saying. You have the possibility to sell more and more to segmented clients. So private customers, prime customers they have other needs that the retail customers. And to respond that we are creating more and more products and we are also seeing an increasing inflow in equity products in the asset management industry. And this will be definitely followed by Bradesco as well.

Q - Stephen Baird {BIO 18299007 <GO>}

That's great. If I could just have one follow-on question on the asset management business? If you looked at your target client base currently do you have a feel for what the penetration is in terms of the number of clients who have asset management products with Bradesco? And where you think you could sort of take that figure to?

A - Jean Leroy {BIO 17084785 <GO>}

Today we have approximately 2.5 million customers of Bradesco who have asset management products. We have overall some 15 million account holders and 1 million corporations. So a lot of this 2 million they are also -- some of this 2 million they are institutional customers. But a lot of them are individuals.

Q - Stephen Baird {BIO 18299007 <GO>}

That's great. Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

Thank you.

Operator

Our next question comes from Mr. (Tomas Orad) with (inaudible).

Q - Tomas Orad

Hi, Jean. Sorry. Just one follow-up on the expenses side just to make clear. You were talking about total growth of 13 to 14% on -- we would take personnel plus administrative expenses on this 13 to 14%. And is this considering -- what kind of organic growth are you planning? Are you working with opening new stores, new customer family stores? What kind of offer -- organic growth is now considered in these estimates?

A - Jean Leroy {BIO 17084785 <GO>}

(Tomas), when we talk about 13 to 15% we are talking about personnel and administrative expenses together. So you should have to add both lines.

Q - Tomas Orad

Okay.

A - Jean Leroy {BIO 17084785 <GO>}

In terms of the distribution we have approximately 3,000 branches, 2,000 mini branches. We are planning to increase more the outlets of Sinagua. This year we should be growing 140 stores of Sinagua. In terms of the expansion we also have to consider that you should have another 2,000 new outlets that will be selling -- in the Postal Bank concept. This year around 2 -- this year or next year around 2,000 will be added in the 5,500 that we have.

And in terms of the prime branches, which are focused on the higher income bracket we are talking up to the end of this year approximately 25 points that will be growing this year.

Q - Tomas Orad

Okay so it gives you a --.

A - Jean Leroy {BIO 17084785 <GO>}

Sorry, correct me. 20.

Q - Tomas Orad

20 new stores on the high income branch?

A - Jean Leroy {BIO 17084785 <GO>}

That is for prime accounts there.

Q - Tomas Orad

Okay.

A - Jean Leroy {BIO 17084785 <GO>}

If I can just correct myself I was talking about some 2 million asset management customers. We are actually talking about 3.3 million customers totally. So responding to the question of Stephen, 3.3 and not 2 point something that I said.

Operator

The next question comes from Carlos Gomez of Legg Mason.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hi, Jean. Good morning. I have three questions. The first one is about the American Express acquisition. Is there an annual fee or any type of recurrent payment that you have to make to American Express to use their brand?

And the second was this a completed process or the American Express only negotiate with Bradesco?

Second, on the Card Processing business with Fidelity, I imagine you will be passing some of your -- of your people currently doing that business to them. So the deconsolidation should reduce the expenses. Could that be correct and could you comment how much and when this new consolidation might take place?

And finally, on your capital policy I wanted to give you the opportunity to say that you have had no stock dividend this year. And I want to know if there's any plan to either have any sort of buyback or just continuing your regular dividend payments? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Carlos hello. Just for the First Quarter, the first question you have in terms of American Express, in this deal we are talking about the 10-year deal which is automatically renewed based on some (both group asset) between Bradesco and American Express. If we can reach both goals we can automatically renew this deal for another 10 years and so on.

In terms of the fees that we are charged, basically we have 1.2 million cards and the fees that we are charged by American Express are roughly the same as we are charged by Master Card and Visa. So there is no -- not so much of a difference for -- for the fees. And actually the more -- the fees we pay to American Express the better because it means that the deal is working very well and that we are adding a lot of value in this American Express deal.

In terms of Fidelity, the idea is really a concept. This is a strategy to reduce and the focus has been a lot in terms of reducing administrative costs, back office costs and so on. And with Fidelity we have the possibility to decrease the cost of processing and also we will not have to invest money going forward in this business. This Company will be investing in the name of the department.

In terms of personnel, we have the possibility to reduce our staff by some 1,200 people if we have our people that are on processing. Right now it's moved to Fidelity. It's a guidance. It doesn't mean it will be this number. But just to give you a guidance for these items.

And if you could ask your third question again, I didn't hear very well. Could you ask me again please?

Q - Carlos Gomez {BIO 15024854 <GO>}

Yes, it was about your capital policy and whether you intend to be aggressively buying back stock or just to continue regular dividends. Could you also tell me if the AmEx deal was a competed bid or an exclusive negotiation? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Okay. So ending up in terms of American Express we chose to buy American Express in Brazil. We went to American Express. So they didn't open the bid to others because they were actually in Brazil and we had been discussing for more than 18 months, approximately 1.5 years we have been talking to American Express senior management. Because we thought that American Express would be a very important key in the overall strategy of Bradesco in the credit card business. So it made a lot of sense for us and we thought it would be making a lot of sense as well for American Express.

So we chose to talk to American Express and we have like a clause in the contract that was giving the right of preference for Bradesco if someone else would be trying to bid. So it was exclusive and we have actually, we have in the contract a clause guaranteeing us the possibility to have an advantage visa vie someone else we would like to maybe bid for the same operation.

In terms of our capital policy, the idea that we have is as you noticed we didn't have been raising capital like historically we were making almost every year. And give or take every couple of years we have been issuing capital and raising capital in the market. But I cannot guarantee that it is going to be like this. Like one year we do, one other year we do not. It's clear that the earnings growth in the Bank has been very strong. And the capital growth has been also driven by the incorporation of this profit into the equity of the company.

We also are analyzing, for example, little changes of stock. I would say it should not be an ongoing process. It doesn't mean that we are going to be more aggressive. Maybe you could consider Bradesco to continue to follow these steps. But we have been more aggressive than in the past. But it doesn't mean that it's going to be much more aggressive than that.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

There was a question from the Internet which was asked by Juan (Partida) focusing in terms of IT expenses. And what we can consider as additional expenses; so on the top of this 1.5, 1 something billion Reais we do every year, we have additionally 350 to BRL400 million just this year. So 1.5 grows to 1.8 approximately this year, being 1.5 like the recurring basis and this 300 would be on the top because of our projects called IT improvements.

It doesn't mean that it will be as Milton is remembering me here. But it will be impacting the bottom line directly because part of that, a big part of that is deferred in more years. Following question please.

Operator

Excuse me ladies and gentlemen this concludes today's question-and-answer session. I would like to invite Mr. Jean Leroy to proceed with his closing statements. Please sir, go ahead.

A - Jean Leroy {BIO 17084785 <GO>}

Thank you, to each and everyone for following the First Quarter 2006 conference call. The Investor Relations area will be open for your follow-up questions and see you next quarter. Thank you.

Operator

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