FINAL

Bloomberg Transcript

Q1 2012 Earnings Call

Company Participants

- Luiz Carlos Angelotti, Executive Managing Officer and IR Officer
- Paulo Faustino da Costa, Market Relations Department Director

Other Participants

- Boris Molina, Analyst
- Carlos Macedo, Analyst
- Chris Delgado, Analyst
- Daniel Abut, Analyst
- Hasi Hassan, Analyst
- Jorge Kuri, Analyst
- Marcello Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First Quarter 2012 earnings results conference call.

This call is being broadcast simultaneously through the Internet in the website, www.bradesco.com.br/ir. In the address you can also find a banner through which the presentation will be available for download. We inform that all participants will 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. Paulo Faustino da Costa, Market Relations Department Director. Mr. Paulo, you may proceed.

Paulo Faustino da Costa {BIO 6436050 <GO>}

Good morning, everyone and thank you all for participating in our First Quarter conference call.

We are here to provide you with all the information you may need about our numbers. This is in line with our goal of always increasing the transparency of information disclosed to the market. To give you an example, we held more than 100 events in the quarter including meetings, conference calls and conference in Brazil and abroad which is nearly 10% more than in the same period last year.

We have here today Mr. Julio de Siqueira Carvalho de Araujo, Executive Vice President; Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros Group and Bradesco's Executive Vice President; Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer; and Mr. Moacir Nachbar Junior, Deputy Officer.

I will now turn to our Executive Managing Director and Investor Relation Officer, Mr. Angelotti, who will lead our conference call. After his presentation, we will be opening to answer your questions.

Angelotti, please go ahead.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. After the highly unstable international scenario during the last quarter of 2011 caused by uncertainties and fears of a possible rupture of the European banking system, the First Quarter of 2012 was marked by perceptible improvement in relation to the (business) , thanks to the measures taken by the European Central Bank to the -- improving liquidity.

However, the slowdown in China's growth pace raised such concerns in addition to the continuing uncertainty surrounding the domestic banking systems in Brazil's real estate sector. Economic activity in the United States turned in a surprisingly positive performance. But this was not enough to definitely dispel the uncertainties regarding the sustainability and pace of growth in the coming months. Given these risks, global growth remains weak and two significant impacts are worth mentioning here.

International liquidity remains high and average commodity price has also been falling during the course of the year despite the short-term pressures, especially agricultural, commerce and oil.

In this global scenario, the Brazilian government has been implementing measures to accelerate a common goal notably continuation of the cycle of interest rate floats which started in the second half of 2011, partial move back of the Basel macro prudential measures adopted since December 2010; fiscal and tax incentives for consumption and industry; and interventions in the foreign exchange markets to help domestic investors face the fierce competition from abroad and to contain the reduction in demand.

Considering all this, we believe the Brazilian economy will respond positively with the growth pace picking up in the coming period which should be evident in the months ahead. Bradesco's First Quarter results perceivably reflects this macroeconomic scenario.

Moving to slide 2, we recorded adjusted net income of BRL2.845 billion, 3.9% more than in the same period last year. We consider this result satisfactory and within expectations. Our total assets came to BRL790 billion. And adjusted net interest income increased by 14.2% over the First Quarter of 2011 to reach BRL10.695 billion.

On slide 3, we would like to draw your attention to assets under management, which ended the quarter at BRL1.087 trillion and 18.3% increasing over March 2011. It is also worth noting our efficiency ratio, which remained flat over March 2011 at 42.7% and recorded a third basis points over December 2011.

On to slide 4, we show the reconciliation between our book net income and adjusted net income in the respective fields. This quarter the only non-recurring event was the provision for civil contingencies which totaled BRL86 million. Adjusting for this event, our book net income increased from BRL2.793 billion to an adjusted net income of BRL2.845 billion.

Also on this slide, you can see that our return on average equity came to around 21% in both the books and adjusted net income (respective) .

Slide five shows a historical series of our quarterly net income. Income growth in the First Quarter was mainly due to the higher net interest income as well as a reduction in personnel and administrative expenses due to the stabilization of investments in the organic growth cycle partially offset by the increasing in the provisions for loan loss as a result of the expected increase in delinquents.

The increase of our net income over the First Quarter of 2011 was also mainly due to the upturn in the net interest income intended to the higher volume of operations, higher fees income and increased revenues from our insurance group partially offset by a higher operating expenses. Personnel and administrative came mainly from the investment in the organic growth cycle. It is worth noting that our earnings per share for the last 12 months increased by 8.8% from BRL2.72 to BRL2.96.

Slide six show our efficiency ratio which improved this quarter. In addition to our continuous efforts to control expenses and stabilization of investments in the organic growth cycle, this improvement was boosted by the reduction in administrative expenses in turn due to lower expenses from third-party services, transports, maintenance and repairs and other parts.

The reduction in personnel expenses was primarily due to the higher concentration of (vacations) in the First Quarter and lower expenses on maintenance and employee profit sharing.

Other events that helped improve our efficiency ratio were the upturn in the net interest income and fee income, thanks to the higher volume of business resulting from the investments in accelerating organic growth.

As you can see on the slide 7, our total assets came to BRL790 billion, a growth of over BRL114 billion or 17% over March 2011. Return on average assets came to 1.5%, while adjusted return on the average equity stood at 21.4%. The Basel ratio closed the period at 15% (slicing) both the quarterly and 12 months comparison which when included the subordinate financial dues ratified by the Central Bank in April, the ratio would be 15.5%.

Slide eight shows the relative share of our main operations in net income. The highlights in the quarter was the increase in the relative share of securities mainly due to high -- mainly to higher trading gains. In regarding to loans, the reduction was caused by increasing (inaudible). The annual comparison the highlight was the increase in the relative share of our insurance group to 32% of our net income due to the good performance of (inaudible). Concerning loan provision, the reduction reflects the increasing in delinquency.

Moving on to slide 9, unrealized gains totaled a substantial BRL16.130 billion in the First Quarter, an increase of BRL5.512 billion over December 2011 basically due to the appreciation of some of our investments, especially Cielo shares, fixed income, securities and (other factors).

Once again, I would like to remind you that this figures do not include the potential goodwill from our own profits in the total amount of BRL3 billion.

On slide 10, we show the evolution of our net interest income from both non-interest and interest earning operations. The interest earning portion increased by 2.4% in the quarter largely due to the upturn in average business volume. The non-interest earning portion recorded higher trading gains made in the quarter.

Looking to slide 11, as I had mentioned it, the interest earning portion of net interest income increased by 2.4% in the quarter. Most of this growth came from the higher volume of business which maintained the analyzed net interest margin at 7.6% as in the previous quarter. With this net interest income, we continue to record nominal growth, given the addition of new business, although the net interest margin should suffer a slight reduction.

Slide 12 gives us breakdown of the interest earning portion of the net interest income. Securities recorded most growth in the quarter including gains from derivative financial instruments used in the maintenance of our fixed commercial portfolio. It is also worthy mentioning the performance of insurance achieved which recorded tiered growth of 10.5% partially due to the improvement in the top markets.

In the comparison between the First Quarter of 2012 and the same period last year, gross margin growth was mainly due to the increased volume of business in turn reflecting the expansion of the customer base.

On slide 13, as we can see, this quarter the gross credit margin, the grey area, increased by 0.3% to BRL7.181 billion sustained by higher business volumes but partially offset by the reduction in average spreads. The red area shows the provision for loan loss, which increased to 43% of the gross credit margin. Due to the (inaudible) thus substantially reducing the net credit margin.

In the annual comparison, the 30% increase in the net credit margin was mostly a result of the higher business volumes partially due to the expansion of the consumer base.

Moving on to slide 14, we can see that our expanded loan portfolio totaled BRL351 billion in March 2012, 1.5% growth in the quarter and a 14.6% increase when compared to March 2011. These increases were mainly due to the increase in loans to micro business and SMEs, which moved up by 2.4% in the quarter and 20.6% in the annual comparison.

The slight quarter variation in the large corporates portfolio was partially due to the appreciation of the real against the dollar, which impacted foreign currency loan operations. And to our shift capital (March) related operations with spread risk including debentures and promissory notes.

In the annual comparison, the highlights were mortgage loans over (draft) accounts, export financial and capital market related operations which spread risk basically comprising the debentures and promissory notes.

In relation to the other segments, individual loans growth was constrained, partially as a result of macro prudential measures as of -- at the beginning 2011.

On slide 15, this quarter our total delinquency ratio for loans overdue by more than 90 days went up 20 basis points over December 2011, to 4.1%, mainly due to increasing loans to micro business, SMEs and individuals.

Delinquency in the large corporate segments remained stable in the last 12 months. As we mentioned last quarter, an increase in delinquency in beginning of this year is expected. Finally, due to the (inaudible) in the individual loan segment as a result of concentrated payment.

We believe this indicator has totally reached its peak. And we expect it to remain stable in the Second Quarter, giving the expected decreasing the pace of economic growth and in the second half of the year. And also taking into account the reduction on the Selic base rate, we anticipated aggressive decrease in delinquency.

In slide 16, this slide shows our delinquency ratio for loans overdue by between 61 and 90 days. If you look at the graph, you can see that this ratio increased by 20 basis points in terms of total delinquency in the quarter which is partially due to the beginning of year seasonality in the individual's portfolio. When we look at our short-term (inaudible), we can see already time slot reductions in overdue loans.

In slide 17, despite the slight upturn in delinquency in the quarter, provisioning ratios have remained comfortable. In fact, we had a surplus of BRL4 billion in relation to the amount required by the Central Bank.

Assuming the maintenance of 12-month growth in net loss ratios as from March 2011, we have booked provisions in excess of BRL9.6 billion in relation to expected gross losses in the next 12 months that is the dotted part of the blue line for giving BRL12.6 billion in relation to loss net of recovers, the dotted part in the purple line also for the next 12 months.

Moving on to slide 18, reinforcing what we mentioned in regards to the previous slides, here you can see the coverage ratio of the allowance for loan losses in relation to credits overdue by more than 90 and 60 days which remains very comfortable and among the highest for Brazilian banks.

For the credits overdue by more than 60 days, the ratio of 147% and for credits overdue by more than 90 days, the coverage ratio is 182%.

Looking at the slide 19, we can see that the First Quarter fee income totaled BRL4.118 billion, 0.8% up on the previous three months mainly due to the higher revenues from assets management, underwriting operations. And brokerage operations. The annual comparison highlights were revenues from cards, which increased 20.3%, underwriting operations, consortium and checking accounts. Fee income moved up by 17.3%, basically due to the increase in customer service portfolio, the net addition of around 2 million new accounts opened and the increase in our card base with 12.4 million new debit and credit cards.

Slide 20, operating expenses fell by 8% over the Fourth Quarter of 2011. The tiered reduction in personnel expenses was mostly due to the non-structural portion which was impacted by lower expenses from management and employees profit sharing.

The 12 months increase in personnel expenses was primarily due to the impact of 2011 collective bargain agreement. And the net increase in the workforce of 8,300 employees.

It's always worth mentioning that the expansion for our workforce is concentrated in our sales force due to both organic growth and improved segmentation.

Slide 21, administrative expense fell by 7.6% in the quarter primarily due to the reduction in expenses from third-party services, transports and maintenance and repairs and also due to seasonal impact of advertising expenses in the Fourth Quarter. The reduction was due to the stabilization of investment in organic growth cycle and the determination of the partnership with the Brazilian postal service, Banco Postal.

In the comparison with the same period last year, the return was compatible with the expansion of the safety network and the consequent increases along in business volumes.

Slide 22, this slide shows revenues from our insurance, pension plan. And savings bond activities which grew by 15.4% in the First Quarter mainly due to the concentration of contributions recorded by the pension financial segment in the previous quarter. In the annual comparison, overall growth came to 20% led by the rise in pension plan, health and savings bond segment.

First quarter net income totaled BRL905 million, 5.2% growth on the previous quarter and 18.9% up in the last 12 months, mainly due to the upturn in revenues, the reduction in the claims ratios and the improved financial position.

Slide 23, this slide shows the main segments from our insurance activities. The combined ratio recorded in the First Quarter was 85.6%, 200 basis points up on the previous quarter basically due to the increase in the claims ratio and reduced revenues, reducing from the concentration of pension plan contributions in the previous quarter as I have just mentioned.

Financial assets totaled BRL122 billion, 19.4% up in the last 12 months. Technical provisions stood at BRL107 billion, BRL94 billion of which related to life and pension plans growth.

In conclusion, we believe we have a quarter of good results mainly thanks to the upturn in net interest income due to the higher volume of operations and increase in the customer base, as of higher trading gains and the reduction in the operating expansion which once again had a positive impact in our depreciation ratios.

Despite the upturn in delinquency ratio this quarter, we have maintained a hike over (inaudible). We also keep our confidence high on the (watch) of our loan portfolio supported by a force of appropriate and consistent process, guarantees and press evaluation instruments.

While still on the subject of loan operations, we expect a slight higher loan growth for this Second Quarter. However, we expect a more accelerated expansion on the second half of the year.

Despite the signs of a global economic slowdown, we remain focused on leveraging our operations in both the banking and insurance segment. In our responsible memoir contributing to the democratization of spreads and sustainable development. Our business in Brazil is closely long-term expectations for Brazil representing by its strategy of increasing investments with the organic (inaudible).

Thank you very much for your attention and we are now available to answer any questions you have -- you may have.

Questions And Answers

Operator

(Operator Instructions)

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

I have two questions. One is with regards to delinquency ratios. I think, you said that you expect delinquency ratios to have peaked in the First Quarter and you expect gradual improvements now through the end of the year. I wanted to understand what makes you comfortable in saying this. If you can give us any color in which segments have you seen a stronger deterioration in delinquencies; was it in vehicles or credit cards or what segments and why you do you feel confident that delinquencies will start to improve? Because today, we just got data from one of your competitors showing that early delinquencies for them is still rising.

Then my second question has to do with the recent announcements that the Bank has been making in regards to reducing credit spreads, probably following what the state-owned banks are doing. I would like to hear from your perspective then what will this mean for the Bank? Does it mean faster loan growth? Does it mean lower profitability in the future? If you can just give us an idea then why are you following the state-owned banks? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thanks for the questions, Mario. About delinquency, we see that our delinquency ratio for this quarter, the Second Quarter, we expect that probably will be stable, is near off the peak. We understand that if you have your -- the increase would be a little -- 0.1%. And we expect for the second half considering the economic environment that the actions that our program envision of reducing the delinquency rate. And probably the economy will give more increased volume.

We expect that our delinquency ratio for the second half will start to have a gradual decrease. We understand that these deposit bookings for our portfolio was the behavior in the last quarter. To give you those segments, we had zero increase in cost there (inaudible) and now, we understand that the delinquency is starting to be stable and probably will start to decrease. The SME segment that we had a zero or more increase in the last quarter, the impact was a mix of the portfolio.

We did huge investments in our structure part improving our participation in these segments and the more we see the SMEs, the SMEs had revenues less than BRL30 million, we had increased our participation in these segments and the -- now the average of delinquency ratio for this segment is zero higher than the average of the portfolio. Then we had no new increases but when we analyzed the numbers, the short delinquency ratio is reducing. And we expect that probably we are now very close to the stabilization in SMEs in the same way and looking for the corporate portfolio, the delinquency is stable in the past 12 months.

We don't have any specific problem with any product. In credit card now, it is more stable. In the car loans portfolio since 2010, Bradesco is very selective -- or we were very conservative in this segment because the margins was very thin and sometimes for us it was not possible to do the operations. And the (inaudible) risk was too repetitive or was more -- was for us. We understand that we won't add this risk and not profitability for the portfolio. Then we understand now that the payments for the delinquency ratio in our portfolio this quarter, the stabilization and for the second half probably will start a gradual reduction.

And about the expense, the reduction about the recent measures that we did for reducing the risk for some products line, we understand that the addition of volume that we expect in these products with the new rates, we will probably see the reduction in the margins. Then we expect that the effects in the reorganizing the profitability will probably neutral. We all need greater compensation for the reduction in the rates.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, let me just follow up then. When you mentioned the NPLs in the individual segments increased a little partially due to seasonality. But can you be more specific, in which segments did you see a worse deterioration? Was it like personal loans, credit cards, mortgages, or vehicles, or even payroll loans?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes, probably the credit cards and car loans is zero, higher than the other products. But as you understand that is near stabilization.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Thank you very much.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Thank you.

Operator

Daniel Abut, Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Luiz Carlos, a couple of questions. One on the loan growth, which you posted in First Quarter, it touched below 15% year on year. You said in your closing remarks that you expect this to pick up slightly in the Second Quarter and more pronounced in the second half. Do you think that the pick up in pace in the second half could be strong enough to still allow you to keep your guidance of 18% to 22% loan growth or that guidance is looking a little too optimistic? That will be question number one.

And question number two, the pace of Selic decline has accelerated. We are now at 9% and you and your economists are expecting that this will continue. I think, you are forecasting 8.5% by the end of the year. The speculations surrounding the need to modify the pricing of the (poupanca) is back on the table.

So could you comment on any information you have, any negotiations that the banking associations have participating as part of deciding what the government -- together with the government, what the future of the pricing of the savings account will be? And in connection with that, if there is also discussion around the direct lending rules that affect the savings accounts in the sense that you have to dedicate a big portion of them to mortgage lending also at a pricing that is related to the same cover pricing of the poupanca?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Daniel, for the questions. About the loan growth, our expectation for the loan growth in the first half was that the year we will start in a more slow movement. Deposit (rates) that we had in the second half in 2011 in the European crisis, then the Brazilian economy started the year in more slow movement. And the growth that we are having in the First Quarter is very close to our expectations. And we expect that during the year the growth in the economy will increase quarter by quarter. We are updating our guidance for the year. We understand that we can match the guidance that we (inaudible) last year in improving our (inaudible) even more than 1,000 new rates. And that we will increase (inaudible) in more than 9,400 new increases. And most of the majority are in the sales force. And we understand that we can update our guidance for this period.

About this Selic rates this will continue -- the decline probably is something needs to do about the saving account because of the competition with other products. But now Bradesco -- we are not having any discussion about that and probably it is something that the Central Bank or the government needs to think about. But we are not having any negotiations.

Q - Daniel Abut {BIO 1505546 <GO>}

From the first question it is fair to say that you're keeping the longer (inaudible) of 18 to 22 but if anything it's more likely to reach towards the lower end of that range?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

(inaudible) it's possible because of the expectations that we have for the next quarter. And for the second half of this -- the economy will be more strong. And with considering the new talks that we have, we understand that's possible to reach this guidance. We decided some things and another until now.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you.

Operator

Jorge Kuri, Morgan Stanley

Q - Jorge Kuri {BIO 3937764 <GO>}

I have two questions as well. Can you be a bit more specific in explaining the mechanics of the rate cuts that you have implemented to match what the state banks are doing. What percentage of the clients are going to be able to access this new rates? What percentage of the loans are going to be priced under the new rates? What is the average reduction in spreads that you expect from this and at the end of the year? Then what is the corresponding additional growth that you need on loans in order to fully offset the impact? Just trying to understand what the breakeven is and to the extent that these are going to be widely offered to clients. That is the first question.

The second question is on your SME asset quality. And I know you alluded to it earlier but we all saw this picture play out at one of your competitors where they accelerated the SME business quite significantly last year only to end up with a significant NPL increases.

And if I look at how things are playing out for you, your SME volumes are up 21% year-on-year which is very significant by all measures especially considering an economy that over the last 12 months probably grew 3%. And your NPLs in your product are up from 3.5% a year ago to 4.2% now. And thinking that the math actually works against you right where when you're accelerating the volumes you would expect the NPL ratio to look better just because the math, the way it works.

However, it's actually looking worse. So losses are running at -- in my view, at kind of very scary levels. And again we saw this picture with one of your competitors. So can you help us understand exactly what's happening and at what level of confidence you have that this is the right thing to do and that we are not going to see NPLs continue to rise in the SME business. Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you for the questions. About the rate cuts it's something -- a new thing that's in the market in the competition between (inaudible) is something that helps for the season. And (inaudible) decided to adopt some measures. It started yesterday the new rates in some products. We selected some products that -- we understand we could offer good opportunities for our clients. But we don't hedge now what will be the level of acceptance of the product. But we expect that probably the reduction in the rates that we are offering will have a compensation with the volume that we're expecting in this product. Then we understand that that probably the effects for the measures that we adopted will be neutral in the results.

About the SMEs delinquents. We want to say that the increase that we are having in the ratio is because the mix that we are having if you would look only at the portfolio of SME loans. During the last two years we are improving our participation in the SME market. We maintain our past policy in a very strong control and our (inaudible 5541).

We never (inaudible) the deposits to acquire more market share. In the -- we understand that this increase that we are having is because the improvement in the participation of the SMEs that have less than BRL30 million revenues that (inaudible) SMEs portfolio. Then this portfolio has a delinquency of (inaudible) than the other SMEs companies, the bigger SME companies.

Then this movement is increasing the delinquency to look at only at this segment. We are analyzing what the portfolio -- what happened in the last quarter and what is happening now. The short delinquency is 15 days; the 30 days is reducing. Then we understand that the same -- the other segment compared with the (inaudible) we expect that probably it will be a near (inaudible) we expect that we are near the reaching this total ratio for delinquents. And considering the quantity for the last half the goal that we expect and the effects of the (inaudible) in the season probably will have some effects of this (inaudible) with the reduction in the delinquency ratio.

I haven't talked about this Bradesco numbers. I have not talked about this systems. This is why we have said that the SMEs have a zero increase but considering the -- what we have in the portfolio now probably is near to the stabilization, the delinquent ratio in this segment for us.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks for the explanation on the asset quality. That was very helpful. And just to push a little bit on the first part. What -- I mean, at this point I am assuming that all of this is very preliminary and maybe you don't have the specific answers. But your best guess today is over the next 12 months, what percentage of your new loans are going to be originated under the new rates that you published?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

It is difficult to say now what will be -- we don't have now -- the cost factors, yes, it is, the new measures, the new -- I don't know how to offer you a guidance for this portfolio. Sorry. But I don't know how to show off you some number.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

I have a couple of quick questions. One is a follow-up on Daniel Abut's question on loan growth. You were mentioning that you are confident that you are going to be able to deliver within your guidance. That would imply 6% to 7% of growth, 6% at the low end, 7% at the high end for the next three quarters. You haven't really done that since 2008. And I was just wondering, would this be you gaining market share because of your new presence, would you be able to tell us what exact products you would be more aggressive in and what would enable you to grow as fast as well as basically four years ago, five years ago when the conditions were significantly different?

And the second question is related to your expenses which were surprisingly good. That is --I guess, the question I had is, how much of that is related to ceasing payments for the postal banks since the franchise went to Banco do Brazil in the beginning of the year, how much of the improvement is related to that? And how much of your expenses are related to the amortization of the purchase of BERJ in Rio last year, which presumably you started amortizing earlier this year? Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Thanks for the question, Carlos. About the loan growth, we are maintaining our guidance that we expect that we can reach our targets if the markets grow around the 15%, that is the total system, probably we'll grow, probably we can have a zero increase in our market share if we (technical difficulty) the targets. But it is something that we are working hard for to reach. Some products that we expect or we are not aggressive. But we are investing to increase our market share or our participation is mortgage. It's something that we expect to grow higher and payroll loans is another higher growth that we expect.

And in our guidance in SMEs is the highest growth that we expect to have because it is a very interesting product for us. Talks about the costs, the reduction that we have been considering the tax of the postal bank is rather -- to have BRL50 million was our expenses with fees last year. Then this year in January -- since January, we don't have the more of these effects. But one policy of this client that in the past years that Banco Postal now they can use the Bradesco Bank's or Bradesco correspondence then probably we are now one part of our extension with (fees) is because the emigration that this client -- this correspondence.

But the rate that we pay now is cheapest to them we made for the Banco Postal in the past. This is one effect the (inaudible) amortization, the effects of that is around BLR60 million is the total that -- the amortization is BRL10 million, now we start with BRL10 million per month. This is the effect that we have now.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. So essentially the BLR170 million reduction you had in outsourcing expenses in the First Quarter in regards with respect to the Fourth Quarter around -- you are saying roughly around BLR70 million, BLR80 million were driven by lower payments made related to the postal bank, correct?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes. We had a reduction. But we needed to improve our -- the 1,000 new branch that we did investment last year. One part of that was to cover the local postal agreement. Then one part of the cost that we have now is personnel in the -- with the structures of the new branches is because the Banco Postal agreements that we finished. We understand that the effects considering all the bank postal agreements in the beginning of this year is probably neutral. But we expect that the new branches, now we will start to improve the revenues and we will have more, better efficiency ratio until the end of the year and with the maturity of these investments we expect that we -- for the next year, we will continue improving our efficiency ratio considering the new structure.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. And just one question, with the strong growth that you had in building out this structure. Now, you have over 104,000 employees here in Brazil. Itau reported today, they have 96 with the similar structure, maybe not as many small points of sale as you have. Do you think the general structure they have, the size is well proportioned to your business, do you think that you might see some cutting of expenses as you go forward and try to -- and basically grow with this business and find that maybe you don't need as many heads or the headcount may be too big? Is there any kind of cutting that you see in the future or do you think it's just ongoing from here?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We did a huge investment the last year two or three years in our organic growth because the -- for us we don't have opportunity to buy other banks and with the Bank investing only in our own structure. And now the organic growth cycle is stabilizing. Then the structure that we have, we need to consider that we have one part of these employees they work in the insurance company. That is the biggest insurance company in the country. Then one part of our structure -- of the employees is the insurance company. And the -- in considering our structure we did a huge investment in the segmentation, in the -- we are improving in our structure.

Now our organic cycle is stabilizing and the structure of employees that we have now more -- will be more stable and you need to consider that the -- our sales network is bigger and broader than the -- other competitors.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

(Hasi Hassan, Fasra).

Q - Hasi Hassan

My question is concerning banking fees. We have seen local news commenting that public-owned banks are about to announce or -- no, planning to announce or have already announced a reduction in asset under management fees. I was wondering if you could comment on that.

And what would be Bradesco's strategy to react if this movement really happens? And what would be the impact for fees growth during this year, I mean 2012? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you. About the fees, our -- we maintain the analysis (inaudible) on the markets. And the Bradesco try to maintain a competitive player in the market for our time. And any new thing that is of the new analysis and the probably issues we understand that we need to change our policy, we will adopt it.

About the fees, if they grow -- we are maintaining our guidance for this year. We understand that we can reach the -- what we expected and the -- we understand that probably the guidance that we have is 18 to 12 probably we will the next hike level for this year.

Q - Hasi Hassan

Thank you for the answer.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Victor Galliano, HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, my questions have been answered. But I think there was one question outstanding which wasn't answered, which was the question that Daniel asked about the potential changes to poupanca given that Selic is going much lower. I think it would be interesting to hear if you had any comments on that in terms of what you think had happened? Would you expect this to maybe change to a function of Selic or would you expect this to be taxed, or how do you see this issue going forward given that Selic is now approaching the critical point of 8.5%?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. About the changes in the -- the saving accounts remuneration, we don't have now any comments or any new changes. That's probably if the Selic continues to decline something needs to be adopted. But this is something that's in our program, in our Central Bank, we analyzed and we don't have now any new or any comments to talk about how will be the new structure or if we will have there any change in this product.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Has there been any contact with the Central Bank reaching out to private banks about this issue or not?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes, probably you analyze it. But we don't have any notes or any comments to talk now because we don't know if -- if something will change or -- we don't have how to give you some information.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Chris Delgado, JPMorgan.

Q - Chris Delgado {BIO 17308513 <GO>}

Just a quick question as you mentioned the insurance business, it's been a big driver like employee growth and what not. I just wanted to get your insights into the ROEs and earnings in that business unit going forward that would be really helpful. Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We understand that we have a lot of foreclosing in the insurance business here in Brazil because if you analyze, normally the relation between GDP and premiums is very similar. And if you look Brazil compared with other countries you have the surge in premiums. And surge in GDP in Brazil, the position that Brazil has is number six in premiums -- number six in GDP and 15 in premiums.

Then we understand that probably in the future the position in premiums will be more close of the position in GDP, then Bradesco Seguros is the biggest insurance company in Brazil. And we understand that we have a differential if you consider the synergy that we have between the insurance company and the financial -- in the Bank. We have a lot of opportunities inside of our client basis. And the synergy between the companies we try to increase our operations or our penetration in our clients offering more products.

And the Bradesco Seguros has the complete portfolio of products and the -- we can offer packages for the companies considering products that they can offer for their employees here but normally companies offer for their employees additional tax off benefits and Bradesco Seguros has a very good products and pension plans, health and the (inaudible) and life.

Then we understand that Bradesco Seguros can maintain their position that is around 25% of the total premiums in Brazil, insurance is a (inaudible) Bradesco Seguros and now they are with or on the 26% -- probably we will maintain this level for this year, around 26% to 27%. Probably this will be the level that we will maintain for 2012.

Q - Chris Delgado {BIO 17308513 <GO>}

Okay. Great. Thanks.

Operator

Marcello Telles, Credit Suisse.

Q - Marcello Telles

I have two questions. The first one, can you tell us why your economists is saying about the -- his forecast in terms of consumer leverage for this year and for next year, particularly with regards to that service to income ratio. This -- do you know if he says that's improving or it's still deteriorating or stabilized at current levels.

And my second question is regarding your ROE trend. In the quarter you had a 20% return on equity, considering that we have margins coming now, interest rates lower for longer, probably delinquency is structurally higher than what it used to be potentially for some price compression. Do you think that your ROE trend is upwards, flat or downwards from these levels over the next two years? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you. About the consumer leverage, we understand that our economists -- we understand that probably we will -- the leverage is -- consider the consumer commitments that we have here in this table, we analyzed these numbers in this table until now, around the 22% zero increase for 22%.

We understand that's the view maintained is stable at this level considering what we expect that is for the maturity of the loans. The average maturity for the loans that probably will continue increasing in the -- for the next periods. And the rates -- the interest rates is declining and will continue declining for the future. Then these things will help to maintain stable the commitment of the families or their leverage. This is something that we analyze and we maintain in a constant analysis.

We have to say that we are not having any problem or any risk now, considering that the environment that we have ended. If you look for the future, the unemployment rate in Brazil, we are in the best level in our history and we will continue, we expect that for the next five years, the unemployment ratio will maintain at a similar level.

About the ROE, the trend for this year, we understand that probably we will expect to maintain around (22%) for the next year, probably will be similar. But if you consider more long-term, we expect that the competition, the more capital requirements that we have considering the rules that we have for the future, the Basel III and the reduction in the margins, the pressure in the margins, probably the ROE will be around 18%, 20%, we will start to decline for the future.

Q - Marcello Telles

Thank you. Just a follow-up on the first question, I mean I think the issue that I struggled with is the fact that it seems that you are not assuming that service to income can actually improve in the coming years. And so it sounds like we are actually having sort of a structural upward shift in delinquency. For you guys in the Brazilian market, of course, I acknowledge that, I think, we are doing much better than peers in terms of your asset quality, because of the profile of your loan portfolio and origination.

So is it fair to say that Brazilian banks have reached, let's say, a new level of delinquency that probably we are not going to see the levels that we used to see like two years ago and the system I have to get used to that?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

You're talking about Bradesco, we maintain our trade policy very consistent and that we analyze or we try to maintain the policy in our portfolio in the best level. And in our time we are analyzing the markets and the (inaudible) try to anticipate any best movements or any new risk that we can have in the system.

We understand that the growth that we are having in the last three years, we had a zero increase in our delinquency ratio. But if you're looking 2008 to 2009, the ratio was higher than we have now.

We'll say that if you consider in the future that the economy will continue growing, the Selic rate will decline, the unemployment rate will continue to stable, we understand that probably the delinquency ratio for the future, we will try to reduce it. Hopefully, the economy will be more stable. It will continue growing. We expect for the future that probably the delinquency ratio will be lower, considering the expectations for the declining in the Selic rate for the future and the margins.

And probably in a scenario that we will have a reduction in the margins and we will have compensation with lower delinquency ratios and with additional volumes in the portfolio, then you need to how you expect to the volumes will -- give the compensation for the reduction in the margins and the -- in (inaudible) with the last -- lower Selic ratios and the delinquency ratio probably will start to decline.

Q - Marcello Telles

Okay. Thank you very much.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Regina Sanchez, Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

I have two questions. The first one is that when we look at changes in shareholders equity during the First Quarter, we note that there was a positive impact of BRL639 million related to adjustments for the available for sale security portfolio. And we also noted on slide nine that that is shown in the presentation that there was unrealized results that went up also in the quarter of more than BRL5 billion. And a part of this is related to investments but also in securities. I mean it went up by more BRL2 billion.

My questions is, is this gain, I mean, if at some point they will be applied in shareholders equity is expected to see that, for instance, in the next quarter because we are ready to see this increase in shareholders equity in the insurance business. And will this help the Basel Index of the Bank and how much this would be impacting the capitalization ratio of Bradesco. Then I'll ask my second question. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Regina, for the question. One part of the track that we have in the equity for the rates, the Treasury operations and the bonds or they are classified in the available for sale, then they have on deduction on the equity. And according in the future the (inaudible) of this bounce, we will recognize the gains in doing their likes.

(inaudible) talked about the bonds that you -- the effects that we are have in the Bank. The effect that we have in the insurance company is the impact that we don't have now in the Bank. It is only in the insurance company because we have a different accounting procedures because of the Bradesco Seguros, is subordinate to the Susep, it's the regulator for insurance in Brazil and they are accounting principals. They now classified the -- Bradesco insurance did a new classification for portfolio of bonds that were in a -- maturities.

They change their classifications for available for sale and the Bradesco insurance had a -- increasing their equity. In the next quarter in June, Bradesco Bank will adopt the same classification in our bonds and these effects of the that we have in the Bradesco insurance equity will be reflecting in Bradesco Bank.

Then we expect probably about 0.5% in the Tier II, we will expect 45% increase in the Tier II Basel ratio.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you. And my next question, regarding this recent announcement of lower interest rates for loans made by most large Brazilian banks including Bradesco. Do you think this means that competition is increasing? And interests, banks used to pay huge amounts in bidding offers during auctions to acquire payroll accounts. I mean do you believe that the amount have paid in these auctions to acquire bill loans will reduce from now on as a result of this higher competition, offering lower rates directly to clients? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. The competition is very high here in the system, Brazilian system, for a long time. And the -- probably the effects for the future will continue increasing. And the -- probably we will have some pressures in the margins for the future. But this specific effect and for the payroll loans portfolio, we consider that is a competition effect and probably we will -- we expect that will continue increasing, this is what we understand.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you.

Operator

Boris Molina, Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Just a follow-up on Regina's question. So in the Second Quarter we should expect a correspondent decline in the stock of unrealized capital gains held to maturity that in this quarter was around BRL6.5 billion, equivalent to the increase that you are going to record in your shareholders equity and in Tier II?

So in effect this year is going to be a reclassification because it appears that there is a discrepancy between the timing at which these two recognitions had been taking place between insurance and the Bank. I just wanted to make sure that this increase in the equity and the insurance is already reflected in your unrealized capital gains and held to maturity that you reported in the First Quarter.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

(inaudible) I was only checking the information. The number that we gave you, the BRL16 billion the general unrealized gains not considering the additional number that we classify in our available for sale in the insurance company. It will be reflected in the next quarter when we have the alignment for this accounting procedures, then probably we will have an increase in the unrealized gains in June. And this affect in the Basel ratio will be reflected in the Bank in June, it will be 0.5% in this year to capital.

Q - Boris Molina {BIO 1904979 <GO>}

Excellent, thank you. Maybe just a follow-up question regarding the issue of the rate cuts that you have announced. One of your competitors apparently is awarding the rate cuts to borrowers that have had certain problems either paying their loans or have high rates of utilization of their credit lines.

Now, you seem to be cutting rates in the point where you still acknowledge that your non-performing loans in SMEs and also in consumer are relatively high levels. What safeguards are you putting in place for these rate cuts not to attract as a magnet for un-creditworthy clients, given that you don't have a positive credit bureau in Brazil because there is a risk of moral hazard associated with these rate cuts given the point in the cycle where these cuts are taking place.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

These reduction or these cuts in the rate is not a new thing that is in the system it's a -- but considering that the -- that we adopted there we have the minimal rates for a specific conditions in the -- that considering the term and the risk (inaudible) we understand that is a new changes in the system. And the -- we expect that the probably the effect that we will have as far as these mergers, the reduction in the margins, we will have the competition with the (inaudible) in the operations that we expect more volume. And we will probably the fact will be in the results.

Q - Boris Molina {BIO 1904979 <GO>}

Okay, excellent. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Victor Galliano, HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, just a quick follow-up in terms of the insurance business. You mentioned, after I put myself in the queue for the question that you expect insurance returns to stay at around the 26%. But is there not going to be a headwind here if we have a lower-for-longer Selic rate, how do you expect to compensate for the lower Selic rate, surely that will impact your insurance returns negatively? So what do you foresee as a way to offset a lower-for-longer Selic rate? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you. We expect to have a compensation lower claims ratios, more -- and increased productivity. And with cost control. And the increased sales, more high sales and revenues there we expected to improve the difference between the Company.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. So it's more kind of cross selling and --

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We are trying to improve the synergy between the companies. And we understand that we have a lot of opportunity inside the Bank for improving the participation of -- or the -- insurance products in the Bradesco client base.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Great. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Just a follow-up on -- I think a couple of people have raised an issue about the poupanca and I just wanted to get some clarity on this.

I was under the impression that in 2009, when Selic rates got to 8.75%. And we started to see some movements in -- out of time deposits and into savings deposits. The government changed the rules of the game by taxing savings accounts, specifically those accounts that have size enough to move from time deposits to savings deposits. So the large accounts. The smaller accounts don't really have access to it.

And the taxation depended on the level of Selic. If I remember correctly, the accounts were tax exempt at Selic above 10.5%. And then as Selic came down there was a gradual step up in taxation until you get to full taxation with Selic is at 7.25%.

That is still in place, right? I mean, this -- doesn't this solve the issue of the low Selic and the dynamics between savings in Brazil. Am I correct in this?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We understand that probably when we have a zero more space probably around the 8.5% is the level that we will have. Stabilization of the lower level that we can have for the Selic ratio. So don't have any cannibalization between the products if you're considering saving accounts and (inaudible) than the other products. And the -- probably our -- something will be adopted for to avoid this problem. But we don't have now how to talk to -- what will be this new measure -- it will be a new tax or something. We don't have now how to give you this information. The problem or something we will adopt for to avoid this problem because the standard is probably is that specific rates will continue to decline.

Q - Jorge Kuri {BIO 3937764 <GO>}

I guess that's my point. I'm asking you -- I mean my point is that the government already did something to avoid that. In 2009, they introduced taxation on poupanca. And so my question is I mean you didn't mention this in your response to the previous two questions.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

So I was just wondering if that is not in place any more and that was just in 2009. But as far as I remember that was a permanent change on the taxation of poupanca. So there is already a solution in place which is poupanca is taxed. So my question is, am I correct in that?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Probably now in the sense in 2000, we had -- we arrived in the lower level but we returned with increasing the Selic rate. And the problems now they are looking for some new procedure that we will be more sustainable for the future. But we don't have now all tools to give you what will be the new products or what will be the new measures. It's something that probably the Central Bank and the government, they are taking care of our or they are happy to discuss about that for -- but they are adopting measures for the future.

Q - Jorge Kuri {BIO 3937764 <GO>}

Sorry, I promise this is the last time I ask this. Just to be very specific, in 2009, the government introduced taxation on poupanca. That taxation is a gradual taxation as poupanca moves from 10.5 to 7.25. That is in place today, right?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

The taxation (inaudible). We don't have this taxation now. Well we don't -- we understand that's 8.5% is the level and to which the 5.2 is declining in the Selic rate. But probably something new needs to be adopted. We don't have the effect of the taxation that's in the 2009. We don't have this measures. This probably something new will be adopted.

We don't have now the information what will be the new -- what will be the new measures, we don't have the information.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Thanks.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thanks. And if you want -- if you (inaudible) to do a correction in the information about the -- I said the -- I talked about the effects of the market gains in the (inaudible) insurance company. They are considering BRL16 billion of unrealized gains. Our numbers BRL16 billion considering the tax of the new classification of bonds in available for sales in the insurance company.

This is -- I talked in our -- some questions ago about that wasn't considered but the correct information is that in considering inside the number is BRL16 billion. Thank you.

Operator

Excuse me, ladies and gentlemen. Since there are no further questions I would like to invite Mr. Paulo Faustino da Costa to proceed with his closing statements. Please go ahead, sir.

A - Paulo Faustino da Costa {BIO 6436050 <GO>}

Thank you, all for participating in this conference call. I would like to take this opportunity to remind you that our Market Relations department and our IR team are at your disposal and that all the content of our First Quarter 2012 and other information concerning Bradesco is in our website. I now turn to Mr. Luiz Carlos Angelotti for his final comments. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thanks to everyone for participation of this conference call. We tried to offer you the best information. But if you have any doubts you can come back to our IR Department (inaudible) and we will try to offer you the best information. Thank you, all. Have a good day.

Operator

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