

Q4 2009 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP and IRO
- Luiz Carlos Trabuco Cappi, CEO

Other Participants

- Daniel Abut, Analyst
- David Vaamonde, Analyst
- Flage Montodo, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Tito Labarta, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Fourth Quarter 2009 Earnings Results Conference Call.

This call will be conducted by Mr. Luiz Carlos Trabuco Cappi, Chief Executive Officer, Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer, Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros e Previdencia Insurance, Mr. Samuel Monteiro dos Santos Junior, Executive Vice President and Chief Financial Officer of Bradesco Seguros e Previdencia Insurance, Mr. Luiz Carlos Angelotti, Department Officer of Accounting Department.

This call is being broadcasted simultaneously through the internet in the website www.bradesco.com.br/ir. In that address, you can also find a manner through which the presentation will be available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a question-and-answer session. At the 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

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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. Luiz Carlos Trabuco Cappi, Chief Executive Officer. Mr. Trabuco, you may proceed.

Luiz Carlos Trabuco Cappi {BIO 2400673 <GO>}

Thank you. Good morning, everyone. Welcome to our conference call. First of all, I would like to thank you all for accepting our invitation to take part in this conference at which we will present the 2009 results.

2009 was a year of a contrast. In the first semester, we had an adverse economic climate and a negative feeling. But we decided to maintain liquidity and credit lines to our clients. In the second semester, we saw a resumption of positive expectation for 2010 with the arrival of a new class of consumers as a result of the social mobility, social inclusion, and the popular access to the banking system by the C, D and the E classes.

Despite this, Bradesco maintained its investment. During these two semesters, we continued to expand our attendance network and investments. We opened 441 branches and sub-branches and ended 2009 with 6,015 attendance points. We set up 4,139 Bradesco Espresso units, bringing our network of 20,200 correspondence banking posts.

This was also a year marked by national integration during which Bradesco consolidated its presence in 100% of the 5,564 Brazilian municipalities. We also opened the first floating banking branch in the world on a boat on the river Solimoes or Amazon. In terms of the results, we are presenting net income of BRL8.012 billion. 66% of this income came from the financial sector and 34% is from the insurance sector. Assets totaled BRL506.2 billion. Shareholders equity ended the period at BRL41.7 billion. The complete statement will be presented in a second by our colleague Abreu.

In terms of the loan portfolio, we ended the year with a volume of BRL228 billion. We granted new loans amounting to BRL243.2 billion and the average turnover period for the credit was 247 days. In terms of our IT model, we continue to believe that technology brings commercial benefit. The pillars of the new architecture of the system are flexibility, agility and simplifying processes.

In terms of our organization model, we are reinforcing the collegiate management style directly as the convergence of the business segments bring a gain of synergy. At the same time, we have an advanced development program for our executives.

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Our business model involves operating by segment. The retail segment ended last year with 20.9 million accountholders, clients ended 800,000 new accounts. We opened 1.9 million savings accounts.

For 2010, we foresee the inauguration of 250 branches, which will lead to an increase in sales and efficiency. The prime segment reserved special attention and now has national coverage with 277 branches, and 25 in Brazilian state. The middle segment will add an extra 30 branches to its current network of 69 points and will continue to operate within the productive chain concept.

The corporate segment attained the 1,200 largest Brazilian economic groups. It's operated in complete synergy with the investment bank. Our investment bank took part in the main capital markets operation carried out in Brazil. We are second in the ranking of the fixed income operations with 25 operations and 19% of the market share. The investment bank is in 50th position in the variable income ranking, with a 10% market share.

Looking at the other side of the coin, the insurance group presented net income of BRL2.723 billion with an impressive return on equity of 27.9%. Total revenues came to BRL26.3 billion, an increase of 14% over 2008. We reiterated our vocation for specialization with the strengthening of our dental (rels) operation within OdontoPrev, the leading company in dental plan sector.

We carried out other important business deals with the acquisition of Banco Ibi Brasil. We are also taking advantage of the opportunity presented by Ibi Mexico. We carry out this business by showing respect and admiration for our partner's C&A retail store network. We are continuing expanding our cooperation with the National Institute of Social Security incorporated by payment of 100,000 new beneficiaries a month for January.

In this moment, I would like to take this opportunity to inform you that a part of our commitment to fostering the professional development of our executives is based on a multidisciplinary concept and in order to strengthen our business area, our much respected Jean Philippe Leroy, who was our Investor Relation Officer for 10 years will become head of Bradesco Luxembourg, where he will develop activities in the international private banking and asset managing area in continental Europe.

Among his many contributions to our organization, I would particularly like to mention the creation of the Investor Relation area in 2000 and six months later, the Marketing Relations department. Jean was responsible for taking Bradesco's investment message to investors and shareholders in Brazil and abroad and for the pioneering initiative of uniting the IR and the social and environmental responsibility areas.

He will be replaced by our esteemed Paulo da Costa, who possesses more than 10 years experience in both the broker dealer area and was responsible for implementing Bradesco Securities' international operation in the United States and the United Kingdom, where he was a CEO. He also coordinated the approval of a financial holding company he

started for Bradesco in USA. Paulo will bring all his international experiences to bear on the IR and the social and environmental responsibility area.

Paulo and (Yvonne) together will be in charge to coordinate the Investor Relations area. They are available to attend any demand from you.

In conclusion, our aim for 2010 is to focus on increasing our market share and the quality of our services. We are well positioned to grow organically where we will have a great possibility within our own organization.

Finally, we stress the investment in 2010. We will use total BRL4.2 billion in the goal towards the -- to the expansion of the technological structure, purchase of equipment, and expansion of branch networks. The aim will be to strengthen the condition for consistent long-term organic growth.

Please, Mr. de Abreu, explain our position.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you. Good morning, everyone. On slides two and three, we show some of our highlights. I would like to draw your attention to our net income in the Fourth Quarter of 2009 of around BRL2.2 billion, totaling an annual net income of more than BRL8.0 billion in 2009, 5% up on 2008. The assets managed reached more than BRL700 billion, growing by 17.5% over December of 2008.

Slide four. On this slide, we give a summary of all those events we consider as nonrecurring and which affect our results in the respective periods. The last line in red therefore shows our results which we call adjusted net income or recurring net income. This quarter our results were benefited from nonrecurring events, especially the net gain of BRL388 million resulting from the payment of certain taxes pursuant to Law 11,941. It's called the REFIS.

This was chiefly due to our decision to drop certain cases in which we have been contesting in the courts the legality of these taxes. As a result, part of the provisions made for this purpose was reversed.

The remaining nonrecurring items are shown in the charts or underneath in the full footnotes. In any event, we may offer additional explanations during the Q&A section. On this slide, I would also like to draw your attention to our Fourth Quarter and annual returns on average equity, both in terms of reported and adjusted net income, which stood at around 20%.

Slide five; before moving to slide five in the order of slides, I would just like to make clear that the data, numbers, and indicators we will be dealing with from now on have not been adjusted for the nonrecurring events shown on the previous slide since we have maintained the same report and procedures adopted in our press release and economic

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analysis report. However, whenever we consider any of these events to be important, we will certainly mention this fact during the presentation.

Going now to slide five, we highlight our operational efficiency ratio, which closed 2009 at 41%, presenting a substantial improvement over the previous year, chiefly due to the increase in our fee income and net interest income.

Slide six -- total assets reached BRL506 billion, 11% up on December 2008. The return on assets stood at 1.7% and return on average equity at 21.4% in the period. Excellent ratios given the economic ratio during the year.

The Basel ratio also improved, reaching 17.8% in December 2009. This ratio will allow us to double our loan portfolio, leaving us in a very comfortable position to sustain expected growth in the coming years. Even considering the ongoing regulatory change, if you remove our surplus allowance for loan losses from our current capital basis, which will occur as of next April, our Basel ratio would be reduced to 16.9%, which is a level that we still believe to be exceptionally comfortable.

Slide seven. This quarter, 62% of our net income came from financial activities and 38% from the insurance business. This higher share from the insurance business was due to the fact that the quarter's non-recurring events had a bigger relative impact on these business results. If you can see the adjusted net income in this calculation, the insurance contribution would fall back to 33%, very close to the historic average level.

In the financial area, we can see that the results from loan portfolio increased its share over total net income this quarter, essentially due to reduced provision needs in the annual comparison. However, that relative share over net income was reduced due to higher provisioning needs because of increase of delinquency, while the relative increase in the share of the securities line was largely due to the good performance of our strategies.

Slide eight, unrealized gains surpassed BRL10 billion in December 2009, virtually flat over the previous quarter. It's worth mentioning the inclusion of the investment in OdontoPrev, Laboratory Fleury and Cetip, whose joint goodwill totaled more than BRL900 million offset in the reduction of our stake in Cielo and in certain fixed income securities.

Without question, these numbers exemplify the strength of our balance sheet. We should emphasize that these numbers do not include the potential gain from our own properties, up almost BRL2 billion and neither the tax credit of BRL813 million from the Social Contribution rate increase.

Slide nine. As you can see, this slide, the non-interest earning portion did exceptionally well in 2009, increasing by BRL2.3 billion over last year. In the quarterly comparison, however, it fell back to what we consider as a reasonable level, given that the price of most financial assets has already returned to pre-crisis levels. It's also worth noting that income from interest earning operations also increased by a substantial 18.7% in 2009,

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mainly due to higher average volume. We will be dealing with this in more detail in the coming slide.

Slide 10, regarding the net interest margin, I would like to highlight its rise to 7.8% in the quarter and its significantly improvement in 2009. The performance of our net interest margin reflects the improvement in our margins, in turn, caused by better funding conditions and the improved mix with an increase in the higher margin portfolios, especially individual loans. However, we believe the rise of this interest rate during the year can be considered atypical. In our opinion, it will fall gradually in the mid to long-term as it did until 2008, due to the increase in lower margin operations and their consequent relative share gain.

Slide 11. This slide gives a breakdown for net interest income. In the annual comparison, the highlight is the performance of net interest income from loans, which increased by 24%, primarily due, as we just mentioned, to the growth of the loan portfolio and changed mix.

The reduction in funding line reflects the decrease in interest rates during the period, partially offset by the increase in the funding volume. In the quarterly comparison, the 22% increase in the insurance line was chiefly due to higher gains from securities indexed to the IPCA consumer price index and reduced expense from the restatement of reserves in line with the IGP-M general market index.

Slide 12. The highlight on this slide is that 19% improvement in the net margin from loan operations in this quarter, the blue part of the graph. We did the best out of the series, due to the growth of the gross margin and the reduction in provisioning expenses. In the annual comparison, however, the net margin fell by almost 7%, indicating that gross margin growth was insufficient to absorb the increase in provisions. It's worth emphasizing that, by the proposal of business lines were not included in our recurring provisions made in 2008 and 2009.

As we had already mentioned, the exceptionally optimistic outlook for Brazil's economy as well as the trend of our delinquency indicators reinforce our beliefs that the worst is over in terms of provisioning needs. And we expect a continuous improvement in these net margins in the coming quarters.

Slide 13. Bradesco's total portfolio reached BRL228 billion at the end of 2009, moving up 5.8% in the quarter. The indicators were influenced by incorporation of Banco Ibi's operations in the total amount of BRL4 billion. Even if we ignore this factor, loan operations is still reporting growth, chiefly driven by loans to individuals which increased by 3.7% and the loans to SMEs which moved up by 7.2%. The products for individual segments that led the growth were credit cards with a growth of 15.4%, payroll deductible loans with 11.8%, and mortgages with 6.2%.

It's worth noting that the lower large corporate loan growth was partially due to the appreciation of the real currency against the US dollar which impacted on all indexed

loans which account for around 22% of total loans in this segment. We believe that demands forecast will increase in 2010 thanks to the improved economy.

Consequently, we expect our total loan portfolio to grow by between 21% and 25%. We will go into more detail on this later. New borrowers in 2009 who are people or companies who had no loans with Bradesco in December 2008 accounted for around BRL22 billion of the loan portfolio, underlining the fact that we have grown with equality while diversifying risk.

Slide 14. As we expect, the delinquency ratio for loans overdue by more than 90 days record a reduction in this quarter, reaching 4.9%. Excluding the incorporation of Banco Ibi's portfolio in order to give a more accurate comparison with the previous years, the ratio would have been even less, just 4.7%. Note that individual delinquency ratio has already returned to the same level as in the beginning of the year, which shows that delinquency peak is definitely behind us. We expect these ratios to improve even further in 2010.

Slide 15. On this slide, we show the behavior of early stage delinquency of between 61 and 90 days. Note that the individual delinquency ratio continues to fall. It reached its lowest level of the year in December 2009, very close to its pre-crisis level. The corporate ratio has recorded a continuous decline since August 2009 and, given the promising economic outlook for 2010, we believe it will also return to its pre-crisis level shortly.

Slide 16. This quarter, we have also included another curve representing write-offs net of the recoveries, the left curve in the slide, which gives us another dimension to our provision levels. If you look at the historical figures for the allowance for loan losses and the effective losses over the subsequent 12 months period, we can see that written off losses gross or net of recoveries has historically a strong correlation with non-performing loans ranging from E through H.

These historical trends allow us to assume that our effective losses a year from now will be close to 5.8%, indicating a surplus provision of around 2.7% of the credit portfolio, equivalent to BRL5.2 billion. Using the write-off net of recovery concept, we would have losses of around 5.1% with a surplus of close to 3.4% equivalent to BRL6.5 billion. Without question, whichever concept we look at, we have an ample portion to cover any possible difficulties that may arise.

Slide 17 reinforces our comments on the previous slide. This one shows the coverage ratio of the allowance for loan losses to loans overdue by 90 and 60 days. As you can see, this quarter we reported our highest ever coverage ratios under both concepts. As a result, we believe that there is no need to make additional provisions in the future. On the other hand, we believe we do not have to use the additional provisions we had already made since, as we have mentioned, we expect delinquency to improve from now on.

Slide 18. Considering that Banco Ibi was incorporated in November 2009, for a better comparison mainly with Third Quarter numbers we add an extra column in this and the

next two slides in which we report Fourth Quarter revenues and expense with no impact from Banco Ibi.

Income increased by a substantial 6.7% in this quarter, particularly driven by card fees due to seasonality, followed by brokerage and underwriting income, reflecting the improvement in the capital markets. For 2010, we expect the capital markets to remain strong and we believe our investment Banco Ibi has a condition to generate important revenue.

Slide 19. Operational expense increased by 4.8% in this quarter. Personnel expenses fell by 3.3% in the period essentially due to the non-structural portion, given lower expenses on the profit-sharing plan for employees and executives. The annual comparison reflects that management's effort to cost control increased the expenses by only 7.5% in spite of 2008 and 2009 Collective Bargaining Agreement and investments on organic growth during this period.

Slide 20. Administrative expenses were strongly impacted by advertising expense in the last quarter as seasonally happens in this period of the year. The other expenses lines were 5.3% up in the quarter which is compatible to higher business volume in this period. The annual growth of 13.1% is in line with our total network increase of 17% and the consequent higher business volumes.

Slide 21. This slide shows our revenue from insurance, insurance pension plans and savings bonds, which increased by 20.3% in the quarter, reaching BRL8 billion. In line with the seasonal trend in the last three quarters of the year, life insurance and pension plans products reported a substantial growth of 33% in the quarter.

Fourth quarter net income moved up by around 36%, reaching BRL828 million, chiefly due to reduced clients, the improved financial result, and the nonrecurring impact mentioned earlier, mainly from the fees. Based on the latest figures from Susep and ANS, Bradesco's insurance group maintained its leadership with a 23.7% market share in terms of revenues.

Slide 22. This slide presents some of the main numbers from the insurance activity. Beginning with the combined ratio, the improvement this quarter was primarily due to reduced client plans since the previous quarter was impacted by Swine Flu and to the higher revenues in this quarter which, as we saw, increased 20%. Our own financial assets and those with guaranteed technical reserves totaled BRL83.7 billion.

Technical provisions stood at BRL75.6 billion of which BRL65.7 billion were related to life and pension products. Here, I would like to emphasize that we work with actuarial assumptions that leave us very comfortable in relation to our future commitments with the beneficiaries of our insurance and pension plans.

The actuarial table we use is the AT-2000 with an improvement of 1.5% per year. In addition, in terms of expected interest rates for our assets, we have adjusted our provision

to more conservative levels by adopting a real rate of 4% per year this year versus a 4.3% at the end of 2008, which demanded more than BRL500 million of new provisions.

Slide 23. You can see here our macroeconomic department projection for 2010 and 2011, regarding GDP, interest rates, inflation and the US dollar exchange rate. Given the current economic performance and the favorable projected scenario, we expect a 2010 GDP growth of 6%. If it is confirmed, it will be well above the average growth for the last 30 years and one of the highest rates in the world.

As economic recovery becomes stronger, inflationary pressure increases, demanding a response from monetary policy. We therefore believe that the Selic base rate will increase in 2010, albeit with no diverse impact on economic growth.

Slide 24. Here, we show our 2009 guidance and the actual numbers side by side. In the case of loan operations, we were below our forecast, chiefly due to the large corporate volume shrinkage, partially due to the foreign exchange rate variation and partially to the migration of some of the spreads to capital market operations.

Slide 25. For 2010, we expect a loan portfolio growth to up around 21% to 25%, driven by credits for the corporate segment and by certain specific lines for the individual segment, especially payroll deductible loans. In mortgage, we expect to originate around BRL6.5 billion in new operations, representing a growth of approximately 50% over 2009.

Finally, compared with what we have been stating, we'd like to underline the fact that 2009 really was a year of major challenges. However, given the solid results we achieved, we can say that Bradesco overcame them efficiently. I say that not only because of the profit we reported, but also because we have managed to improve even further our provisioning levels for both spreads and technical reserves in the insurance business.

Another important achievement was the balance of our unrealized gain which improved during the year from over BRL600 million to over BRL10 billion. And all of this was achieved without losing sight of organic and sustainable growth, maintaining our positive and constructive vision for our country.

During the year, we expanded our presence, expanding our customer service network, our own and third-party, by more than 6,400 service points, consolidating our presence in 100% of Brazil's municipalities. Moreover, we kept extending our client base and business volume. We also have invested heavily in technology, always aiming at optimizing our resources and constantly improving our operational efficiency.

Thank you, all for your attention and we are now available to answer any questions you may have.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone, and congratulations to Jean for his new post. I have three questions, if I may, really quickly on your guidance. The first one is can you explain why your guidance for individuals portfolio growth is 16% to 20%, which is lower than the guidance for total loan growth of 21% or 25%? I guess over the last many years, we've seen you and most of the banks be able to grow consumer lending much faster than the overall portfolio. That's the first question.

Second, your guidance for financial margin growth of 14% to 18%, can you clarify if that includes trading gains or this is excluding trading? And second, what type of margin contraction is implied on this? What year-on-year basis point reduction are you assuming?

And the final question on the guidance is can you help us a little bit with the outlook for provisions? You've -- provisions were around 6.5% of total loans in 2009. Where do you think that number could be? Thank you.

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

Hi, Jorge. It's Abreu speaking. We understand that they gradually grow more in the corporate side because the companies is investing a lot. Is that a year where the economy, the big drivers for the economy will be now the investment for companies. That's why we are posting -- we are -- understand that the portfolio of corporate will grow more than individuals.

Of course, individuals will continue to be important for us, even in consumer side, but we are posting more conservative guidance for this. This could be more, we understand it could be more. But we are just posting more conservative.

One thing is because, exactly because it has been growing more in the past. Right? It's a movement that we need to replace some credit. For example, we grew, in 2007, 2008 in auto financial for example, much more. It was a very, very big growth that we had. Once you are replacing that credit, so it's to replace that credit and they need to grow the portfolio. So that's why you have this impact in the consumer side.

And say about net interest income that we are projecting growing between 14% to 18%. It's including a part of trading gain. That is some part. It's could be -- if you consider the average of trading gains that we have enforced in the past, okay, then consider it including here. But exceptional gains or losses, of course, we need to reduce.

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And why this year, we are less, let's say, optimistic about this net interest income than we were the last year? One thing is because we start -- remember that the last year, we have an average movement in the credit portfolio. Remember 2008, we grew it a lot. So to have an effect, you transfer the revenues for 2009 because we start in a point, a higher point.

During 2009, the portfolio didn't grow as much that it grew in 2008. So you have this aspect on this. And you have some pressure, of course, in the spreads during 2010. During 2009. During the higher, the most complicated period of the crisis we needed to increase the spreads. Of course, once you have the economy going back in the normal base we expect that the spreads will continue, will reduce a little bit.

Sorry, the other question -- I forgot the one point.

Q - Jorge Kuri {BIO 3937764 <GO>}

The last is on provisions, if you can help us a little bit with your outlook for provisioning in 2010.

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

Look, we don't have a number like we see -- you see it, like a percentage of the total portfolio. Normally, we use a reference that the percentage of our margin, our growth margin, as you have in our slide 12. When you see the total provision, you can see that -- you can assume to be around 44% of credit margin, let's say.

Q - Jorge Kuri {BIO 3937764 <GO>}

44% of the interest income, you mean?

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

Excuse me?

Q - Jorge Kuri {BIO 3937764 <GO>}

Interest income from loans?

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

Look at the margin that you have in slide 12, you have the gray part of the margin. It's the gross margin, right? Normally we work with something like this. The provision will be around -- this year we have close to 60% in 2009. We were close to 60%. We expect the next will be around 44%.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. That's clear. Well thanks. Thanks a lot.

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

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You're welcome.

Operator

Excuse me. Our next question comes from Mr. Tito Labarta with Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning. Just a couple questions. Just a follow-up on the financial margin you spoke about before. You said you used some of the trading gains in your estimate, but some you don't. So just want to -- I know it's hard to calculate, or forecast, but just to get a sense. If we look at the trading gains over the last few years, averaged around BRL600 million, is that more or less what you're using? Or do you think it could be lower than that, particularly since the Fourth Quarter will be switching and only around BRL300 million. So if you could maybe give us a little more color on that.

Then, the second question related to your acquisition of the Banco Ibi in Mexico. Could you maybe just give us some more color in terms of do you expect to grow more outside of Brazil? Is this kind of a sign you plan to grow in Mexico or is this just related to the previous acquisition of Banco Ibi? Thanks.

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

Okay, Tito. We consider -- when you are looking at slide nine, you see that we have the -- there are no interest gains. Of course you see that the three previous quarter was very, very strong. But you consider in the past it's very -- it's out of the curve. I think it this year was particularly very good in terms of trading gains.

We don't have a specific number for this, but we consider, as this number for around BRL300 million and BRL400 million could be a good guess for this number. Okay, the normal base, let's say. Right?

In terms of the operation of the Ibi in Mexico, you need to understand this more as an opportunity that we have once you have made the agreement with people from C&A company in Brazil and we have a good opportunity to --- they have shown the operation in Mexico is a very small operation so far.

And we understand that to have some synergy with this because all the -- we are processing in Brazil the cards in Mexico, so we have many, many, many situations that give us the opportunity to go in the different countries as Trabuco mentioned in his presentation. It is the second biggest country in terms of GDP in Latin America. So it's an opportunity, of course.

It's an opportunity to know, to stay, to understand a different country, but it definitely does not indicate that we have in our institution plans to continue expand outside Brazil. It's an operation that could be -- we understand this more as a good opportunity to stay with lower risk, stay in a different country with a lower risk with a partner that has been proved to be very, very positive with us. So that's the way that we understand the need to see this.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Great. Thank you very much.

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

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Daniel Abut with Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. I just wanted to follow up on loan growth in general and I would make two questions on this big topic. One, if I got correctly some of Mr. Trabuco's remarks, he said that the focus for 2010 will be to grow organically and to grow market share. Yet if I look at your guidance for loan growth for the year, which is 21% to 25%, that seems to me to be pretty much in line with what we've been hearing from most of your peers.

So if that's what you grow, it seems to me that you're going to grow pretty much about what the market will grow. Therefore, you will not grow market share. So what is your underlying assumption for how much the system, the market will grow loans this year? And if you really want to grow market share, don't you need to grow a bit more than that?

And second, if you could elaborate at least in broad picture terms, what do you expect for 2011, even though you're not going to give any specific guidance? Because if I look at your macro outlook, you expect GDP growth to be exceptionally high this year -- 6% like most economies out there -- but you expect a slowdown or at least to more sustainable levels in 2011 to 4%.

And when we get closer to 2011, we would have experienced significant increase in interest rates as you correctly call. So do you think that once we get to 2011 we're going to see a significant moderation in loan growth or you think that by 2011 you can sustain something in the order of 21% plus that you're likely to see this year?

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

Just a minute, Daniel, please. I'm sorry, Daniel. I was just -- we were just to be sure if I had understood all your point. And the center point that the market is having the same guidance for question in this way, will be in the same place in terms of market share. Okay, you were right.

But of course, when we give some our guidance, we try to be more conservative -- as conservative as possible to give that, right. When we said that we have space in different lines to continue to grow and gain market share, of course, in our view, even if you fulfill this market share, we will gain something close to 0.2%, 0.3% of market share. Okay. It's not a big gain, but it's a share. Of course, it's going to depend how the market will stay.

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In relation to the 2011, we don't have numbers for 2011 yet, of course, but once you consider that 2009, 2010 will be growing a lot, of course, it's hard to expect to grow the same level. But normally, we use something like close to four or five times the growth in GDP, let's say, but not against -- just -- we didn't exercise 2011 yet.

Q - Daniel Abut {BIO 1505546 <GO>}

So you say something like four to five times GDP growth. That would put you somewhere in the 15% to 20% range as a very preliminary number. The significant increase in interest rate that you expect by then, you don't see that having any effect on volume growth?

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

Again, if you consider that you have to -- you need to have in mind that Brazil will be the middle of the many, many process of investment. So if you have some World Cup come in Brazil, you have Olympic Games, so I think Brazil will have many, many investors. So I think it could be possible to grow even more, even if you consider this growth of 4%, right? Why it is growing only to 4% in 2011?

I don't have the reason for our economists' thinking right now, but when they are saying it's just because we have growth in a base that is higher, all right? When you have 6% in 2010, you need to carry over movement let's say. But the expectation of telus rate in 2011, it should be, if I remember the movement that I saw the last movement, it would be a movement to start, a movement to reduce again. All right? It's -- when they say 12.75, it's high, okay?

But if you be -- the adjustment that you need in terms of monetary policies this moment, which would be less than it was in the previous time. That's why the central really needs to increase to 12.75. Remember that the last time it was 13.75. It's a movement of the policy monetary. It to achieve exact point where this needs to be stood. But it's attempted to achieve -- attempt and error; it is to try to refine the level of this rate.

But we continue to have, even for 2011, even when they post this 4%, of course, it will be the reduction to 4%, it will be driven by exactly -- driven by the increased interest rate that we have in this year.

But in order to keep the inflation under control, of course, you need to -- how can I say -- to let go a part of the growth, to sacrifice a part of the growth is a point. But again, in terms of credit, it's just a multiple that you normally use to say 4% or four times. We don't have a specific number, sorry.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you. Let me just close by adding my congratulations to Jean on his promotion and we think he will like his assignment.

A - Luiz Carlos Trabuco Cappi {BIO 2400673 <GO>}

Thank you.

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

Thank you.

Operator

Our next question comes from Mr. David Vaamonde with Fidentiis.

Q - David Vaamonde {BIO 16322929 <GO>}

Hi, everyone. I wanted to clarify one thing on the provisioning charge. As I see it, Bradesco could be looking at a decline in the cost of risk of more than 100 basis points in 2010 versus 2009. And in fact, I was looking more at 150 basis points of decline on my calculations. I don't know if that calculation is correct, if that sounds right to you or not. Thank you.

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

Just one moment, please. Sorry, David, yes?

Q - David Vaamonde {BIO 16322929 <GO>}

Yes.

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

Sorry, I don't have specific the number in the way that you are looking. Maybe we can talk later to understand. But the point that -- the way that we provision is exactly the way that we already mentioned in this answer to another question -- is that we consider the total provision needs in the year would be around 44% of the gross margin of credit as you posted in slide number 12.

Unfortunately, I don't have exactly the way that you are seeing this. So maybe we can refine this later if you don't mind.

Q - David Vaamonde {BIO 16322929 <GO>}

Yes, yes. No problem at all. I was just doing a lot of loan loss provision charge of around BRL11 billion over a loan book of, let's say, BRL274 billion by the end of 2010. But we can clarify later if you want. Okay. Thank you.

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

Okay. But remember this BRL11 billion, I think we have, it's included BRL1.3 billion, BRL1.4 billion of extra provision, right.

Q - David Vaamonde {BIO 16322929 <GO>}

Yes, yes, yes, yes.

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

Okay.

Operator

Our next question comes from Mr. Victor Galliano with HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hello. Good morning. Just a quick question here on the IT CapEx program. I think the CEO mentioned BRL4 billion for 2010. Can you just clarify as to whether that is expensed or capitalized and amortized over time? And what can we expect for 2011? Can we expect this to be winding down by then, if you can give us some kind of indication? Thank you.

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

Hi, Victor.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi.

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

When Trabuco mentioned BRL4 billion on investments, this includes everything that we invest in Brazil. It's include the investment that normally we have in IT. I would say that the most portion of this is a normal basis. I don't need to be worried about this in terms of projecting in the future for the most of it because I think that we, as Trabuco mentioned, is 20% higher that we had last year. Okay? The impact in the numbers the next year you can see they could be marginal, let's say.

The newest thing this year is about the -- that we are manage to open 250 new branches. It will demand close to maybe BRL300 million only.

And the rest, of course, you will have a part of the IT program that has more -- we are investing a little bit more that we normally invest. But it's something that has been happening since the last two or three years. All right? So I don't think it should be impact so much your projections in the future.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Just a quick follow-up, if I may, on what Trabuco was saying about the penetration in the C and D class. I mean, do you have any data you can share with us or any kind of color you can give us in terms of how that is going in terms of penetration into those socioeconomic classes?

Say, how you are penetrating the C class. What your level of penetration is now relative to where it was maybe two years ago? I don't know if you have anything like that or maybe we can talk about that after the call.

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

Victor, just a minute, please.

Q - Victor Galliano {BIO 1517713 <GO>}

Thank you.

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

Victor, unfortunately, we don't have the specific data about this, but you have some numbers that would give you some idea about this. I don't remember if Trabuco said this in the presentation, but the last year we opened 6,000 demand accounts for people in a daily basis. For people who came from class C and D.

Q - Victor Galliano {BIO 1517713 <GO>}

6,000 accounts per day, per working day in 2009, from classes C and D.

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

Yes, just to have an idea.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

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

But we don't have another figures -- maybe you can post some later if you have them.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, okay. Thank you. Thanks very much, Abreu.

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

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. A lot of my questions have been asked, but maybe I can just ask a question on asset quality, which you focused on in your presentation. Ex Banco Ibi, loans to individuals delinquent more than 90 days improved quarter-on-quarter. Can you provide us with a sense of the movement by product? Especially, was there any product, consumer product that showed deterioration in asset quality rather than improvement? Is there anything that's not getting better?

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

Jason, Abreu speaking. When you have deterioration, let's say it's more -- if you only had credit cards you could leave a part of this. Credit card keeps the -- during the period gives -- had a very good -- if you have a -- it stayed very good during this period. It didn't have so many impact in this -- in credit card.

The other lines, all of them who have the -- who have movement to that -- who have deterioration. So now, we are going back. All of them is coming back in the good, I think.

I don't know if I answered your question?

Q - Jason Mollin {BIO 1888181 <GO>}

Yes, I mean, maybe -- I mean, I'm just thinking. Like some of the areas, I mean, you mentioned that on average we're seeing NPLs move back to pre-crisis levels. But for example, in the auto business, what did we learn through this crisis? Is there segments that you would rather not be as active in?

We've seen some of the market participants say that very used cars -- let's say cars over seven years of age had very substantial losses and some have backed away from that business entirely. I don't know if you can give us any comments on the auto space and if your strategy has changed. Clearly, we're seeing you grow much slower in the auto space or your expectation is to grow much slower in the auto space this year, 2010.

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

Look, we understand that credit needs to be very careful all the time. When the economy is going very good, you need to be very careful with credit. You don't -- not only when the economy is not good -- is going so good.

What's happened that when you have a change in this cycle like you had this -- even that all the care that you have with credit, of course, you need to be affected. It's different, of course. We understand that what we -- I think this, even for us, we have some internal comments about this. This credit to us in a certain -- we understand what we are going to say now, all right.

This credit for us, it could be very important for us because we have been growing credit for a long period -- three or four years and did not have any moment that you have some movement like this, right? That's why I think it was important for us to -- and to prove for us and for the market that we have very, very good approach in terms of credit.

Of course, we felt what happened, I think -- when you have a big change in the cycle like this, but what's important, too, that we have condition to observe what happened. That's why the bad thing is that we have to take from this movement as they say.

Of course, lines of credit -- some credits need to be changed some movement. The models we are improving every day and every month. It depends on the -- sometimes

some car case of the model that explains better in a moment and in another moment it could change. So some things are going to be very carefully every time.

Operator

Our next question comes from Ms. (Flage Montodo) with BlackRock.

Q - Flage Montodo

Hi, everybody. I have two questions. One is regarding -- I have some sell-side analysts, they are expecting to see an increase in Brazil requirements. So I was wondering what do you expect and if you have incorporated that in your projections?

And another question is regarding the investments and how you're going to grow more on the corporate side because I think -- if it's true that we're going to have a lot of investments, maybe we should see more capital markets activities this year. So I was wondering if you did part of your fee income grow, it's because of this higher capital markets and if you are somehow dividing what is going to be just corporate loans and what is going to be capital markets activities.

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

Okay. Flage, we understand that we can have some change with our requirements once the Brazilian government start the movement to take out of the cycle policy they create. But to understand they will -- it won't affect our budget for the -- it will affect the liquidity of the system, of course, but once we -- now we have a very high level of liquidity, I don't think it will be affect too much in our net income at the end.

And the other point, you are right when you say -- you are correct when you say that, in the large corporate, we expect to grow 20% to 26%. And just to answer a question like this in the Portuguese section, it was exactly the point. Maybe we won't see this in the (total) loan portfolio because we don't know exactly where we are going to grow.

Maybe you are growing in some securities like debentures, like notes and others than the credit. Maybe we need to show, to point to the market. But in terms of credit risk, we understand the growth would be this size. All right? Maybe you see this in other lines of the balance and not in the credit, in other words.

Q - Flage Montodo

Okay. Thank you. And I'm sorry that I didn't participate in the Portuguese one.

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

No, no problem. I just -- it was good your question just to clarify this in English. Okay.

A - Luiz Carlos Trabuco Cappi {BIO 2400673 <GO>}

Okay. Trabuco speaking. Concluding, I would like to thank you, wishing every one health, success and a year full of accomplishments. I wish you happiness in your life, in your social, professional, and family aspects. If you have any further questions, please feel free to contact us. Thank you. Thank you very much.

Operator

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

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