

Q3 2005 Earnings Call

Company Participants

- Jean Philippe Leroy, Executive Gen. Mgr.
- Jose Acar Pedro, EVP and IR

Other Participants

- Jason Mollin, Analyst
- Luis Adami, Analyst
- Mario Pierry, Analyst
- Pedro Jimenez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's 2005 Third Quarter results conference call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer, Mr. Milton Almicar Silva Vargas, Executive Vice President, Mr. Jose Luiz Acar Pedro, Executive Vice President and Investor Relations Officer, Mr. Domingos Figueiredo de Abreu, Managing Director, Mr. Jean Philippe Leroy, Executive General Manager.

This call is being broadcast simultaneously through the Internet and the website, www.Bradesco.com.BR/IR. On that address, you can also find a banner through which the presentation will be available for download.

We inform that all participants will be only able to listen to the conference during the Company's presentation. After the presentation, there will be a question-and-answer session. At that time instructions will be given.

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.

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Now I will turn the conference over to Mr. Jean Leroy, Investor Relations and Executive General Manager. Mr. LeRoy, you may proceed.

Jean Philippe Leroy

Thank you. Good morning to everyone and welcome to our Third Quarter earnings conference call. I would like now to transfer the floor to Mr. Acar Pedro, Executive Vice President and Investor Relations Officer. Mr. Acar.

Jose Acar Pedro {BIO 1895666 <GO>}

Good morning, ladies and gentlemen. and welcome to our Third Quarter earnings call. Bradesco in the first nine months of the year recorded a (inaudible) income of more than 4 billion reais, which represents the account was in 102.3% [ph] increase over the same period of last year.

69% of this result was generated by Banco and 30% by our insurance participation [ph] plan and savings (inaudible) activities.

Considering our 18.3 billion reais top quarter (inaudible) our annualized return reached 33.7%. Our loan portfolio continues to present a strong growth. 25.5% over the last 12 months, 19.8% in 2005 and 7.8% just in the Third Quarter.

As a consequence, loan represents 37% of our total assets, vis a vis 33% through September 2004. Loans to individuals expanded quarter-over-quarter due to the cycle of rising real wages and decreasing levels of the unemployment ratio we are now experiencing in the country.

In the last 12 months, our loan portfolio grew by 15.3 billion reais of which 11.9 billion was generated by individuals. Such performance is a result of Banco Bradesco's strategies to increase exposure to individuals since the late '90s.

We gave focus to consumer finance and (inaudible) acquired the bank as Continental (inaudible), closed operating agreements with (inaudible) manufacturing (inaudible) 3 with banks and payroll maintenance and form. With restatements such as (inaudible) software.

Additionally we acquired the operations of Banco Maranhao [ph] . The agreements with (inaudible) just to give you an idea how (inaudible) accounts for more than 1.5 billion reais in operation which has more than doubled since last June. Our 75 billion reais local volume continues to show excellent quantities, seems to double a to (inaudible) operation accounts for 93.1% of the total book vis a vis 8, 9.6% for the banking sector and 92.3% for private banks.

Investments in our credit (inaudible) seeing important investments in training our staff where (inaudible) fundamental for us to increase our portfolio both in terms of volume

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and quality. From the operational side (inaudible) has been one of our main focuses and as one can see for the quarter we posted an efficient duration below 50%. Bradesco's 44.4% constitutes income operations regarding the first nine months of 2005 should be compared to the 57.5% ratio reached in the same period of 2004.

In other words, after two years of Incorporated acquiring the companies, maximizing our structure in improving our processes, our efficiency ratio reaches and international benchmark.

I would like to highlight the awards given to Bradesco by important magazines Venture [ph] and Latin Finances. Recognizing us as the best Brazilian bank of the year. It is an award to enforce our dedication to continue improvements in our services, (inaudible) and customers special.

Bradesco also earned a broad (inaudible) in the market by receiving the first corporate consideration for (inaudible). Our double way [ph] racing characterizes our corporate governance practice and we are expressly commitment of continued improvement in this topic.

Bradesco's solid operating performance improved the cultural perception made our market capitalization surpass both September 30 with a 51.6 billion reais mark, a sound 143.3% increase over the last 12 months. And a strong 30.5% jump in the Third Quarter.

Bradesco's market capitalization is today the highest in Latin America. Reminding you that since September of 2004 our common shares have appreciated 179.7%. And our (inaudible) share was 138.1%. In line with our policy to continue at shareholder value we recently informed the market that our Board of Directors will decide in a meeting to be held on November 11 if payment of complementary interest over capital in 903 million reais.

These dividends were a response to 30.8 months of regular payments. With the approval of this proposal Bradesco will have paid as interest for on capital, an amount higher than 1.5 billion reais to its upholder.

In addition to that end an extraordinary stockholders meeting to be held on that same day, shareholders will vote on an additional bonus, free of charge, of 1 million stock off the same tax [ph] (inaudible) for less.

Such initiatives must be approved by the Brazilian Central Bank, aimed to improve the liquidity of our stocks by adjusting the share price to a more effective savings level.

Finally, I would like to mention the creation of our social earnings environmental responsibility area whose mission is to inform the masses of all but Bradesco's initiatives regarding the very important structure. By the way, last week we sent to the United Nations our decision to join the Global Compact which goes hand in hand with our commitment to foster actions which promote these sustainable economies.

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Once again I would like to use this opportunity to highlight the important contribution of our employees who are fully committed to our aggressive growth and who elected us for the sixth time one of the best companies to be working for. We are very positive with (inaudible) of 2006 which point to a 4% GDP growth. Our loan book should be grown [ph] from between 20 and 25%. 15% in lieu to corporate and 35% to individuals. I thank you all for your attention and we will be available after Jean's presentation. Thank you, very much.

Jean Philippe Leroy

I will conduct today the 15 slide presentation which will compare the evolution of our main figures and ratios between the nine-month period of 2004 and 2005 and between the second and Third Quarters of 2005.

Slide 2. The 4 billion reais net income posted in the nine months of 2005 represented a solid 102.3% jump in comparison to the same period of 2004 and a 1% quarter to quarter growth. EPS also followed the same trend. The increase in (inaudible) result in the combination of several factors.

No. 1, a strong 15.3 billion reais growth in the loan book between September '04 and '05 and a 7.5 [ph] billion reais just in the quarter. No. 2. A low mix of provisions of loan losses due to our excellent asset quality. No. 3. A larger contribution of insurance, private pension plans and savings bonds results adding by 256 million reais and 49 million reais respectively. No. 4. An expansion of 1.2 billion reais and 104 million reais in fee income, respectively. No. 5. The continuity of cost control measures. The nominal quarter increase in cost is mainly due to the impact of the label agreement and to the expansion of business volumes, impact in administrative and tax expense.

Bradesco's new level of profitability is quite evident and can be noted as our annualized return on average stockholders' equity moves from 20% in 2004 to 33.7% in 2005. Bradesco's loan portfolio recorded strong growth, even higher than the banking industry as a whole as well as the private banks, proving the companies strong presence with individuals and corporates, as a result of the strategy of national coverage and of the strong relationship with our 60 million customers.

AA to C rated credit operations represented 93.1% of the total book vis a vis 91.6% in September '04 and 92.6% last June. Also, better results than the banking industry as a whole as well as the private banks. As you can see in this slide, we are significantly improving our operational efficiency. This is the third consecutive quarter that we present an efficiency ratio below 50%.

Slide No. 3. Over the last 12 months, total assets grew by more than 22 billion reais, surpassing the 2 billion reais mark, highlighting the expansion in loans in particular to individuals and (inaudible). Total deposits increased year-over-year by more than 6.3 billion real with demand deposits remaining stable at 14.8 billion reais and savings deposits growing by 6.9%, we changed 24.8 billion reais.

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In addition as disclosed in our press release, we would like to highlight with solid growth of more than 6.2 billion reais in the balance of issued debentures, an important and additional funding sought for the Bradesco group.

Bradesco's stockholders' equity reached 18.3 billion reais by the end of the period, corresponding to more than 9% of total assets. Assets under management continued with a strong performance, reaching in September 114.7 billion reais due to the quality of its management and to the focus given to these important and profitable business.

Slide No. 4. In addition to the previously mentioned improved measures, we would like to reinforce our commitment with our shareholders. If approved by the Board of Directors in a meeting on November 11th Banco Bradesco will have distributed provisions more than 1.5 million reais as dividends in the form of interest on capital, vis a vis 985 million reais in the same period of 2004.

Regarding the delinquency ratio, there was an important -- there was an improvement following in our asset quality as a volume of past due operations of more than 60 days dropped from 3.7 to 3.1% between September '04 and '05. And from 3.2 to 3.1% in the quarter to quarter analysis.

Bradesco's 15.5% BIS ratio has plenty of room to increase even more the loan book and give cushion for the next year, even more if one considers the operational profit in the aggregate (inaudible). Expanded combined ratios, regarding the insurance group activities, are also recording consistent improvement as a result of studies to see (inaudible) correct and the underwriting policies.

Slide No. 5. Credit is Bradesco's call business and Bradesco holds the largest portfolio among private banks in Brazil, with a 22.1% market share. The loan book is based on three pillars. 30.6 billion reais in loans to individuals; 23.1 billion reais in loans to large corporations; and 23.5 billion reais in loans to small and middle sized companies.

We have been noticing that the exposures to individuals continue to increase quarter after quarter. This is a result of the cycle already mentioned by Mr. Acar and focused in consumer finance, Bradesco has been dedicated with since the late '90s. Once again to enforce the strategy, since last December we signed a comprehensive list of agreements with banks and retailers such as covered by (inaudible).

Over the last 12 months it is important to remind you that a 22.3% depreciation of the U.S. dollar is (inaudible) reais impacted the dollar-denominated loan growth when transferred to reais which is mainly originated by large corporate clients.

Regarding S&Es, Bradesco also continues to increase its exposure with those customers. In the last 12 months this book grew by more than 23.6%. Additionally Bradesco is also the largest bank to advance B&D (inaudible) operations for this Company.

Finally we would like to highlight the more than 8.6 billion reais in sureties and guarantees, of which more than 91% are originated by large corporate clients.

Slide No. 6. In this slide we will analyze Bradesco's asset qualities. As we already mentioned, we feel comfortable regarding our credit risk management and policy. Total allowance for loan losses reached 4.6 billion reais or 6.2% of the total portfolio vis a vis 7% in June '04 and 6.4% in July '05. Confirming the continuancy of our asset quality improvement. Additional provisions remained stable at 952 million reais.

In the last 12 months, analysis expenses for provisioning grew by 11% vis a vis the 25.5% loan portfolio channels. With (inaudible) provisions of 534 million reais in the Third Quarter took below the recorded in the Second Quarter. In this particular Fourth Quarter, there was an extraordinary impact motivated by the upgrade in the rating of a large public services (inaudible) which has been downgraded in the First Quarter in the amount of 166 million reais.

Due to recurring -- due to recurring provision expenses stand at the level of 700 million reais per quarter. These expected levels meet the provision even in the loan book increase, in particular, 20 (inaudible).

Finally I would like to highlight our historic 198.5% coverage ratio corporation past due by more than 60 days higher than the 186.7% in September '04 and the 198.2% of last June.

Slide No. 7. Continued improvement in credit and behavior forced an investment in training staff allow us to highlight the consistency of our provision policy. In this slide, we present a (inaudible) improvement of our asset quality. Represented by these lines. In the upper part of the slides in the red and blue lines, we are depicting that the volume of provisioning needs which is gradually dropping as well as the volume of each (inaudible) credit operation represented by the lines in orange.

Finally the line in black shows an important asset quality indicator. It measures net writeoff recorded over the last 12 months in comparison to the loan book of 12 months before. For an (inaudible) analysis we displaced the net writeoff recorded over the last 12 months curve, allowing a direct comparison between the last and expected outlook of RICO [ph].

Based on this analysis, one can see that a percentage of past due and (inaudible) due to rated operation vis a vis the total loan book has been showing us singular trends to the one recorded by net writeoff of course allowing us to anticipate that trend.

Slide No. 8. In this slide we present the positive behavior of two important asset quality indicators. Delinquency and (inaudible) ratio. The delinquency ratio is split between individuals and corporate and consolidated for the total book. At the end of September past due operations of more than 60 days -- for which we no longer accrue interest -- represented 3.1% of the total portfolio. The delinquency ratio for individuals corresponded to 5.1% of the total 30.6 billion reais portfolio and the one for corporations represented 1.8% of the total portfolio of 44.7 billion reais.

Although both recorded and downward trend main indicator of individuals, the coverage ratio which measured provisions for loan losses vis a vis the volume of nonperforming loan has been increasing quarter-over-quarter proving our correct credit and provisioning policy.

Slide No. 9. Consumer finance continues with strong growth in review. As for Bradesco, over the last 12 months we recorded a solid 83.2% growth in operations and an increase of 16% just in the quarter. The main growth has been placed -- has been taking place in direct landing and household finance. The first one, not only motivated by the performance of our comprehensive branch network by the 224 in other branches operating all over the country and by the operating agreement with retailers, such as Cardos Vieja [ph] and several small and middle sized banks.

The second one influence by our presence is more than 18,000 used and new car dealers. The loan volume regarding credit cards increased by 23.1% between September '04 and '05 and by a solid 6.4% in the quarter, showing the higher focus we are giving to this business.

Slide No. 10. Our securities portfolio, not including repo, amounts to 56 billion reais. 31 billion reais are government securities, 13.6 billion are corporate bonds and 11.4 billion reais, situated in reality to private pension plans, PGBL and VGBL. As you can see, we have been increasing our exposure to public bonds.

On the other hand, the increase in our loan book can explain the low expansion in government securities due to better margins in loans. 33.4% of our portfolio was classified as trading securities, 16.7% as available for sales, 7.6% as held to maturity and 2.3% as derivative.

Slide No. 11. Net interest income increased by 32.3% over the last 12 months and by a solid 3.3% in the quarter. As disclosed in our press release, adjusting net futures income by the impact of the seal of our state at (inaudible) which occurred in the First Quarter of '05 and the effect of the hedge of our investments abroad, we reached a 23% growth in adjusted net interest income between September '04 and '05 and a 9.9% growth just in the quarter.

In the comparative analysis, between September '04 and '05, the adjusted net interest income increased by 2.2 billion reais, out of which 1.8 billion reais in interest earnings. Mainly motivated by loan book growth and 463 million reais originated by noninterest earnings due to the (inaudible) tax in income from securities and treasury gains.

In the quarterly analysis, the increase in the adjusted net interest income stood at 391 million reais, mostly motivated by the impact of 292 million reais in interest earnings, due to the loan book growth offset by the 99 million of reais drop in noninterest earnings. (inaudible) that net interest margin moved from 7.5 to 8.3% over the (technical difficulty) year and from 8.4 to 9% in the quarter.

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Slide No. 12. Regarding the fee income, we recorded in September '05 the amount of more than 5.3 billion reais. This amount is 20.7% higher than the one recorded in September of 2004. In the quarter fee income increased by 158 million reais corresponding to a 9% growth showing the consistency of the improvement of this income. This is the 14th consecutive quarter in a row of fee income growth.

Slide No. 13. We continue fully committed to improve our efficiency and as one can notice, our personnel expenses increased by 7.2% in the nine months period comparison between 2004 and 2005. This percentage already operates at 6% increase in wages due to the labor collective bargaining agreement as well as the onetime bonus payment which will no longer impact our cost base in the coming month.

On the other hand, administrative expenses increased by just 1.5% in the last 12 months proving the important production amortization costs mainly motivated by the incorporation of the acquired bank. The efficiency ratio has also reported a significant improvement to be analyzed period. Moving from 58.3 to 35.7% once again confirming the strong cost control program we have implemented as well as the continued effort to increase the revenue side.

Slide No. 14. The Bradesco Seguros [ph] Insurance Company recorded in the year net fixed net income of 1.2 billion reais vis a vis 576 million reais, recorded in the same period of 2004. In this quarter, the net income stood at 425 million reais. Vis a vis a 369 million reais profit recorded in the previous one. Issued premiums from insurance filed extension plans and savings bonds reached 8.7 billion reais until September '05. Vis a vis 10.9 billion reais in the same period of 2004 corresponding to a 7.5% increase.

The personnel and general expenses to earn premiums ratios dropped from 7.7 to 7.4% showing our constant concern with costs in all the companies of the registered group. The combined ratios presented in the right side of the slide recorded an improvement when comparing the nine-month period of 2004 and 2005. And do not include the financial gain related to some of these activities.

Expanded combined ratios are included on the slide No. 4 of this very presentation.

Slide No. 15. In this slide, we present the macroeconomic outlook we are forecasting for 2005 and 2006. Basically we expect 2006 to be a good year in terms of economic growth with an inflation rate lower than 2005. Interest rate (inaudible) drop in 2006 standing at 14.5% by year end. And the FX rate should follow a similar trend of deflation.

Slide No. 16. In this slide, we present our guidance with Banco Bradesco. We believe that the loan growth will continue especially during the (inaudible). We intend to continue improving our main revenue, net interest income, fee income and insurance premiums. And to control our operating expenses, according to the percentages presented here in.

Thank you, all for your attention and now I'd like to open the floor for your questions.
Thank you.

Questions And Answers

Operator

(Operator Instructions) Pedro Jimenez with Banco Pactual.

Q - Pedro Jimenez {BIO 6467094 <GO>}

I had two questions. The first question is again about rates in terms of consumer finance. And the second one is about (inaudible). So, the first question is related with the liquid to ratios and we have the (inaudible) which one of the segments are we talking about in slide No. 9 so you have consumer finance and we just spoke a few hours ago during the conference and you gave that especially for the overinvest account, they have delinquency rates of 12,8% and I believe that is really important from the spend in each one of those segments because we have very different numbers like the simple bank statement is a 5.90% of the delinquency rate over (inaudible) accounts and because they have 1.48% expense on (inaudible) the growth you have in the consumer finance business the landing [ph] its fee understand of each of those segments. So I would just like to have direct questions regarding the delinquency rate and the growth we have especially for the consumer finance especially (inaudible) and I'd like to ask you in the future if you are able to make the breakdown of the gross yield and the delinquency rates for which one of the smallest, (inaudible) because it will be much easier for her to make for the projections in the longer-term especially with this (inaudible) interest rates.

A - Jean Philippe Leroy

It is important for you once again to look at the information we have in the presentation where we are (inaudible) of the group, comparing the level of delinquency following the vetos and for corporation and the delinquency ratio that is open on our presentation.

In terms of the different lines, it is clear that Bradesco has been a very strong competitor in customer finance, mostly because as we set up ourselves, we have been focusing on consumer finance for a very long time. Because of that, we have in our understanding a match because it is a competition. Agreements like others by (inaudible) limit would force the -- it is very important to elaborate loans to repayments and loans to outer loans, respectively.

In terms of the level of yields and the level of delinquency ratios, what we could be opening would be at the level that we have in the -- in provision. Which does not mean that it is the expectancy of losses going forward. We adjust the level provision we have in the different lines.

In terms of the loan book for individuals, direct landing we have a level provisioning close to 8.6%. Insurance of (inaudible) and the delinquency is much lower and we have a sponsor guarantee.

We have a level of provisioning that's close to 3.7%. And insurance [ph] of credit card, which would be higher we would have approximately 23.7% just considering revolving

credit. If we consider the whole credit book, approximately 9.8%.

So in general terms, we feel that we manage very appropriately the policy of loans to consumers; and the yield is roughly the same between the different players. The difference would be maybe the coverage that you have. We have at the present approximately 18,000 dealers and 18 to 20,000 stores. So we have a very broad presence in consumer lending.

We are not forecasting this year's ratios in asset quality consumers. We feel that we are going to keep the same level of delinquency for consumers going forward, mostly because of a lot of the growth in terms of finance is access for loans -- payroll loans where the risk is lower as well as in deals like we have, for example, with Carlos Vieja [ph] 45 days the delinquency is fully profit.

So we are growing in different lines where the delinquency is almost inexistent.

In terms of your question of Bradesco in the future, even more the disclosure about information we are going to think about that maybe in the coming quarter. But we already believe that we have a very good level of disclosure in terms of information that we are giving in the press release, in the press book as well as in the presentation.

Could you just tell me again the question you have for employees?

Q - Pedro Jimenez {BIO 6467094 <GO>}

Yes, prior to the question, I think really the final remark clearly provides a lot of information. I think this is not a brash wish but all of the grand banks. And just like another consideration, taken the Central Bank (inaudible) you end up with consumer final delinquency rate of 32%. So, clearly, not only from Bradesco but for all Brazilian banks, a 32% business. It seats with enough (inaudible) breakdown, (inaudible) banks, clearly that they're all ending has a much lower delinquency rate and thus, it does not sell the (inaudible) maybe these decrees (inaudible) 8.7% in March of '04 to the 5.1 right now could also be added that is like as we said a cushion effect at the federal lending which they are the effect but clearly like you have a point and like you could that this could once again be the first one. And if you could reverse further details and from (inaudible).

In terms of is expense clear. It's a question -- it's like you increased by 694 in terms of your employees so you have the 1% increase in the employees in this quarter. I'd like to know if this is a long trend like if and where did you have this increase if it was in the customer finance (inaudible) business or if you're just increasing the number of francs [ph] or much more on this side?

A - Jean Philippe Leroy

All right, Pedro. And just about the first question of yours, the topics -- there is a difference about the information that is provided to the Central Bank from each and every bank. For example, Brazil's complete form not only the level of past due but the level of falling due operation. And some other banks they just inform past due loans.

So it is difficult to compare it exactly the same form of the banks because the information is not submitted exactly in the same way.

In terms of the individual, in terms of staff we added 694 employees in this quarter. Basically, this would be because of the growth of the Finaza [ph] at Forrest [ph]. We increased the number of stores. We have some 224 stores right now. It is a focus that we continue to give and this is the reason basically why we have an increase of the number of personnel in this quarter.

Operator

Mario Pierry of Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. Congratulations on the solid results. I have two questions, Jean. First is on your efficiency ratio. You mentioned that you have finally reached an international benchmark over the efficiency ratio, around 50%. If we wanted to get a perspective from you how low do you think this ratio can go? And then on your provision charges you also highlighted that your provision charges have been going below the growth of your loans.

So is this a trend that you expect to continue next year or should we see it pick up in provision going forward?

A - Jean Philippe Leroy

In terms of the cost of income ratio, Mr. Marcio Cypriano set a target for us to reach a 50% efficiency ratio in the last quarter of the year. But we have been much quicker to achieve this goal that was set by our President.

The cost income ratio of 44 or 45% is actually an excellent cost for income ratio. The expectancy for this year is for the full year as we already have three-quarters with cost income ratio lower than 50 is that for 2005 numbers, we should have a cost income ratio lower than 50%. And for the future we will always strive to keep on having a cost income ratio as low as we can use. But it is very difficult for us to give real -- an exact expectation of cost income ratio behavior going forward because it depends on several reliables.

On our side in terms of cost, we are going to try definitely to do our best and in terms of revenue you have been noticing the solid growth alone and the solid growth in (inaudible). So a cost income ratio close to 45% is excellent. And we will try to do as much as we can to keep it this way or even to become better. But it is very difficult to give an exact guidance for the cost income ratio going forward.

In terms of the second question, the level of charges that we have in terms of provisions in general terms, they are a little bit lower than the loan of growth yet this comes together with the fact that we have been investing a lot in systems, (inaudible) in credits for us and we have a lot of experience to lend money to our customers and also to customers where

the risk factor is higher, which is in the case of individuals. We have a solid understanding of what to do.

In terms of the prospective going forward, one thing that is important to mention is that the level of charges this quarter were on a recurring basis closer to 700 million reais because we reversed the effect of the company -- electricity company -- in this quarter. So from the 500 + million reais for the expansion, the recurring number was closer to 700. And the explanation we were trying just to restate that the expectancy because of the loan book growth, as well as the exposure higher exposure to individuals is to have every year approximately give or take 700 million reais of expenses every single quarter. Giving you some 2, 2 billion + reais of expenses of charges per year.

Operator

Jason Mollin of Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

My question is related, again, to provisioning and perhaps a different variation. If we add in the reversal of this 166 million reais in provisions for this loan to the utility company and we use this provisioning level we take it and annualize it, we come up with a rate of about 3.9% provisions on the income statement to average loans. I'm just trying to get a sense, based on just what you were saying about the provisioning level per segment, now that individuals represent the almost 41% of your books corporate about 31 and SMEs about 29 I'm trying to understand, by segment, what are you -- what do you expect to provision for these loans?

You mentioned -- I'm not sure if this was a stock on the balance sheet when you just said provisions for individuals were 8.6%. Or if you can give us a sense of what you expect provisioning to be, kind of as a percentage of loans based on the segment?

A - Jean Philippe Leroy

In general terms, your rationale is correct. We have a level approximately 3+% of expenses every year in terms of expectancy going forward. In the slide No. 7 you definitely opened the level of provisions that you have -- the stock of provision and you are talking about the inflow of new provisions.

It's difficult to give that guidance even more for segments but let's say that in terms of large corporations which is secure, because most of the companies are well kept alive and all the segments are working well and no anything bad is not behind the radar screen that we have.

On small and medium market companies, we feel secure because we are growing and we believe that the segment will not have a new back -- negative impact going forward in terms of delinquency because you'll have an inflow of new operations. Maybe higher than what we had in the last year.

And for individuals, as you can see, we have a lot of different strategies and edge, vis a vis, other peers. For example we have an agreement where we have fully guarantee of the delinquency and all the other agreements we are trying to close and we close, they have the same type of pressure now.

So at the end of the day, I would say projecting these corporate (inaudible) projecting the (inaudible) continued to grow. Inflation under control and no factor having any type of product of problem we believe that the numbers going forward should not defer very much to what we are posting right now.

Q - Jason Mollin {BIO 1888181 <GO>}

But should we expect that percentage of provision, the flow of provisions on the income statement to -- I mean, you're suggesting that we won't see deterioration but as the mix changes shouldn't we have a larger proportion of flow provisioning and according to my numbers on the average over the last four years, you've provisioned about 4.7% of loans for the income statement. Does that mean that perhaps that provisioning has built up such a large cushion that the flows in the future won't need to be as high?

A - Jean Philippe Leroy

It's difficult to compare right now with the past figures because as you can see on slide number 7 we have been in a period -- let's just look at the period between March 2002 March 2003. You see the very important increase in the level of provisions because we decided to view more access of provisions. So this is a period where you couldn't be considering that much. We already reached a level of excess of provisions, close to a billion and we feel comfortable with excess of a billion.

So stripping out these numbers, when you look the numbers of total amount of provisioning, we are talking about closer to the numbers that you are talking right now. What we have -- what we're saying is that we should be moving from the 500 to maybe 700 million reais a quarter of expenses of provisions and nothing new is expected coming in the future.

So we are going to maybe increase provision in nominal terms. But as a percentage, maybe the percentage does not defer that much as the one we're showing right now.

Operator

Luis Adami [ph] from CFSB.

Q - Luis Adami

I just had a quick question on your assumption for 2006. I just wanted to get somewhat of a guidance under a more conservative scenario for next year, let's say with GDP growth or 3% and a higher interest rate that stay (inaudible) % . Giving some guidance for the increase in net interest income that you'd expect under that scenario and also if you could comment on the reasons for your higher effective tax rate for this quarter? And some guidance for the tax rate that we should expect for this year next year?

A - Jean Philippe Leroy

I didn't understand just the first part of your question. The second one, I did. Was it about the macroeconomics scenario or (MULTIPLE SPEAKERS)

Q - Luis Adami

No for the macro scenario that you have, because you have a good growth of 4%. So let's say a more conservative assumption of 3% and a higher interest rate say 16, 17% for year end '06, what would you expect in terms of impact effects on your guidance for '06? Because you have, for example, your net interest income going up by 5, 10%. How would that be different under a more conservative macro scenario?

A - Jean Philippe Leroy

Look, Luis, this 10% (inaudible) analysis that a lot of analysts are very very difficult for us to give because of reliables that are very large. What we are giving in this outlook for Bradesco on slide number 16 is considering, for example, if we have a year which is a little bit weaker in terms of GDP performance or interest rate is a little bit higher than the loan book growth should be closer to 20%. If we have a year which is a little bit better than we have a loan book growth closer to 25%. The same with match interest income.

So this is most likely the scenario you are expecting, giving some -- giving a range of the most important numbers of the bank, based on -- see now that that is a little bit better or a little bit weaker. And looking at the numbers you have on slide number 15, you'll be maybe just in between when you look at the numbers of loan book growth.

So the sensitivity announcement is extremely difficult for us to give. But I would say this guidance most likely should be achieved by Bradesco in the next year, based on our strategy and based on our positioning.

The other question you asked was in terms of the effective tax rate and, basically, what happens is that every single quarter, Bradesco analyzes its expectancy of generational profit. For the bank and for all the companies of the conglomerate within the next five-year period. And based on that, we basically have assumed to activate more or less fiscal credits.

It is clear that you have the impact of the interest on capital. It is an important effect. You have the impact of FX. If you have a valuation or devaluation all these aspects, they impact the line of the effective tax rate. And most of the markets uses as a benchmark based on the parts performance, a 25% effective tax rate.

What we can tell is that in this quarter and this is what we do every single quarter -- based on the analysis of the group and the analysis of the several affiliated companies, we excavated left fiscal core credit as maybe in the previous quarter. And it is this information (technical difficulty) on the footnote No. 35-e. You can see that the stock of 100 products tax credit increased from 151 million reais in June to 236 million reais in September. So we basically decided to activate less fiscal credit as maybe before.

FINAL

Basically we -- making this analysis of all the single companies, even though you have ways to activate fiscal credit on companies, other ways, for example if you increase the efficacy of a company you basically can excavate more fiscal credit. Stripping out to this factor we analyze in some companies, a capacity maybe not to activate as much fiscal credit so let's say that reanalyzing the numbers that vis a vis the previous quarter. What we have is that instead of having the line of 127 million reais in the Second Quarter, we would decrease this line by 34 million reais. Based on this analysis, we have been doing. So, from 127 we would be moving to 93 million reais in the Second Quarter of this year. And in the same way in the Third Quarter we -- if you add this same 34 million reais instead of a -62, you would end with a -28 million reais. As the expectancy for your model that we forecast for the effective tax rate behavior going forward, should be in a range between 25 and 28%.

This is the effective tax rate we are forecasting that you should be maybe modeling in when you analyze Brazil.

Operator

(Operator Instructions) Since there are no further questions, I would like to invite Mr. Jean Philippe Leroy to pursue with closing statements. Please go ahead, Sir.

A - Jean Philippe Leroy

Thank you. I would like just to transfer the call to Mr. Acar.

A - Jose Acar Pedro {BIO 1895666 <GO>}

Thank you for listening to our call. I just wanted to reinforce the good and recurring quality of our results based on loan book expansion, income growth (inaudible) contribution. And continuous focus on (inaudible). Thank you, very much.

Operator

That does conclude the Banco Bradesco audio conference for today.

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