Q2 2006 Earnings Call

Company Participants

- Jean Leroy, Executive General Manager
- Milton Vargas, EVP and IR Director

Other Participants

- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Juan Partida, Analyst
- Mario Pierry, Analyst
- Pedro Guimaraes, Analyst
- Steven Baird, Analyst
- Unidentified Speaker

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco 2006 Second Quarter Results Conference Call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer; Mr. Milton Vargas, Executive Vice President and Investor Relations Officer. Mr. Domingos Figueiredo de Abreu, Managing Director; Mr. Samuel Monteiro dos Santos Jr., Chief Financial Officer of Bradesco Seguros Insurance; and Mr. Jean Philippe Leroy, Executive General Manager.

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 banner to which the presentation will be available for download.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the belief 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 effect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

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

Jean Leroy {BIO 17084785 <GO>}

Good morning. Good afternoon to everyone. It's a pleasure for us to conduct the Second Quarter conference call. Let me now transfer the call to Mr. Milton Vargas, Investor Relations Officer.

Milton Vargas {BIO 3347541 <GO>}

Good morning, ladies and gentlemen and welcome to our conference call. Banco Bradesco recorded a net income of 1.6 billion Reals in the Second Quarter and 3.1 billion Reals in the first half of the year, 19.5% higher than the same period of 2005. Banking activity represented 65% of the first half bottom line, while insurance, (privatization) and savings bond operations accounted for 33%.

Banking activity have exceeded the 2 billion Reals (inaudible) mark. And insurance activity has surpassed 1 billion Reals. Taxes and contributions, paid or provisioned have exceeded 2.7 billion Reals representing around 88% of the next income. Continuing with our strategy of the adding value to our shareholders we paid or provisioned dividends of more than 1.1 billion Reals in the six month period. They also represent more than 38% of the adjusted net income.

Our current market capitalization stayed close to 70 billion Reals. Our preferred shares have increased on a year-over-year basis by 67%. Our common shares have gone up by 65%, more than the 46% of the Sao Paolo Stock Exchange Index evolution. As we will see in the June presentation, Bradesco's value generation has surpassed by 8.5 billion Reals, 21% higher on a year-over-year analysis, despite, one, the falling (debit) rate; two, the countries heavy tax burden; and three, fierce competition in the banking sector.

We continue to record solid profitability levels with a return on average equity of 33.4% and a return on average assets of 2.7%. The quarterly results record was based on one, continuity of the consumer finance loan book expansion. Two, operational improvement by our insurance group and strict cost control.

The loan portfolio stood at 88.6 billion Reals, 27% higher than June of 2005. This increase was higher than 25%, 25.4% growth reported by the banking sector as a whole. It's to our estimation that out of the 19 billion Reals in our loan book growth. 8.7 billion Reals were originated by individuals. Both Bradesco with more than 50 million account holders. And Finasa with more than 5.9 million clients have done very good job in fostering loans in Brazil.

Regard insurance, I would like to highlight the continued improvement in the combined and loss ratio, underlining our correct underwriting policy and the quality of its management. Our (permanent) focus on cost cutting has led to high levels of operational efficiency. Just to give you an idea our efficiency ratio cumulative on a 12-month basis, which compares expense and revenue, stood at 42, 8% vis-a-vis, 48.1% in June 2005.

Total assets reached 232 billion Reals or more than $100 billion. The acquisition of American Express in Brazil was concluded on June 30. This, too. complements our positioning in the credit card market, which we expect to be according to our estimate, a substantial growth business in the future.

On the social and environmental responsibility front, I'd like to draw your attention to two important initiatives. One, our addition to the new version of the Equator Principles and two, the granting of ISO 14 OO1 and 18. certification to our building on Paulista Ave. Bradesco is the first bank in Brazil to obtain these certifications, a proof of our growing commitment to social responsibility issues.

It is also relevant to mention the upgrade in Bradesco S&P's foreign currency, long and short term ratings, to BB+ and B, which represent a notch higher then the sovereign agent.

In this quarter, we recognized nonrecurring gains from selling off our stake in American BankNote and those relative to the Fidelity National deal totaling 183 million Reals. And on an extraordinary basis, amortized goodwill in amount of 192 million Reals.

In relation to our strategy, I would like to briefly summarize our strong belief that our investment in IT, CRM. And real time business application will be key for the sustainability of our company over the next decade. Our project called IT Improvements began in 2001 and will be finalized in 2008. It incorporates 26 different projects and total investment of around 1.2 billion Reals. Over the last year we were able to change our IT culture but the strategies of the services or different business units remain.

Following this the concept of customer relation management PRM became fundamental to (inaudible; heavily accented) by the real needs of our customer. Implementation of this SAP in our entire group will bring substantial operational benefit to our activities and will allow our bank to reach a higher quality standard. Finally, I would like to thank your employees once again for their dedication and commitment. After Jean's speech we will be available for your question. Thank you, very much.

Jean Leroy {BIO 17084785 <GO>}

So after following Milton Vargas' presentation on slide number two, let us move to slide number three. As part of Bradesco's management policy, we normally neutralize nonrecurring gains amortizing goodwill. In this quarter, Bradesco had some nonrecurring events. As disclosed in a press release on March 28, Bradesco established a partnership for credit card processing with Fidelity National and ABN Amro, in which we would have a 35% stake. This JV generated, for our company, gains in the amount of 99 million Reals.

On the top of that with the listing on April 27 of American BankNote, Bradesco recognized a gain of 84 million Reals. With the proceeds of 183 million Reals, basically the 99 plus 84, we decided to amortize in an extraordinary way the goodwill of the bank BCN, (Nestantuciu) de Sao Paulo and (Fidagy) in a total of 192 million Reals. It is relevant to mention that all these impacts that we are lifting here on this slide are before taxes.

Slide number four. In terms of the main ratios, Bradesco posted 35% return in the quarter and 33.4% in the first half of the year. Returns on assets are standing close to 3%. Efficiency has been one of the main components of Bradesco's return increase. As one can see, the efficiency ratios both in the quarterly as on the six months analysis are standing at 42.8%. Bradesco's capitalization stands at a very comfortable level at 16.5%, 11.4 in Tier one and 5.1 in Tier two. Considering the minimum 11% level established by the Central Bank of Brazil, Bradesco had a capacity, without considering further stockholders equity increases, to expand by 94 billion Reals its loan book. Somehow close to our actual 88 billion Reals book.

Slide number five. We are here depicting the evolution of Bradesco's net income and efficiency ratio. Our 1.6 billion Reals profit is our highest in terms of quarters. This is the seventh quarter in a row we are posting returns on equity in the 30s. Our 3.1 billion Reals semester profit is also the highest of Bradesco's. This is the third semester in a row we are posting returns on equity in the 30s.

It is then worth mentioning the strong correlation between Bradesco increasing its net income and decreasing its cost-to-income ratio. Senior management and staff are focused on reducing costs on a permanent way even though Bradesco has been investing more in infrastructure and in technology.

Summarizing slide number six and seven. Based on the margin contribution, we are seeing in this slide that Bradesco have a profit, a net income based on five different pillars. Insurance, fees, credit, treasury and finally, funding.

Bradesco Seguros is of the leaders in most of the product lines in insurance, the leader in pension plan and the second runner in premium bonds. In fees, Bradesco counts as more than 60 million account holders. In credit, our growth in personal loans is key. In Treasury, we've also had the impact of the gains relative to managing our capital abroad. And in funding, we account for the gain generated between the cost of our funding and the working capital of our group together vis-a-vis the base rate.

Now let us move to slide number eight. In this slide, we are presenting the distribution of our added value. This would be an equation adding revenues, basically net interest income, fees and net other operating revenues. As one can see, 29.7% of the added value is distributed as salaries and benefits, 33.6% as taxes and contributions, 13.5% as dividends and finally, 23.2% are kept in the bank for legal obligations, requirements and re-investments. Year-over-year the added value generated by Bradesco grew by more than 20%.

Slide number nine. Net interest income adjusted by the impact of hedging our foreign investments decreased marginally by 24 million Reals on a quarter-to-quarter analysis even though the (filic) decreased from 4% in the First Quarter to 3.6% in the second. Interest income grew by 65 million Reals. 188 million Reals because of volume and spread contraction impacted negatively by 123 million Reals. Non-interest income decreased by 89 million Reals because of lower treasury gains than in the previous quarter

Slide number ten. The loan portfolio continues to grow more than in the Brazilian financial system. Over the last 12 months, we grew our book by 27% via-a-vis 25.4% of the whole market. In the year of 2006, we grew by 9.3% vis-a-vis 8.6% of the rest of the bank. This shows our expertise in granting loans, the strength of our distribution and our comprehensives customer base, as well as the economic recovery we are experiencing in Brazil.

Individuals continue to be the driving force behind our loan book expansion. SMEs had an outstanding performance in the Second Quarter and large corporations had a relative flattish performance at the back of the disintermediation trend we are seeing in Brazil because of the phenomenal capital market expansion. On the top of that in the First Quarter, there was a 600 million Reals operation for a large corporate company which distorts the book of that period. Excluding this event, we end up with a quarter-to-quarter 1.7% growth.

Guarantees and -- are growing more and more and are generated basically by large corporations. 92% of them. Allowance for loan losses grew strongly because of the loan book growth and a change in the mix. And we will discuss it in the following slide.

Slide number 11. In this slide, we are presenting different consumer finance credit lines. The difference between the 32.3 billion Reals book and the 37.5 billion Reals book mentioned for individuals in the previous slide is because we are not including here overdraft accounts, mortgages, (BNDFs) on lending. But we do include receivables of credit cards. We highlight in this slide the solid growth in auto finance as a result of our solid 26% market share. Direct lending is growing on the back of payroll loans, as you will see in the following slide. In this quarter, we are including for the first time the American Express operations we concluded to purchase by the end of the period.

Slide number 12. In this slide, we are disclosing different types of personal loans. The highlight is concentrated in payroll loans because of the more than 3.8 million employees of companies receiving through Bradesco and the 4.4 million retirees also receiving their pension plans through our company. And the various agreements with middle-sized banks we had been closing. On the top of that, we would like to mention the success in the number of operations which originated by pre-approval credit line and improvement in the systems of credit scoring.

Slide number 13. In this slide, as we have the habit to present quarter-after-quarter, we're including four lines showing the evolution of our one , total provisions; two, required provisions; three, non-performing loans; and finally four, our charge-offs.

What we believe are the most important source of analysis are the behavior and trends of lines number three and four. Those lines have to be faced with a total level of provisions, which is line number one. By comparing the total level of provisions and the level of charge-offs, we would have an excessive provision of 3 billion Reals. Independently of this level of provisions, we monitor credit provisions and charger-offs permanently, involving the senior management including the CEO, a well as the different areas of technical analysis like the risk management department.

Slide number 14. In this slide we are disclosing the non-performing loan ratios considering more than 59 day. Separating the banks from individuals and company. The deterioratin is based on the change in the mix and the general level of asset quality worsening observed in the market, bearing in mind that evolution of our numbers do not take into consideration any type of securitization.

Slide Number 15. In this slide, one can see the evolution of the most important credit indicators. It is worth to stress the point that even though the loan book grew by 27% AA to C rated operations represent 92% of the total. These attest the quality of the new loans we are adding to our book.

Slide Number 16. The coverage ratio dropped because of Bradesco changing the mix of its portfolio and by deciding not to increase much more the excessive provisions. We still consider this 150% plus ratio as comfortable. Just a matter of exercise, we are showing some simulations in this slide using operations of securitization and the impact it would have in our coverage ratios. As one can see the improvements would be relevant. By the way, the impact would also occur in the non-performing ratios we depicted in the previous slide.

Slide Number 17. A lot has been said and written about increasing delinquency and definitely this is a relevant issue we also have to bear in mind. However, we already commented that not always an increase in provisions and on charge-offs means that a strategy of loan book expansion is wrong. At the end of the day, what really matters is if the margin, net of charge-offs, is moving up or down. And here, we are seeing an upward movement in trends. We believe in the continuity of expansion of the line in the middle, black line, net margin, in the third and Fourth Quarters as we also experienced in 2005.

Slide Number 18. So basically in this slide we are opening what is Bradesco on the same concept we showed on the previous slide but the previous slide was a consolidated figure and on Slide Number 19 we are showing the behavior of Banco Finansa.

Slide Number 20. In this slide, we are making an exercise comparing our BIS ratio trend with the loan book growth excluding any growth of our stockholder's equity, just as a matter of exercise. As one can see, we have plenty of capital to face the perspectives of loans representing a half-year portion of our total assets.

Slide Number 21, Operational costs are under control. The growth in expenses is basically derived from expansion activities, volumes; and you will see that in the following slide.

Slide Number 22. We are here presenting our personal costs (decorating) what we call, structural costs. Structural costs have been impacted by one, the annual negotiation of wages; two, acquisitions; and three, the decision to expand our consumer finance operations.

Slide Number 23. In the same way, we are here disclosing our administrative costs. These costs have been impacted by the growth of our network, investments in IT and marketing.

Slide Number 24. Fees are growing for the 17th consecutive quarter. It is important to mention the effect of having two working days less in this quarter compared with the First Quarter. Just bearing in mind that every working day has an impact of more than 30 million Reals in fees. Anyway, fees grew by 20.8% year-over-year and by 2.5% quarter-over-quarter. The growth of fees is based on the increasing client base, volumes and the success of the implementation of the segmentation of the customer base as a whole. The repricing impacting fees is marginal, growth is recurring and organic.

Slide Number 25. In this slide, we are facing the importance of expenses vis-a-vis fees. As one can see, in the beginning of 2003, fees represented 45% of our operational costs. They now represent more than 72%, definitely an outstanding performance. Our goal is to increase even more this level of coverage.

Slide Number 26. Talking about insurance, we are here showing in the next two slides, 26 and 27, the performance of our activities of insurance, pension plans. And premium bonds. Highlights would be on life and pension plan, which represents more than 51% of our premium. Individual health insurance plans are decreasing quarter-after-quarter their importance in detriment of corporate health insurance plans.

Slide Number 27. In this slide, one can analyze the loss and the combined ratios, an irrelevant deterioration in the life ratio has been observed on the back of some withdrawals in VGBL products, which could impact the short-term analysis. That is the reason why we recommend the analysis on the next slide.

Slide Number 28. In a longer-term analysis, we can see an improvement in the ratios as a result of a correct underwriting policy.

Slide Number 29. We are here presenting the goodwill amortization and the future impact over the next years. In this quarter, we had impact of the incorporation of American Express goodwill. We highlighted that Bradesco was able to obtain the divisibility of expenses in the minimum period allowed by the legislation in the sake of amortizing goodwill.

Slide Number 30. Just as a matter of exercise, we are here presenting our results and returns stripping out the impact of our goodwill amortization. In this quarter, the adjusted return would have been close to 40%.

Slide Number 31. We are here disclosing other important figures. Our funding grew strongly also because of the issuance of the debentures by Bradesco Leasing in the amount of 5.2 billion Reals. Technical provisions grew by more than 20% and our guaranteeing assets corresponds in pension plans to a 43% market share.

Slide Number 32. The investment infrastructure are key for the expansion of our branch network, which at the end of the day allows us to expand even more the loans and the services; and at the end of the day also the fees. It is worth mentioning the agreement with the 24-hour network and the retail stores. So important for the Finasa expansion.

Slide Number 33. In this slide, we are presenting our market scenario outlook for 2006 and 2007, quite positive trends and numbers.

Slide Number 34. Last. But not least, we are presenting our guidance for the year of 2006. We will revise up our net interest income and change the mix of our loan book growth expectations. Thank you. And let us now open the floor for your questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Jason Mollin with Bear Stearns. Please go ahead.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone. My question is related to asset quality and provisioning. In Bradesco's presentation, you show the increase in delinquencies and the resulting increase in loan loss provisions that we saw and you also show the increasing, let's call it, profitability of net margin after considering recoveries and discounts on loans. But what we do notice is that your guidance for loan loss provisions seems to have increased over the last several quarters from a range of about 3.5 billion Reals for the year to now about 4 or about a 1 billion Reals in provisions per quarter and we saw 1.1 billion this quarter on the back of these higher delinquencies.

Should we expect that provisioning will be higher than previously anticipated? Is this related to one, delinquencies being higher or is this a combination of delinquencies being higher and provisions being higher but you actually are recovering more than you expected? So on a net basis we should be looking for similar numbers?

A - Jean Leroy {BIO 17084785 <GO>}

Hello Jason, hi. Basically, in terms of our guidance if you remember by the beginning of the year when we had our First Quarter conference call actually we had a guidance of 3.1 to 3.4 billion Reals of provisions for the year. We moved that to 3.5 to 4 and we are saying that we believe that 4 billion Reals is the correct guidance for the year.

This is the number 4 billion Reals that we believe should be seen for the whole year. Even though we are moving from the 900 to 1.1 billion Reals mark in one quarter, we don't believe the continuity of this trend going forward. We have been analyzing very carefully the behavior or the different credit lines and what is happening is basically that we have also an overall deterioration in asset quality in the market, which maybe in the beginning of the year was not as expected not only for us but for most of the market.

So responding to your question, you should continue to have a 4 billion Reals number. This is the guidance we feel comfortable for the whole year and basically what we are seeing is a change in the mix of the book. Maybe by the end of the year we could have even almost 50% of the loan book with individuals. It's clear that this is, in one way or the other, impacting the ratios.

But on the other hand, what we have been showing for the first time in this quarter, these three different slides about the conglomerate Bradesco and Finasa is really to show what we believe are the most important ways of analysis. We feel comfortable with our strategies and we feel that the numbers are moving up and that the trends continue to be correct. So the delinquency should be in the range of 4 billion Reals.

Q - Jason Mollin {BIO 1888181 <GO>}

In that context Jean, are the recoveries; has the recovery outlook actually improved as well during this shift up, as the deterioration of recovery for the system as well as for Bradesco? Has your ability to recover been better than you expected or is that net loss?

A - Jean Leroy {BIO 17084785 <GO>}

I'm sorry?

Q - Jason Mollin {BIO 1888181 <GO>}

I'm sorry. Have the recoveries also been higher than you expected? Is this something that can counteract this increase in provisions or have they been relatively stable? Because I think recoveries are a lagging indictor to what you lent out in the past while provisions should hopefully be in expectation of what you expect to lose on these loans in the future.

A - Jean Leroy {BIO 17084785 <GO>}

Jason, the level of recovery has not been increasing that much. Actually it's relatively the same. Just to give an idea in the first half of 2005 we had a level of 315 million Reals of recoveries vis-a-vis 275 million in the first half of 2006 and when we look at the quarter-over-quarter analysis we have to face a 146 million Reals recovery level vis-a-vis 129 in the previous quarter. So the ability of recovering did not move up. We have not believing these ratios and these numbers, this guidance, that we are (passing) because of the recovering being on the higher level.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Mario Pierry with Deutsche Bank. Please go ahead.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Good morning. I have two questions. The first is we heard from some of your competitors there in Brazil that they are tightening the credit standards, especially to individuals. Can you just tell us about your position in terms of continuing to grow your loan portfolio to individuals at a very fast pace and if you could provide us with some color about your approval rating for individuals and where they are now compared to where they were last quarter?

Then the second question is related to your forecast here or your guidance for net interest income growth of more than 15% this year. Looking at the First Quarter presentation you were guiding for a net interest income growth of 5 to 10% before. So I just wanted to know your outlook for net interest margin going forward because it seems like you haven't changed your forecast for loan growth. So I'm assuming that you are expecting better net interest margin for the remainder of the year than what you were previously forecasting. Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome. Basically what we are seeing; it's a continuous analysis of always trying to improve our credit scores. So even though the situation in Brazil is positive. For example, the GDP growth is strong. We have a recovery in the salary, the amount of salary. There was also an increase in the amount of the minimum wage recently. We always are looking very, very carefully to what is going on in terms of asset quality but it doesn't mean that we are changing the criteria of analysis or tightening more the policy. I would say tightening the policy is part of our daily job and in this sense we are not making more than what was previously made in the previous quarters.

In terms of net interest income, it's clear that we have a behavior during the year that has been making us, in some ways, changing our guidance and in the beginning of the year. And more recently in the First Quarter and the beginning of the second, we basically ended with the conclusion that 5 to 10% will be surpassed, even though our guidance in general terms is conservative. Normally the guidance numbers are always conservative. We feel comfortable to say that net interest income would be growing by 15% based on our planning and control department analysis.

In terms of the net interest margin, we have been saying that there could be a decrease in the net interest margin between 50 and 100 basis points. What we are seeing is that mostly in the back of the net interest income expansion that we might be revising net interest margin. Maybe less decrease than what we previously expected but right now I would say we feel more comfortable to pass a guidance in terms of net interest income.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, then if I may follow up then if you could give us what is your credit approval rating at Finasa, for example, in the Second Quarter compared to the First Quarter?

And then on the margin I'm just trying to understand why you would expect less contraction of net interest margin because it seems to me that your funding mix is getting weaker and at the same time we have lower interest rates in Brazil. So are you saying that your improvements in your loan mix is more than compensating for a worse funding mix and lower market rates?

A - Jean Leroy {BIO 17084785 <GO>}

Okay. I would say I cannot give you right now the specific numbers in terms of approval rate by Finasa but I would say that what is also important is to say that the approval rate has been moving up; also because of the higher investments that we have in systems as well as on the counterpart. Just to you an idea at Finasa, which is very strongly positioned with autos, was receiving, this is just a matter of example a lot of autos dealers were sending their demands from their customers through faxes. In fact more and more customers now use the Internet. So the improvement in devices and improvement in technology has been making the approval rate moving up.

We will try to have the approval rate maybe up to the end of the conference call and I will try to fax you the number. But I would say that one thing that senior management really wants us to be stressing the point is that in terms of provisioning for individuals there is a very (on) line provisioning needs when you are giving more your book to individuals because individuals they are already rated by A. So you have 0.5% of provisioning by the moment you are granting the loan and then basically you are decreasing the rating and increasing provisioning with 180 days of past due you already have to provision 100%. So you don't have this potential effect of having a need of provisioning going forward like sometimes you have with companies, because companies don't have a provisioning policy as direct with deterioration of rating, than the individuals have.

So I would say in general terms we feel comfortable with our strategy. We have a lot of investments and very important acquisitions we made for example, (Zobvi) Bank was key in terms of the system that they could be adding to us. There is a solid investment from the bank for training the employees and the management and the CEO in particular is looking at the numbers everyday. So I would say we feel comfortable with what is going on, we feel comfortable with the trend and we feel comfortable with our strategy.

Q - Mario Pierry {BIO 1505554 <GO>}

And then if you could answer the question about the net interest margin.

A - Jean Leroy {BIO 17084785 <GO>}

Yes, this is what I (audio gap)

Okay, on one hand, this is what I said, I don't feel comfortable to give you guidance about net interest margin. I would say it should be better than the 50 to 100 basis point roughly we said before but I don't want to give you a guidance and this is what I was saying, I; we feel comfortable to give you the market net interest income guidance. Net interest margin should be, I would say, a little bit better than the 50 to 100 basis points drop respectively we give to the market. So a little bit less than that. Maybe flattish. We are analyzing that.

In terms of credit approval rating, at Finasa the level right now is standing close to 70%. If we look backwards, I would say more in the beginning of the year the approval rate was closer to 75%.

Q - Mario Pierry {BIO 1505554 <GO>}

Great. Thank you, very much.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Jorge Kuri with Morgan Stanley. Please go ahead.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning. This is kind of like a follow-up to the question the previous person asked. Your guidance on net interest income went from 5 to 10% growth in 2006 now to over 15%. Your interest rate outlook is still unchanged at 14% and your volume growth is still unchanged at 20 to 25%. So can you be a bit more specific about what's behind a sharp increase in guidance for net interest income for '06? Is it just a mark to market or what has happened in the first half of '06 or is it changing expectation for the second half? As much details as possible would be greatly appreciated. Thanks a lot.

A - Jean Leroy {BIO 17084785 <GO>}

Okay Jorge. In general terms, first of all we feel a general positive impact in the second half of the year because of higher level of economy in general terms, vis-a-vis the first. And it seems to us that maybe the second half of the year will have much better numbers than we previously expected when we looked at the second half of the year. So this is part of the total scenario.

For Bradesco, what we are seeing is that the loan book growth will continue but as we revise our guidance I believe you also noted that we changed the mix guidance for the loan book. We continue to talk about 20 to 25% but it seems that the individual loan book growth will not be 35% or more as we've said. But closer to 30 to 35%.

And corporates instead of 15% are moving up to 15, 20% range. So at the end of the day, even though the margin on the individual is higher, also what we saw and notified in the quarter is that SMEs have been growing strongly.

In SMEs we have good margins and normally a lower need of provisioning. So at the end of the day, the other explanation is based on the, better economic scenario for the second half and the second part of the explanation is based on the loan book expansion which at the end of the day is taking into consideration changes in the range of loan book growth both for individuals and corporates.

Don't forget that when we are talking in the slide number 9 about net interest income we are adjusting by the hedge. So stripping out hedge I would say, general terms, we feel comfortable in the net interest income expansion by those information that I passed.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay, thank you very much.

Operator

Our next question comes from (Steven Baird) with Thames River Capital. Go ahead.

Q - Steven Baird {BIO 3319348 <GO>}

Hi. Good morning. I was just wondering actually if you could just clarify that last comment. Did you say that the 15% guidance in net interest income includes the hedge or excludes the hedge?

A - Jean Leroy {BIO 17084785 <GO>}

It excludes the hedge.

Q - Steven Baird {BIO 3319348 <GO>}

It excludes the hedge. Sorry.

A - Jean Leroy {BIO 17084785 <GO>}

It does not take into consideration -

Q - Unidentified Speaker

(inaudible).

A - Jean Leroy {BIO 17084785 <GO>}

Sorry.

Q - Steven Baird {BIO 3319348 <GO>}

Okay, my questions were on the competitive environments and your effective tax rate. I was wondering if you could talk about the competitive environment with regards to fee income and deposits. Specifically with fee income it looks as if you're seeing some pressure on card fees and asset management.

And then secondly on deposits, both yourselves and its how you reported a strong increase in time deposits. Are you having to price more aggressively to basically take funding?

And then on the effective tax rate. Were there any specific factors, which basically led to the 24% tax rate in the quarter? Previous guidance is being sort of 28 to 38% going forward I think. So I was wondering if that's still the case. Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

No and I would try to respond to all your questions. But I would say the competitive environment continued to be very strong in Brazil, independently on the type of customer we have to be dealing with.

If we are talking about individuals, if we are talking about corporations, the competitiveness in Brazil is very, very strong and I would say even stronger than a lot of people believe. So competitiveness continues to be very sharp. It did not change dramatically or is not changing much more because it's already very, very strong.

In terms of fees, I would say first of all, in the explanation I tried to explain that this effect of 2 working days left, in 1 way or the other is an impact of some 60 to 70 million Reals. So instead of growing the fees the way we did we could be more than doubling the fee income growth. This is on the general figure.

In terms of card fees and asset management fees, it's clear that the competitiveness is also very strong also because credit card is a market that everyone is focusing much more than maybe one year ago and it was one of the reasons why we decided to acquire American Express because its really fits perfectly into our strategy and would be enhancing a lot our strength with the corporate accounts and on the other hand with the individuals of higher income.

Just to give you an idea, we have; we end up with a 60% market share, more than 60% by the way, in corporate credit account. And we, at the end of the day, we move to a closer to 20% market share in card in general. Almost doubling the previous; sorry, the previous market share we have.

So the pressure on card fees didn't change. What you have sometimes is a concentration of annuities, the good payment that you have on credit cards, on a part of the year with vis-a-vis the order.

On the other hand, when we talk about card fees we also talk about debit card fees and the more the businesses are going well in terms of sales, the more it generates revenues to you. Bradesco havs definitively a very strong positioning in cards also because we are a very strong 39% shareholder of Visanet, which is the most used card in Brazil.

In terms of asset management you have part of the monies invested in equity, part of the monies invested in fixed income. By far the vast majority in fixed income and since a lot of the growth in fees; sorry, in asset management also comes from institutional customers, we are talking about a very high competitive landscape. We are talking about the -I would say the low; a similar level of asset management fees when we talk about institutional customers or even lower than what you have maybe in UK or in the US.

On retail the story is a little bit different, the spreads are higher. This is the reason we are focusing more on asset management.

In terms of the deposits, Bradesco maybe other banks have been growing their deposits, in time deposits. What is important to grab the attention is that actually even though time deposits grew strongly, we also had a solid growth in accounts in the number of volumes of accounts, which is the demand deposits. So demand deposits grew by 1.7 billion Reals year-over-year. And this represents an 11% growth.

What happens in Brazil is that a lot of the new inflow in deposits comes from institutional customers. And basically what the banks like Bradesco are doing, we are using time deposits, we are using debentures and what sometimes we are using subordinated CDs. So at the end of the day, this inflow of new money comes a lot from institutional and more in the other types of deposits that are not so savings account or demand deposits.

In terms of the; and just reminding you that in demand deposits the reserve requirement is so strong that just 80; 20% of the stock that we have of money could be invested whatever we want. 80% is directed in one way or in another.

Talking about the effective tax rate and we noted that some investors and analysts have been talking about the effective tax rate in the quarter. Actually, we would really recommend you to look at our results before taxes, adding the gains of equity and the yield interest on non-capital. Which in this quarter was 393 million Reals. And equity of positive of 30 million Reals.

After those adjustments that we make. And based on the environment effect variation of just 0.37% minus in the quarter we end up with an active tax rate close to 30%, 29.8 and we usually give a guidance of close to 28. So it's in line; sorry, its in hands of the previous guidance.

Just to make a comparison, looking at the last quarters. What was the quarter where the variation of effects was close to this quarter?

The First Quarter of 2005 where we had the 0.43% plus FX variation vis-a-vis, 0.37% minus in this quarter. And what happens is that, at that time, in the First Quarter of '05, the effective tax rate was close to 30%, 30.6%. So at the end of the day, by adjusting the way I said, basically w end up with effective tax rates closer to 30%. Our guidance continues to be 28%. Sorry for -

Q - Steven Baird {BIO 3319348 <GO>}

I just have 2 follow up questions. Given that the TGLP has come down from what, 9.75% last year to 7.5% currently. That obviously means you ability to offset your tax with interest on capital has fallen. So surely your guidance effective tax rate must rise going forward.

And secondly, just on asset growth during the quarter. Even after adjusting for American Express, asset growth was about 6.8% quarter on quarter. Can we just view this as an exceptional quarter or should we continue to see very strong asset growth? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome. It's clear that the TGLP moving down means that at the end of the day the ability for Bradesco to reduce, just taking into consideration this component decreases in the effective tax rate calculation. So; and you noticed that Bradesco is not only paying the regular dividends based on interest on capital but now we are also paying dividends just in the form of dividends.

But, its not only interest on capital. We also have other ways to be trying to reduce as much as we can the effective tax rates. And we will continue to proceed in this way.

But you are correct. Just based on interest rates on the lower TGLP. This reduces the ability of Bradesco as well as all the other banks.

In terms of asset growth. We had a growth quarter-over-quarter of 5% and the assets of Amex were just 271% -- sorry, 271 million Reals when we talk about loans. The effect of American Express is not that high. We are talking about 1.3 billion Reals, approximately. Vis-avis 200; 200 billion; more than 200 billion Reals. So it was not based on American Express. We should continue to believe that the total asset base of Bradesco should be growing over the next quarters.

Q - Steven Baird {BIO 3319348 <GO>}

Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes from Mr. Pedro GuimarÃ£es with Banco Pactual.

Q - Pedro Guimaraes {BIO 1973955 <GO>}

Hi Jean, I'll ask 2 quick questions since most of them were already answered. One, with regard in the fee revenue growth that I note in the last 2 quarters, not only yours but some of the other private banks were smaller than their usual numbers for 2005. So I'd like to ask you what; if you think that the 1.5% growth that you had in the First Quarter and the 2.5 that you had here, if you think that you'll be able to achieve the 20% plus that you have as a guidance?

And the second point, is (inaudible; accent) expense. That without having the American Express consolidated, you had 4% growth this quarter. So I'd like to ask you how you expect the next 2 quarters, this growth with American Express? Thanks a lot.

A - Jean Leroy {BIO 17084785 <GO>}

Okay Pedro. We are talking of a year-over-year growth of fees of 20.8%. Which is close to the 20% range we are talking. Again, we have an impact of some 60 to 70 million Reals by having less working days. If we had 2 more working days, because in the First Quarter we had 63 and in the second 61, at the end of the day the growth was higher.

It's clear that the more you grow in fees the more difficult it becomes to grow much more than that because you always end up with the higher level and when you grow on a percentage basis you have to compare with the basis which already grew very strongly.

But we feel comfortable to achieve these 20% increase. Also because normally the second half of the year is better. On the top of that, it's clear that when we acquired, for example American Express, this generates also fees to. And this at the end of the day will also benefit going forwards.

Q - Pedro Guimaraes {BIO 1973955 <GO>}

Okay. Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

You're welcome.

Operator

Our next question comes again from Mario Pierry with Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi Jean. I have 2 more questions. 1 is if you could try to quantify to us the benefit of the fidelity agreement and when should we see the benefits to your cost structure from this agreement in terms of lower employees and also lower transaction charges?

And then on the second question is also related to American Express. If you have already made a decision whether or not American Express will be accepted throughout the Visa network in Brazil and if not what kind of investments are you looking to make related to American Express? Thank you.

A - Jean Leroy {BIO 17084785 <GO>}

Okay, in general terms you have to understand Bradesco is growing, knowing more in account and the cost relative to processing will be more and more important.

So the ideology for Bradesco to make this JV was not only because we could be benefiting in terms of cost and we are talking about all the next couple of years to reduce the cost of the transaction by up to 36%. Which is a very relevant number. Even more if you talk about a very strong growth market and business.

So the benefit is very important. Also we have total access the best technology. Fidelity has the best technology in systems. So it's not only a question of lowering our cost of processing, it's also the fact that we have access to a better IT platform and we don't have to invest. Investment will be made by Fidelity itself.

At the end of the day you also end up with some (post reduction) relative to transferring employees from one company to the other. But anyway, its more based on cost reduction because of the strong perspective of growth in cards and the need of having the best structure in cost. As we did for example in telecommunication. We also made some years ago we sold our telecommunication network. We have the best access to technology, the best platforms in communication as well and we don't have to invest for having access to that.

On; in terms of American Express, we are still talking with Visanet to see of; about the possibility for American Express to use Visanet as an acquire. We believe that this is important for Bradesco. But more of that, its also important for Visanet with; for their shareholders. And at the end of the day it seems to us to be a win/win situation.

Q - Mario Pierry {BIO 1505554 <GO>}

Thanks.

Operator

Our next question comes from Juan Partida with JP Morgan.

Q - Juan Partida {BIO 4768925 <GO>}

Hi. Good morning. I have a question regarding the insurance companies. I wanted to understand a little better if there was any impact from the implementation of circular (susepi) 314 in this quarter's results. And what we should expect going forward.

Q - Unidentified Speaker

Excuse me, who is?

Unidentified Speaker -Juan PaTida.

Okay the circular susepi, (revolated) the part ofpremiums, which premiums is in the company, the propose are in the company but not sure because the role in the company we hand out around 10 days to issue the policy. And even you accepted the risk. You understand me?

Q - Juan Partida {BIO 4768925 <GO>}

Yes.

Q - Unidentified Speaker

When; what's that decided, you have to recognize this as revenues. In the same time you put it 100% of these revenues as a provision. In terms of results, net effective results, okay?

Q - Juan Partida {BIO 4768925 <GO>}

Uh huh.

Q - Unidentified Speaker

I don't know if you or I answered your question.

Q - Juan Partida {BIO 4768925 <GO>}

So is it; the effect is more on the timing rather than on the amount of the provisions and premiums.

Q - Unidentified Speaker

Really you recognize and (spent) the revenue. For instance yesterday insured (sent) the proposed to the company. The company examined the proposal of the (insured), 100% of these cases is in (inaudible; heavily accent).

Q - Juan Partida {BIO 4768925 <GO>}

Okay.

Q - Unidentified Speaker

And you know; you recognize (inaudible; accent) as a revenue. In the same time you put in a provision, 100% of this revenue. This reason, why sesepi decide to do this is only for tax purposes. Why? Because you have to pay in anticipated (inaudible; accent) you know? When issued the policy really what happens? You reverse that provisions and you reverse that aspect of collectible payments in a part of the set and you put a (revenues) paid by the insured and you calculate the unearned premium reserves, as you know.

Q - Juan Partida {BIO 4768925 <GO>}

Okay. Thank you, very much.

Q - Unidentified Speaker

You're welcome.

A - Jean Leroy {BIO 17084785 <GO>}

We could have for the last question.

Operator

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

A - Jean Leroy {BIO 17084785 <GO>}

Thank you, everyone for your question and the investor relations area will continue to be ready to answer any further questions you might have. Thank you. Bye.

Operator

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