

Q3 2010 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP, IRO

Other Participants

- Boris Molina, Analyst
- Eduardo Nishio, Analyst
- Hasina Sheshis, Analyst
- Hicks Taber, Analyst
- Jason Mollin, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Third Quarter 2010 Earnings Conference Call. This call will be conducted by Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer. Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros Group, Insurance. Mr. Samuel Monteiro dos Santos Junior, Executive Vice President and Chief Financial Officer of Bradesco Seguros Group Insurance. Mr. Luiz Carlos Angelotti, Assistant Executive Officer and Mr. Paulo Faustino da Costa, Market Relations Department Director.

This call is being broadcasted simultaneously through the internet and the website, www.bradesco.com.pr/ir. In the address, you can also find our banners through which the presentation will be available for download. We are informed 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 that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the Company. Forward-looking statements are not guarantees of performance.

They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and

other operating factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements. Now, I'll turn the conference over to Mr. Domingos Figueiredo de Abreu, Executive Vice President, Investor Relations Officer. Mr. Abreu, you may proceed.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good morning, everyone. Welcome to our conference call. I begin with our main highlights among which I would like to point out on Slide number two, our adjusted net income for the first nine months of 2010, which total BRL7.120 billion, around 24% higher than the same period last year.

Total assets amounted to BRL612 billion, up 26% improvement over September 2009. In slide three, we point out our funds under management, which totaled BRL838 billion, showing an evolution of 24% in that one year period. I'd also like to call your attention to our delinquency ratio, which fell substantially in compares to 2009 and to our coverage ratios, which have meet both the unimportant evolutions.

On Slide four, we show the reconciliation of between book net income and adjusted net income. The main non-recurring events this quarter were a gross gain of BRL79 million from the partial sale of the investment and CPM Braxis offset by the constitution of provisions for civil contingencies for economic plans in the growth amount of BRL71 million.

After these adjustment of book net income of BRL2,527 million, (inaudible) to BRL2,580 million, generating an annualized return of 24.4% in the quarter. In this slide, you can also see that your return on average equities reached over 22% in the first nine months of the year both in terms of book and adjusted net income.

Slide number five shows our Third Quarter net income. Evolution this quarter comes from the growth in the net (inaudible; background noise) pickup, mainly due to the increase in the volume of operations. High (EPS) income as a result of the extension of the (cards) base and the reduction in the provisions for loan losses as well as a (backed) strong higher personnel expenses due to the collective bargaining agreement and the greater administrative expenses mainly as a result of organic growth. Also like to point out that our earnings per share in the last 12 months recorded a large increase from BRL2.19 to BRL2.38.

In Slide number six, we report our efficiency ratio. The blue line show the efficiency ratio adjusted to risk, which improved by 130 basis points this quarter, reflecting lower delinquency and the consequent reduction in the provisions for loan losses, they increase in the 12-month ratio, the red curve, very fine in recent quarters was primarily due to outstanding (treasury) gains and the reduction in advertising expenses within the first nine months of 2009. (Favoring) is indicator in this (year), as well as the upturn in the expenses from organic growth and the collective bargaining agreement.

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On a quarterly basis, the increase in the efficiency ratio was due to the upturn in the personnel in the administrative expense as regard the previously mentioned and we'll discuss in greater details later on. Despite our recent organic growth, we believe these ratios will remain close to their current levels in the short-term. In the mid term, however, we expect them to approve, thanks to the conclusion and maturation of the IT project.

Slide number seven, total assets reached BRL612 billion registering an evolution of 26% year-on-year. Return on average assets remain at 1.7% while return on average equity, as mentioned before, totaled 22.5%. The Basel ratio closed the period at 15.7% and this level of capitalization, together with our capacity to generate results, did result in a very comfortable position to sustain expected growth. As for Basel III, we have looked into the possible change, in terms of the new capital requirement, and we believe we will have no problem in adapting to them, thanks to our high level of capitalization.

Slide number eight shows the relative share of our main operations in composition of our net -- in the composition of our net income. A quarter upturn in the share of funding was primarily due to the increase in volume of operations and the high average spread. In turn, impact by the rise in the previous interbank rates, today. In the period comparison we verified the recovery of the loan segment throughout the year, representing 30% in September 2010 versus 14% at the end of the same month last year. This change is mainly due to the improved delinquency ratio.

On the other hand, securities (spot) a relative decline due to the reduction to (agro) gains this year, if compared with its outstanding performance last year, as we point out previously. This was also worth highlighting. The substantial contribution of our insurance segment, which accounts for around 30% of our net income.

Slide number nine, unrealized gains totaled BRL11.2 billion, posting an increase of around BRL2 billion in the quarter. Basically, due to the appreciation of our securities portfolio, and the increase in the (area) of some of our investments, especially our interest Odontoprev. Note that these numbers do not include the potential goodwill from our own properties, up BRL2.1 billion, nor the non-booked tax credit of BRL460 million from increasing the social contribution rate.

On slide number 10, I would like to draw your attention to the good performance of interest earnings operations, which grew by 14% in the first nine months of 2010 over the same period last year. These are mainly due to higher average volume, including cooperation of (inaudible), and increasing loans through micro-businesses, (SABs) and individuals.

Slide number 11, annualized net interest margin corresponded through 7.6% of total assets in Third Quarter 2010. Percent can decline in the quarterly comparison. We believe this downward tendency will continue given the cooperation of lower spreads operation into our portfolios. We believe however, that increasing business volume, we have been sure that interest income continues to increase.

Slide 12, presents a breakdown of net interest income. The quarterly highlights toward the funding margin, which was led, as I mentioned before, by a higher volume in the increase in the average spreads in turn impact by the fierce increase in the interbank rates today. In the nine-month comparison, the highlight was 17% growth in the (quarterly) margin, chiefly driven by volume growth including (bank) (inaudible) figures.

Slide 13, this quarter you can see a growth of 1.3% in gross interest income, the grey part of the graph, reaching BRL5,833 million. I'd like to point out, once again, that this growth is chiefly due to higher business volume, given that the average spread has been showing a downward move. The red part, which shows the provision for loan losses recorded the (net) amount it quarterly decline, helping push up net interest income, the blue part, by 5%. No doubt in the Third Quarter 2010 is expense account for approximately 35% of total gross interest income. The best result of the series.

A comparison of the first nine months of 2010 and 2009 shows the large impact of the reduction delinquency costs given that gross interest income increased by 17% and the provision for loan losses dropped by 27%, pushing net interest income up by around 8% in the period.

Slide 14 shows our expanded loan portfolio, which also includes securities such as the debentures and promissory notes, assumed by -- as a risk by our commercial area. The portfolio closed Third Quarter 2010 at around BRL200 billion BRL27 billion (sic; see presentation slide) with an increase of 4.7% in the quarter and 19% year-on-year, driven mainly by loans to micro-businesses and lesser business, which grew by 6.7% in the quarter and 27.6% in the last 12 months. And through individuals, which grew by 22% in the year, led by (pero de dutch bonor) and credit cards operations.

It's worth noting that new borrowers, in other words, people or companies who had no loans with Bradesco in September 2009 accounted for around BRL26 billion of loan portfolio growth in the last 12 months. Around 95% of these new borrowers were given AA to C ratings, underlying the adequacy and consistency of our credit assessment process -- procedures and instruments.

Slide 15, as expected the total delinquency ratio for loans overdue by more than 90 days fell for the First Quarter -- consecutive quarter to 3.8%. This behavior reflects the improvement in Brazil's (inaudible) economic fundamentals which (dispute) the growth of quality loans operations. As these fundamentals are likely to persist in the First Quarter, we expect a further improvement in this indicator, although a reduced base -- at a reduced base and we sustain it to stabilize.

Slide 16 shows the behavior of the early stage delinquency of between 61 to 90 days, which reached their lowest level in the series. As with the previous slide, we believe this indicator will stabilize.

Slide 17 shows we continue to maintain high provisioning levels with a surplus of BRL3 billion in September 2010 viewed in relation to the amount that we required by the central bank. The difference between the first two lines, or BRL7.1 billion if you compare

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the currency allowance for loan losses, the red line, to expected gross losses for the next 12 months, the dotted blue line, or even BRL8.8 billion in relation to expected losses net of the (recovers), the dotted purple line. With no doubt, we will be in the highly comfortable provision in situation to withstand an event or reversal in the currently favorable economic scenario.

Slide 18, confirming our discussion of the previous slide, this slide shows the coverage ratio of the allowance for loan losses in relation to credits overdue by more than 60 and 90 days. As you can see, we once again reported the highest level of this series in both criteria. Chiefly due to the reduction in delinquency as we point out previously. In the future, we expect to see a natural decline in these ratios, accompanying the nominal upturn in overdue credits as the loan portfolios increases.

Slide 19, fee income increased by 5.3% in the quarter, chiefly driven by credit card which we were impacted by both, the expansion of the client base and our increase interest in this (volumes here). By gain flow underwriting operations, especially from the Petrobras IPO, by higher revenue from assets management and by checking account transaction reflecting the BRL1.80 million to increase in the numbers of checking accounts in the last 12 months.

In the nine-month comparisons, fee income increased by 15.5%, also led by credit cards operation, which grew by 23.3% due to growth of the client base, including the corporation of (inaudible). We also had a 13% growth in low operations fee and 14.4% of turning asset management fee.

Slide 20, a quarterly increase in personnel expenses was chiefly due to the collective bargaining agreement and expansion of the workforce 2,890 employees. The nine months comparison is upturn was primarily due to the fact of the collective bargaining agreement in the 2009 and 2010, and to the net addition of approximately 7,000 employees to the workforce. This gave considering the fact of the corporation (inaudible). The quarterly and nine-month increase in administrative expenses mainly reflect the higher volume of business and expansion of our service network.

On slide 21, we show a breakdown of administrative expense, which grew by 5.6% in the quarter and 22.6% in the first nine months. Both of which are compatible with the business expansion and increase in service points. In addition, marketing expenses have now returned to their historic levels. It's worth mentioning again that in the nine-month comparison, we were impacted by the corporation of agreement.

Slide 22, this slide shows our income from insurance premiums, pension plans and savings bonds which increased by 7.5% in the quarter, led by the life and pension plans, health and savings bond segments. In the annual comparison, there was a consistent and strong improvement in our business line. It's also worth noting that the decline in the claims ratio along with higher revenues in the period contributes to the improvement in the nine-month income.

Slide 23 shows some of the main (fee) results from our insurance activities. A combined ratio remained fairly stable in relation to previous quarters -- to the previous quarter. Our total financial assets amounts to BRL92.6 billion while technical provisions stood at BRL82 billion, of which BRL72 billion are related to life and pensions products.

Slide 24, we believe we achieved our 2010 guidance in terms of total loan growth. In terms of specific segments, we believe we will reach or slightly exceed our expectation with regards to loans to SMEs, loans from credit cards operations, payroll-deductible loans and mortgage loan. On the other hand, large corporate loans may be slightly below our original expectation due to the fact of exchange variation on part of this portfolio and the great appeal to capital markets operation on the part of major corporations.

As for fee income, we may close the year with the fee as largely exceeding our top estimates, thanks to the higher-than-expected increase in business product. We also believe operating expenses we will end the year in slight excess of our top estimate, driven by the high volume of few business and the fact that the pay rise resulting from the collective bargaining agreement was slightly higher than we had by fiscal.

I'd like to take this opportunity to remind you all about Bradesco's Investor Day to be held in London on November 9 and in New York on November 10. The webcast of the event will be available in our investor relation website. We would be very pleased to meet you there.

Before concluding, I'd like to remind you that this presentation, in addition to the slides shown here also contains another sixteen slides, which we have not discussed in order to provide more time for the question and answer section. Finally, we believe we have recorded yet another quarter of excellent results, fueled not only by improved delinquencies, but they also by higher operational volume, demonstrating the adequacy and the (inaudible) approach to granting credit and generating business as you can see from our numbers.

We understand the increase in the individual earnings and prospects of high consumption have led to the great availability of credits by financial institutions. For as such, Bradesco is constantly engaged in innovating and in improving the quality and efficiency of its products and services. It's also worth noting that we have maintained and expand our investments with the objective of seeking organic growth. Although this might bring some initial cost pressure, it will also insure the sustainability and expansion of our future results. Thank you, all for your attention and we are now available to answer any questions you may have.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone.

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

Hello.

Q - Jason Mollin {BIO 1888181 <GO>}

My question is related to funding, which we didn't go over in this presentation. In fact, it was pretty impressive, the growth in your repos. Your net repo position almost doubled quarter-on-quarter and now I think we have a vision around BRL72 billion. I think in the same quarter of last year it was single digits around BRL5 billion. If you can talk a bit about the funding environment, your low-cost funding, marginal cost of funding and what's going on with the repo transactions.

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

Yes.

Q - Jason Mollin {BIO 1888181 <GO>}

And my second question would be just on operating efficiency, you have operated at higher or weaker efficiency levels, but we did see an increase of about 150 basis points quarter-on-quarter. If you could talk about your expectations for that going forward, will we see that continue to increase as you build out -- invest in the branch network, et cetera? Thank you.

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

At first in terms of repos, it's more kind of opportunity. Sometimes you have markets of opportunity to prepare some Brazilian bonds internally. Brazilian bonds secured and would have some very small spreads, but sometimes you have some kind of opportunity more. I don't consider that you have -- it would be a changing -- you can't assume that just some opportunity will -- an investment when you try to -- we try to take advantage of one of the -- to seek opportunity in the markets. But it's not something that can continue to go forward.

But then more cost funding, what you have seen is more of we have no pressure in terms of funding, in terms of cost, all right. I think the cost of funding is reducing inspite of course you'd have increasing -- because increasing in interbank rate. But in relative basis it has been declining.

What the big challenge in terms of funding we'll have going forward is more in terms of maturities of the funding, I think is the big challenge of that, not only for Bradesco, but the Brazilian banks in general will. Of course, once you have the economy needs to -- you need to finance some investment, and if it is true to other things, other objects of course you need to -- even in terms of mortgages segment. Of course, once you finish this obligation to fulfill the obligation to you use save and deposit, of course, we need to

create a new kind of funding in terms of maturities. In terms of cost so far, we are not seeing any pressure internally.

In terms of operating efficiency ratio, what you see that of course we are growing organically so normally we have some pressure and you have that investment in IT, we're investing more than the normal during this period. But even though I think we consider that we are keeping the efficiency rate, relatively is stable what -- we think in the short-terms, we will be around these numbers to level.

Normally, you have in the quarterly basis depends on the quarter -- the Third Quarter normally is when looked at quarterly efficiency ratio. Normally the Third Quarter is -- you have some pressure and it is moving because the agreement with the (unit). But it's natural to have. Normal the last quarter we have if you compare the past quarter, you see that normally the quarter -- the last quarter is a little bit too high normally. You can have some expectation.

But when you considering the long-term in 12 month efficiency ratio, you can see the large number seeks. I think we'll be around this 42.6 for -- it -- we'd be happy with this level being this level -- in the short period. We have very good expectation as we have been had the opportunity to talk about when you have this maturation of investment in IT improvement project, okay. We have some good expectation for it, but in the mid terms, maybe from now on, you can see more into 2013, 2014 you can see some improvement, would improvement in this. For a moment, we work with the -- we understand we be around this level.

Q - Jason Mollin {BIO 1888181 <GO>}

Maybe just a follow-up then on the funding, Abreu, if we have -- your loan book is growing about 19% the way you describe it on this expanded basis --

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

Yes.

Q - Jason Mollin {BIO 1888181 <GO>}

-- and year-on-year and your funding is growing at a slower pace, your core funding -- your lowest cost funding. So on the margin, I guess your marginal loan, the spread should be lower, not only because of competitive pressure, or change in mix, but also since if you're not going to grow -- if you're going to continue not to grow your funding base, your core funding base as fast as the loans, then we should expect, that going forward that the margin will reflect that. Correct?

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

Look, when you look -- we are not growing the funding in the same proportion of the (quest). It's because we start with a high level of liquidity at the beginning of the year, right. So it's natural to remember that we came from (acquired) spirit where we increase a lot the decrease. So it's natural to observe that. In terms of margin, what you have

observed. In terms of -- we are not seeing pressure in terms of so far, in terms of the reduction margin coming from the fund side. But in the after fact, yes we have. I think it's natural to expect a reduction in margin. Once we increase the spreads during the past periods, so it's a natural movement to reduce the spreads again. So that's why (inaudible) we observing this movement.

Q - Jason Mollin {BIO 1888181 <GO>}

Very helpful. Congratulations on the quarter. Thanks.

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

Thank you very much.

Operator

Excuse me, our next question comes from Mr. (Hicks Taber) with Citi.

Q - Hicks Taber

Yes. Good morning, everyone. My question is on loan-loss provisions, we've seen them come down (technical difficulty) these levels when you measure them as a percentage of average loans. They are even at a rate that are lower than you were provisioning pre-crisis, 2008. And so what should we think about when we think of a provisioning -- loan loss provisions going forward in terms of the growth in loan-loss provisions. Should they grow more in line with the loan portfolio?

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

Look, we have -- what you have been observing this (lack of to) three quarters, we have a good combination where we have increased in terms of recoveries that have been helping this moment. Of course, you don't expect to have the same level of (three) quarters going forward. May be you have some reduction once we are reducing the losses during this moment. We are recovering for a moment where we have more losses during 2009, for example. But we have -- what you have observing that if you consider the macro environment, then -- very, very favorable macro-economic scenario.

You understand that would be able to keep, maybe this 35.3% that you see on page -- slide 13 it's too low for -- to continue to roll. I think it's natural to expect the provision needed. We start moving to increase once we are growing the portfolio. If you see that that we are growing, the provision in terms of generic provision -- if still the composition of total provision, you see very clear that the generic provision that means that the provision that we made for -- in advance for the rating -- for the operation, not because we've had some delay in the credit has been growing during this period.

But even though that it has been doing, the total expense has been lower. It's because of course you have a good impact on the reduction of the delinquents. Don't expect to have this impact of reduction delinquency continue. I think we'll -- once you reach certain point, you to -- you keep at this level and we'll have to increase the -- for the expenses driven by

the growth of the portfolio. So I'll say that I should work in a conservative base that you can expect these levels that now at around 35.3% of the gross margin. Should be around 37%, 38%, that means should be conservative way to see going forward.

Q - Hicks Taber

Great, thank you.

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

You're welcome.

Operator

Excuse me, our next question comes from Mr. Boris Molina with Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Yes. Good morning. Thanks for taking my call -- my question. I have a question regarding your growth on lendings. We saw in the quarter that the total on lending balances grew almost 15% in the quarter and driven by the BNDES (inaudible). I wanted to know what is the impact that this have on your margins and what type of spreads do you effectively earn on this type of operations?

And what is your outlook in relation to the impact on corporate and SME lending volumes that you could have given the amount of resources that have been made available through the BNDES? Do you think that the BNDES could continue to expand their loan portfolio as strong as they have been doing or given that in the latest monthly data from the central bank, we saw slight deceleration in BNDES out list? Do you think the resources are being exhausted? Should we expect the national traffic to commit more resources? What is your outlook on this front? Thank you.

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

You're welcome, Boris. Look, I think first BNDES, you understand the BNDES more as a partner then a competitor. You should see that their portfolio has a very important amount of a portfolio where they have fund income from BNDES. You can see even this quarter it grew a lot. This said BNDES -- is important to see that BNDES is biggest factor in terms of - to provide the long-term funding for Brazilian companies to finance infrastructure.

I think it is -- there is a limit to understand that. There is a limit for this. I don't know that they've reached their limits now. If you see this -- well, the data for that result from central bank, we saw this quarter, they reduced the direct lend for the companies. But if you consider that they finance more the banks during this period, it means that they reduce more -- even more than what they made direct.

In terms of our (great) growth, it's important to emphasize that there's some question about why we are going this quarter lower than the market when, so the data compared with the data from central bank. I think I'd like to use your question to clarify some thing

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for in particular -- I know if you don't (exit) exactly this point, but like to emphasize this that we are looking for this. We are trying to understand (inaudible) and we need to, of course, to see the other banks when they present their balance sheet to understand it better.

But for our first study that we made, we realized that we lost some (share) in terms of how to financing. And we know that -- we knew that we could do -- have reduced this much share. Once we are discontinuing some portfolio, like very old cars, we are not financing there. And we are trying to -- try to preserve spreads in these operations. Some are actually very, very competitive and we have a very clear decision to -- not to fight for market share, but to fight for spreads. Instead, we can even leave with some reduction of market share in this sense.

In terms of spreads, what you can see (generally) large corporates is natural to reduce spreads once you -- was the segment where you have during the crisis, the big jump the spreads during the crisis. So it's natural to expect. Nowadays, we -- it would have been reducing, but it is -- to be honest, in the lower base that we have in mind, we should expect to reduce even in the higher spreads that we have seen so far.

In the SME segment, important to separate the lower SMEs and the higher SMEs, let's say. The higher SME you can see some things the same -- that is we mention in terms of large corporates, right. In the small SMEs we have space to understand when we see that we grew 2.2 -- 2,800 new employees this quarter. What we made is the great majority was people that we increase our workforce in our branches just to attain these segments. The (fifth) significant SMEs, right. That's my expectation to grow more and where we still have this spread has been relative basis has been keeping the level. I don't know if I answer all the questions, Boris.

Q - Boris Molina {BIO 1904979 <GO>}

That's -- I thank you very much for your analysis. Very, very useful. Thank you.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Eduardo Nishio with BTG Pactual.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hi. Good morning. I have two questions. First is on the SME loan growth. You managed to grow well this quarter. I think we are seeing the same trend for all banks that are reporting, particularly the smaller banks that are growing double digits. My question is how do you see spreads? Do you see competition already pressuring spreads on that segment and should we expect a more pressure going forward on that segment?

And my second question is on costs, particularly on the short-term costs in Fourth Quarter. We have the selling (high to right) impacting the Fourth Quarter. Also you have a pipeline of new openings, new branch openings concentrated in the Fourth Quarter, probably around 140 new branches. How do you see the cost, the evolution of costs heating the Fourth Quarter? Do -- should we expect the same sort of pressure that we saw in -- recently quarter-on-quarter on costs? Thank you.

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

Okay. And SME, I think we already, we've mentioned something in the previous question from Boris, Mollin, but I'll try to emphasize more here. Want to say that in normal terms the competition, not only in SME, but in all the segments has been tough and it continue to be.

But I think in this market, we have more space to keep these spreads to more time. Let's say when they have -- it's a competitive money environment, yes, but normally each bank has their own clients so it's different when you consider large corporates and the higher middle-size company, right. When they compare more, they stay more. I think this to be normally they provide them with other service and other things, so the pressuring spreads is not so big in this things, so for a while.

In terms of cost, we have -- I think the big jump in numbers in terms of numbers of employees, we had in the Third Quarter. Of course, when we had 2,800 new employees during the last three quarters, it was during the quarter, not only at the beginning of the quarter. Of course, we have some pressure in terms of cost in the Second Quarter, stems from this -- when you have a full quarter with this new employees.

In terms of to open new branch, we're expectation to finish this year with 175 just to clarify that. And I don't think it should be significant this only for these branches because if you consider which branch you have in an average maybe eight, nine people into branch, we are talking about maybe 900 new employees, maybe. So it's not so big in pressuring terms.

Of course, you have a new -- full quarter with new increase in salaries during this period but these assets should be more or less the same that you have in Third Quarter. Because if you consider the Third Quarter, we make we have the last months of the quarter in September. We have the (solid) with the increase, with the negotiation that we had. But you have adjustment in the true lines of provision in term -- that you have during the year. That's call -- in the thirteen salaries and for vacations. So you can consider that effect of the increase in the Third Quarter should be more or less the same that you have in the Third Quarter.

So let's say that I think you can compare -- comparative basis, I think the last quarter for coming just for the present terms of salary, I think should be lower than to have when compared the Third Quarter with the Second Quarter.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay, just to clarify a little bit. The 2,800 new employees already include some employees for the new branches?

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

No, not for the new branches, but for the

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay.

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

-- apparently all of that is (already) because when you -- if you think that we are opening new branches during this two, three months, it means that we already have been preparing people to work there, right. So we are just waiting for -- to open the branch. But a part we already we have or a part of quarterly to contract yet. But not -- I'd say that's not a big pressure only in one quarter when you can see this new branch.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

Excuse me, our next question comes from Mr. Victor Galliano with HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, hi, Domingos, thank you for the presentation --

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

Hi.

Q - Victor Galliano {BIO 1517713 <GO>}

Just focusing -- continuing to focus on the cost side. Can you give us some sort of timeline as to where you are in terms of the IT and systems upgrade?

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

Yes.

Q - Victor Galliano {BIO 1517713 <GO>}

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And within the other admin expenses, where are these costs? Are they in third party services, data processing -- can you just give us a little bit more detail on that? Thank you.

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

Victor, we are in that we remember that in (S&G) improvement -- okay, the most challenging part of that was that we are now is the -- to rewrite all the system that we have. We are -- our expectation that we are finished this year with around 40% of this project finished. In the end of 2011, we expect to have this -- to be around 80%, all right. So it means that we expect to finish this by the middle of 2012.

Where we have this? We have a part of this when we're under development of the cost, the investment and developing. A big portion you'll see in the asset side, but what you -- when you have -- when you contract third parties to develop this. But it's still in the asset, not only the direct expense. But what you have in expense is that you cannot feel, cannot perceive is the cost evolve in all the areas that you have in banking involved in this project. When you think about we write consistency means that you have internal people working.

It's -- a most biggest part of this is you have more employees working in developing a system that we need a normal base. It's included in the salaries of people. We have more than this, we have people in all departments that need to use systems that we're working, trying to at the same time in looking for -- to put the bank to work every day with the system that we had now. And you need to have a team, specific team looking for the new system that they already have been delivering. In order to test in everything. So it means that you have a cost of -- it's inside everything. You see the companies in third parts. You see even in the personnel expense, you see this pressure let's say.

Important you don't have a separation of this in different segments because it's a move into -- that involve all the bank and all departments, so it's inside of everything. That's why you have very good expectation when we finished, yes, to improve the -- our efficiency ratio. Not only for the size or the cost, but more in terms of revenues (inaudible; microphone inaccessible).

Q - Victor Galliano {BIO 1517713 <GO>}

So you will see this kind of beginning to impact in 2012 and especially from second half 2012?

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

Not this specific, the impact of extension we continue more or less the same movement in (Q) at the end of 2012, 2011. Maybe 2000 -- we can (expect) we can see some results, yes. You can see that they have more at the end of 2012, but I would bet more into 2013.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay, okay. Right, thank you.

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

Thank you.

Operator

Excuse me, our next question comes from (Miss Hasina Sheshis) with Soleil Securities.

Q - Hasina Sheshis

Hi. Good morning, everybody. I have two questions. The first one is related to fee income which posted very positive growth in the quarter, up 5.3%. And one of the highlights was a card related fees of more than 8% in the quarter. We are aware that the central bank in Brazil is likely to issue new regulation regarding credit card fees for the issuers in terms of creating a standard set of tariffs as well as making them more transparent to clients.

We would -- I would like to know whether you could open to us how much of this fee income line comes from interchange fee, how much comes from seller's proportional consolidation and how much is related to annual fees? And if you expect any impact of such likely regulation in the case of Bradesco?

Then my second question is regarding active quality that continue to improve significantly in the quarter with coverage ratio also increasing. But given this positive macro scenario with an employment rate in the record lows, when do you see this coverage ratio coming down? Is the bank being conservative when it could have reduced it even further the level of provision expenses? Or there is really a statistical impact regarding strong low and growth and when the portfolio starts to age, then NPL ratios will start to increase?

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

Okay, Hasina, first in terms of fee income, unfortunately, we cannot to open this number from Cielo, just because Cielo is a public company we don't -- if you open these numbers, they didn't post their numbers yet, right.

Q - Hasina Sheshis

Okay.

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

Okay. In terms of regulation, we -- of course we are observing, we are following the negotiation what the people from the (backs) of the union off the company issues of (cart), that's discussing with the central bank with all the people involved with the negotiation. Therefore, what we have the -- for what do we receive for people that is involved in the negotiation, that we want to have some impression in terms of in our fees. The way that we charge the fees and the way that we do everything, I think is what the point that they are putting in discussion. So far we have a significant impact we understand. What question to see exact what they will decide to have this.

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In terms of asset quality, I'd say that is improvement in corporations more, a result of the situation than the -- I wanted to have to reach this level, right. What happened that once you have -- we keep, you saw that we keep -- we kept our acts of provision when compared with the requirements and central bank we didn't increase this. Even though we are improve -- we are growing in our coverage ratio let's say, considering. I think you have a combination of two things here. We have a reduction in delinquency.

At the same time, we are going to portfolio. Once we are going to portfolio, we know that we need to create provisions for the -- considering the rating of the clients and the -- in the operations. So it's natural to increase. You see that we are growing. If you look at this slide 31, you see that we are growing more in the generic provisions. What the generic provisions? Is it means that we are growing provision at (present) provisions let's say, it's natural to have that. Then once you have this combination, you look at the specific provision and you have a movement to reduce, it results in this improvement in the coverage ratio.

That's why I mentioned in our -- in my speech that those expectations at -- in some moment, I don't know I would expect it was in this quarter, thanks God, it will be the (inaudible). But I think some moment, may be the next quarter, you see a movement to stabilize this coverage. It may be start to moving to reduce. Once you don't expect to have a continue this reduction in the delinquency ratio.

In the same time, we expect to have the graph continue to grow. So this -- it's natural to expect that the graph with the past due should continue to -- should start growing in nominal terms. So this movement itself should be the brink of operation going now a little bit. This is our expectation. We don't know exactly what's going to happen because again, we don't have an objective of to reach this -- this coverage ratio is more a result of the policy that we use for provision then our objective that you look for.

Q - Hasina Sheshis

Okay. Thank you very much. It was very helpful.

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

You're welcome. Thank you.

Operator

(Operator Instructions) Excuse me, ladies and gentlemen. since there are no further questions, I would like to invite Mr. Domingos Figueiredo de Abreu to proceed with his closing statements. Please go ahead, sir.

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

Okay. I would like to thank you -- I would like to thank the participation of each and every one on this call. Our investor relations area would be more than happy to answer any further questions you may have. Thank you very much.

Operator

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

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