

Q2 2007 Earnings Call

Company Participants

- Jean Philippe Leroy, Department Director
- Milton Vargas, EVP
- Samuel Monteiro de Santos, CFO

Other Participants

- Alcir Freitas, Analyst
- Daniel Abut, Analyst
- Jason Mullen, Analyst
- Juan Partida, Analyst
- Maria Laura Pessoa, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's 2007 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 Figueriredo de Abreu; Managing Director; Mr. Samuel Monteiro de Santos, Jr., Chief Financial Officer of Bradesco Seguros Insurance and Mr. Jean Philippe Leroy, Department Director.

In that address, you can also find a banner through which the presentation will be available for download. We inform that all participants will be only able to listen to the conference call during the company's presentation. After the presentation, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Jean Leroy, Department Director. Mr. Leroy, you may proceed with your statements.

Jean Philippe Leroy

Thank you. Good morning, everyone and welcome to our conference call. First of all, let me say that we are sorry for the delay in this call as we were receiving a lot of questions in the other conference call where the local community was attending. And let me now transfer the floor to Mr. Milton Vargas, our CFO and IRO for his comments and Bradesco's highlights one can follow on slide number 3 of the PowerPoint presentation. Thank you.

Milton Vargas {BIO 3347541 <GO>}

Good morning, everyone and welcome to our conference call. In the first half of 2007, the Brazil economy recorded a substantial recovery in terms of business activity investment. And we see no signs that this strength will be changing the second half of the year.

Despite our lack of infrastructure, the economic outlook is very strong given that the public accounts are well managed. And investments are rising and becoming more and more diversified across sectors. Our forecast for the year point to a 4.9% of GDP growth and a 3.5% CPI and on the top of that, unemployment is expected to be the lowest for the past six years, falling to 9.6%.

The reserve employee core currency, are already close to the impact of the sum of \$150 billion due to a quality inflow of the CDI's in a very strong tight surplus. The effect -- if accepted a R\$1.80 per dollar FX rate at the year-end. Credit operations have been evolving in a significant manner due to interest rate decrease and expansion internal belong to these as the duration is changing now at 32.3% and should continuing to speed up to year-end to 34.3%.

Impacted by some non-recurring events that will be covered in this presentation Banco Bradesco posted a first half net income of more than R\$4 billion, 28% higher than in the same period of 2006. Insurance, pension plan and savings bonds continue to be one of our major pillars of contribution, so that is R\$1.2 billion is net income in the first half keeping the leadership in premiums both in Brazil and Latin America.

The Insurance and group closed the first half with R\$62 billion in financing assets and R\$63 billion in technical provisions.

Bradesco also continues improving its efficiencies. Our 12 month efficiency ratio has stood at 40.2% in this semester showing a gradual improvement in these indicators.

Taxes and contributions reaches R\$3.6 billion equivalent to 93% of Bradesco's net income. The reported return on average assets reached 36.3%. On the operational front Bradesco performed very well. In the first six month of 2007 the loan book grew by 12.6%. 92.4% of our operations are rated from AA to C. In other words, we are expanding our loan portfolio and achieving better credit quality. As a sound proof of Bradesco's support to the Brazilian economy, we are leading the ranking of larger benefactor of BNDES Onlending operations for the fifth consecutive year.

In mortgage, Bradesco generated R\$1.5 billion in operations, financing more than 13,000 homes in the first half of 2007. In our year-over-year comparison, we grew 70% in volume and 120% growth in individual homes.

Repeating the same performance of the previous years, Bradesco Empresas, our middle market oriented platform grew by 60% fixed assets in the first half of the year. Highlighting the falling credit line; working capital, foreign exchange, BNDES Onlending and mortgages.

Bradesco Corporate, our largest corporate oriented platform, following the trend of the past years, was fully dedicated in the origination of the structure deals.

We speak about our investment bank, Bradesco BBI. We have been experiencing a strong evolution in this market, restructuring IPO's, issuance, debt and M&As -- issuance of debt and M&As. Offering quality service to foster the capital market growth, it is worth to highlight that we became leaders in the local market as qualified, costs such as services, with assets under management of more than R\$293 billion. In trade finance, the volume of transactions was very strong, recording \$10.4 billion in export, and \$3.9 billion in import. We would also like to mention the restructuring scheme of \$500 million, seven-year term deal of securitization of international receivables. This operation was rated with investment grades at a 55 point order LIBOR spread and unprecedented low level for the Brazilian Corporate issue.

In the second half with the approval by the Brazilian Central Bank, we expect to integrate businesses platform into Bradesco's, increasing our focus on payroll deductible loan. We also continue to pursue aggressively our client base growth, increasing the amount of our account holders, a fundamental element in the customer loyalty.

We are engaged to opening 2.5 million new checking accounts in 2007 and we are very proud not to be in the list of the Central Bank, of banks with more complaints for last 60 months in a row. Bradesco Division is now reporting the infrastructure; opening new bank, fostering ATM, sharing agreements and ensuring that our IT is equipped with the best possible hardware, software and communication network.

We have very strong expectations in the benefits of the IT improvement project. Starting 2003, this project is coming to a tipping point, preparing Bradesco for the next decade, this project aims essentially at improving our business technology to R\$1.3 billion of investment. A great technological upgrade has been already started in our branch network. We have recently acquired 50,000 PCs, 9,500 printers, and 15,000 LCD monitors. Total investment will be some R\$270 million.

Thanks to operational improvements and solid investment with fast training. We intend to provide a better attendance for the growing demand of our customers. Inline with Bradesco traditions, I would now like to go over to some of the quarter's highlights in corporate social responsibilities.

One, the distribution in association with Fundacao SOS Mata Atlantica, of 200,000 native three [ph] seats on the International Environment Day.

Second, the organization of our third Bradesco Suppliers Meeting, allowing us to engage all our stakeholders in a discussion on how to create a better world. And third, the partnership we signed with a specialty firm for the treatment of water, urban and industrial liquid effluents, where Bradesco will finance these acquisitions more efficient basic sanitation technology. As for the coming years, we are preparing ourselves for the stronger growth in mortgages, credit card, insurance, house and consumer finance.

Our branch network is a strong competitive advantage, but we intend to enlarge it even more, opening 150 new branches per year, over the next three years.

The credit card market is changing, with an increased base of credit cards in becoming our financing instrument. Therefore, we adopt in such, a combining organic growth, partnership and acquisitions of companies, which leads particular segment in the market.

Finally, I would once again like to thank our employees for their dedication and commitment to our goals. Without them we certainly could not have achieved these results. After this presentation, we will be available to answer any questions you may have. Thank you very much.

Jean Philippe Leroy

Slide number four. We highlight in this slide the nominal growth of our quarterly net income which reached R\$2.3 billion in the Second Quarter of '07, R\$1.8 billion if adjusted by extraordinary items, a quarter-to-quarter 5.6% increase.

Over the last 12 months EPS stood at R\$3.62 or R\$3.37 if adjusted. We draw particular attention to our efficiency ratio of 42%. This is the ninth consecutive quarter that it has been standing below the 50% mark. We believe this ratio can be improved even more over the coming quarters through the constant optimization of our productivity.

Slide number 5. On this slide we show this quarter's extraordinary items. The gains related to the disinvestments in Serasa and Arcelor were partially offset by the Goodwill Amortization of Lojas Colombo and the constitution of legal provisions relative to previous economic plan. As a result, we recommend a comparison between our adjusted net income, which is what we will be doing in this presentation.

Slide number 6. Our annualized first half returns fell 2.5% considering average assets and 31.5% based in average equity. For this calculation we are excluding securities classified as available for sale, which sum R\$1.9 billion and are marked directly against equity. By the way this is the eleventh consecutive quarter our annualized average return on equity surpasses the 30% mark. Our capital adequacy ratio indicates plenty of room for future growth. To give an idea, the current ratio allows Bradesco to expand its loan book by approximately R\$108 billion, considering the same equity. We have also included in this slide a simulation of our BIS ratio considering the changes promoted by the Brazilian Central Bank, Circular number 3353, which increased from 50% to 100% of foreign exchange position in the BIS calculation and became effective as of July 2, 2007, so after our first half 2007 closing period balance sheet.

Slide number 7. This graph shows the strong performance of our unrealized gains, which is represented by the difference between market and book values of our assets and liabilities. As you can see, it has raised from R\$1.6 billion in 2005 to R\$4.5 billion in June '07, even though we realized in this quarter R\$354 million relative to our after lot stakes [ph]. In the last quarters, the unrealized gains jump has been increased mainly due to the mark-to-market effect on Bradesco and its subsidiaries' marketable securities position.

Slide number 8. Here you can see the origin of our net income calculated in a consistent way along the period. Allocating on a managerial way our DVAC [ph] and overhead counts. Compared to the previous year we see a slight increase in the contribution of loans and fees. And a consequence -- as a consequence of higher business activity and client base growth. It is also worth to mention, once the again the success of the acquisition of the America Express Brazilian operations by Bradesco as well as the out performance of the several private label partnerships. In the quarter we also highlight the strong participation of securities which were positively impacted by higher treasury gain.

Slide number 9. Here we have a perspective of the variation of our results. On the following slide we will analyze in more details those variations. Slide number 10. On this slide you can see that comparing both quarters the net interest income grew by 14% despite the increase of the Average Selic from 12.5 up to 11.9%. As for our interest earning assets in grade are concerned, one can see that the expansion volumes of R\$282 million more than compensated the impact of the interest rate reduction of R\$61 million. Therefore, there is no alternative, we have to increase volumes of operations with quality and this is exactly what we have been doing.

On the top of that, this growth must be followed not only by banking activities but also in insurance, pension plans, and savings plans operations. The part of non-interest can be followed by you in the red line. The variation between the periods differs to higher gains obtaining securities and treasury. Concerning average assets, the total annualized net interest margin moved from 7.5% to 8.2%. Considering that the portion of non-interest is more volatile, we will be disclosing the behavior of the margin of interest generating operations in the next two slides.

Slide number 11. We can see a consistent nominal increase of the net interest margin due to volume growth. The decrease in terms of percentages in this line -- is inline with our expectations because of the reduction of both interest rates and spreads over the last quarters.

Slide number 12, adjusted net interest margin. Breaking down our net interest margin, you can see the relevance of loan operations with 66%, which showed an evolution of 5.2% with at least a loan book growth. The insurance margin also increased by 14.6% in the quarter.

Slide number 13. This chart gives a summary of our loan operation, clearly showing the performance of our revenues, opportunity costs and delinquency. The top curve shows that our loss credit margin revenues again the cost of opportunity of the Selic have recorded consistent growth, thanks to the increase in loan volume, which offset the impact of the lower interest rate.

The bottom curve shows that our allowance for loan losses added with discounts minus recoveries. And here you can see a slight upturn of these numbers in this quarter. Actually we believe that the First Quarter of 2007 outperformed our expectations.

The curve in the middle shows the net margin, which was a little higher in number than the previous quarter. In terms of the period-over-period evolution, the net margin grew by 19.2%.

Slide number 14. The loan portfolio, which is one of the main pillars of our result increased by 6.9% in the quarter vis-a-vis 5.5% for the Brazilian financial industry as a whole reaching R\$130.8 billion. This growth was fueled was SMEs with a 9.4% jump and by individuals with a 7.5% increase. Those two segments have wider margins, which is very beneficial for us.

Our aim is to attend our customers by providing loans in a responsible manner in order to keep delinquency in the front row. I should point out that Bradesco was heavily invested -- has been heavily investing in statistical tools of analysis, compassion and risk management instruments in order to meet the challenge of credit demand growth.

Slide number 15 and 16. Here we show a breakdown of our main credit lines, divided between individuals and corporates. We would like to draw your attention in particular to the growth in mortgage, 20.7% for corporates and 8.6% for individuals. Also bear in mind that Bradesco leads BNDES Onlending operations, which grew by 13.3% for corporates, mostly for SMEs. With individuals, we noted a 13.8% growth income.

Slide number 17. For the correct analysis of our asset quality and the need for provisioning, we believe this slide is key. The top line shows the representativeness of total provisions compared to the total loan portfolio. The second line shows the required provisions by the Central Bank criteria in accordance to clients' ratings and past year operations. Here we can immediately see that Bradesco has an asset of provision of R\$1.1 billion. The third line, which closed the Second Quarter of '07 at 4.4% for response to the proportion of loans overdue by more than 14 days, classified between E and H ratings. And the last lines show charge offs compared to the portfolio one year before.

We can see that there is a stronger relation between effective losses and of volume of overdue each with H operations. This means that in one year from now, our effective losses should stand close to 4.4%. This being said, we conclude that our effective asset of provision is actually R\$2.3 billion, which is the difference between the first and the third line.

Slide number 18. This new slide shows a delinquency per segment. The biggest challenge in granting loans is unquestionably measuring properly risks. Through its credit granting profit recovery and risk management areas Bradesco has fine tuned its delinquency risk pricing models underlining our constant concern over this matter. The senior management to the several committees follow very closely the asset quality, which permits us to take corrective measures very

fast. In this context we can see the corporate delinquency is maintaining a level below its historical levels. The top growth which represents the individual segment showed a growing trend last year followed by flattish behavior in the first half of 2007. We have been experiencing similar behavior in SMEs. Our conclusion for this slide is that we are expecting a delinquency rate reduction over the coming period.

Bradesco in slide under 19 has been focusing this product and has even invested strongly in creating an internal structure, fully equipped to meet the needs of both real estate developers and individual home builders. Bradesco is fully aware of the importance of these loans, so much that we were pioneers in offering fix rates of 0.98% per month for 25 years tenure operation. This product now accounts for 28% of individual mortgage operation. In this quarter we have originated R\$872 million of operations corresponding to 7300 homes of which 24.6% were designated to final borrowers.

Slide number 20. The Brazilian auto industry has been recently recording strong growth and we expect it to continue over the next couple of years. Few as [ph] Bradesco and especially its subsidiary, Finasa, have adopted the strategy of forming operational agreements with leading car, truck and motorcycle manufactures as well as a series of auto dealers. Bradesco has a 25.9% market share and we intend to increase our share even more. We have been investing and forming specialized teams and creating specific product geared towards auto financing, particularly to brand new high-valued vehicles. In addition, BMC's auto sales force will be selling Finasa products in the short-run. Our delinquency ratio of more than 90 days is in line with the markets average, which stands at 3.5% -- 3.2% for cars and 4.7% for motorcycles. Losses from these operations which have collateral are priced in such -- in a way as to preserve the desired spreads.

Slide number 21. Between 2004 and 2006, we also adopted strategies to establish operational agreements with banks in the payroll lending market. Since the second semester of 2006, we began to act on our own and recorded the 12 month 44.2% growth in the portfolio. We reinforced this strategy through the acquisition of BMC which is specialized in this business. We would like to inform that last week; the Brazilian Central Bank approved the BMC acquisition deal.

Slide 22, credit cards have become increasingly popular as a means of payment for various types of transactions including consumer finance. The market has recorded average annual growth of 22% over the last five years. Bradesco has a market share of 18.6% in this segment. Our credit card base comprises 22.2 million cards, 15.4 million of which are Visa, American Express and MasterCard brands. We have issued 6.8 million private-label cards as a result of several partnerships with various segments, notably, retailers, supermarkets, clothing outlets and drug stores.

In the first half of the year, we reached an agreement with a cosmetic firm, O Boticario. Bradesco believes in strong credit card growth in the niche of lower income individuals. We have therefore accelerated the closing of operational agreements with retailers and created specific products oriented for this type of customers we launched in this quarter. For example, number one the Fixed card, which is a card with reduced interest rates and allows clients to plan their spending by knowing in advance how much they will pay as balance every month; and number two, the credit my INSS [ph] card which is deals with [ph] the social security retirement pensioners and meets criteria established by the INSS and offers reduced financing rates as well.

Slide number 23. Bradesco have invested heavily in technology, training and the opening of new fronts in order to conquer new businesses and clients. The consolidation of our segmentation process has greatly improved the quality of customer relation. All this has been reflected in increased business volumes in turn improving our fee generation, which grew by 2% in the quarter. It is particularly worth drawing attention to this strong upturn in card fees triggered by the acquisition of American Express. Brokerage fees, which have been growing thanks to the efforts of our investment bank, and on one hand we notice that these investments in Serasa influenced negatively other fees, the line of other fees, but on the other hand we increased in the quarter-

over-quarter analysis fees generated by long-term, short-term and custody, where as Milton said in his speech, we reached the leadership in Brazil.

Slide 24. Our expenses are kept under constant control by management and staff. Bradesco is fully cost oriented, it is important to note that in decreasing ratio comparing cost to total asset is one more indicator showing that we are very committed to this positive policy of rationalizing expenses. The increase in structural cost of 8.2% is based on the seasonal effect of the concentration of vacation of our employees, which occur every year in the First Quarter. Plus, increase in the tax on payroll. Stripping out those two factors, for the concentration of vacation and this increase in tax on payroll, we actually have an increase in structural cost by 3.4%.

Slide number 25. Our improved operating efficiency is depicted in this graph. Without compromising quality and despite the acquisitions we have made over the last five years, our expenses have grown by 54%, vis-a-vis almost 170% of fee income growth. As a result our coverage ratio have moved from 45.8% in 2002 to almost 80% in this quarter. Our aim is to surpass a 100% in the next four years.

Slide number 26. We would like to point out that demand deposits grew by 4.3% in a quarter and by 29.8% in the semester. With a decline in interest rates and the maintenance of transaction taxes for example the CPMF and the VIOF there is a tendency to increase in this type of funding, which is a cheaper funding for us even though only 20% of this deposit is free for the banks to invest.

On the asset management side, we noticed a higher demand for equity products which posted a steady 1.5% growth in the quarter and 104% growth year-over-year.

Slide 27. On this slide we have a summary of our income statement. The insurance group posted a R\$696 million net income, 31.6% higher than in the previous quarters and includes R\$142 million relative to the after loss these investments.

Slide number 28. Premiums and revenues moved up by 5.2% quarter-over-quarter with pension plans and life insurance deposits accounting for 54.6% of the total. Bradesco leads the insurance segment in terms of premiums with 24.5% of market share. Our share in pension plans and VGBL products stands at solid 38.2% as of May '07. The number of Bradesco Vida e Previdencia clients increased by 16.2% in the same period surpassing the 1.8 million mark for pension plans and for one key product. And we account with the client base of 10.1 million people in life and property, and casualty products. In this quarter, the average annualized return of stockholders equity stood at 44%.

Slide 29 and 30. Old financial assets and technical reserve exceeded the R\$61 billion mark. It is worth remembering that R\$48 billion of this amount corresponds to pension plan and VGBL investment portfolio. Our market share in May '07 for provisions reached 41.5%, notice the consistent growth in technical reserves.

Slide 31. Administrative costs clearly demonstrates the improved operational efficiency of the insurance group which is confirmed on the next slide showing our combined ratios.

Slide 32. To better analyze our real performance, we recommend you to exclude the non-recurring event as demonstrated here. We have been improving a lot of our ratios by changing the underwriting policy and by adopting the profile for how to insure. Additionally, we have focused corporate health insurance plan, enlargement of in the widow health insurance. In this slide, we show both the national or local and international criteria for combined ratios.

Slide 33. On this slide, you can see the macro scenario outlook for 2007 and 2008 prepared by our economic team showing the main indicators of GDP, interest rates, inflation and, FX. We are

projecting 10.75% Selic rate at year-end considering accruing rate of 11.5% and we believe that the major impact on the Selic decline was already absorbed in our results.

I am referring to the 18% ratio, a rate we have in December 2005 and for the 13.25% rate as of December 2006. The drop tends to be lower as well as the impact in our own results.

Slide number 34. In this slide we are including the previous and new guidance for 2007, we will happy to comment in our Q&A session. I would like to highlight just the changes that we have basically in the lines relative to the loan book growth and to premium in general.

Thank you for your attention, and let us move to the question-and-answer period. Thank you.

Questions And Answers

Operator

(Operator Instructions)

A - Jean Philippe Leroy

Just using the first question we received from the internet. Mr. Haffayo [ph] you were asking about the possible IPO of Visanet and what are the numbers -- the figures relative to Bradesco in this operation.

Basically, we are a shareholder of Visanet, we have almost 40% stake and actually it's the largest company in the sector, the largest acquirer. Altogether, with the other shareholders, we are always analyzing studies to see what to do in terms of increasing the most shareholder value. There is no definition as if we are going to have an IPO of the company, but obviously if this occurs, we will be very quick and proactive to inform the market on what we would be doing.

Operator

Our first question comes from Ms. Maria Laura Pessoa with Fator Corretora.

Q - Maria Laura Pessoa {BIO 15006438 <GO>}

Hi, all. I have a couple of questions. The first one is regarding the provision expenses over average loans that you expect for the end of this year. Also, I wonder if you could comment on the small increase in the current account fees in this quarter. If this is something related to the impact of salary accounts creation, or is it just punctual, I wonder if you could make a comment on this. Thank you.

A - Jean Philippe Leroy

The increase of provision has a percentage of the loan book?

Q - Maria Laura Pessoa {BIO 15006438 <GO>}

Yes. Provision expenses of average loan book.

A - Jean Philippe Leroy

Okay. Actually you can see in the slides that we have been having a very good performance over the last period. And actually the number has been moving down. We see over the last three quarters, a decrease 4.6, 4.5, 4.4, it is very difficult to project exactly to which level we are going to move, but at least the trend in percentage term having an improvement in terms of these ratio is something that we continue to believe. So it's difficult to tell you if it is closer to 4 or 4.2, but we are

actually seeing in all the different portfolios for individuals and companies a very good behavior also in terms of the factory loans between 14 and 60 days. So the trend for these numbers which is in this slide of longer period is actually to continue to move down at least to be relatively stable over the next few years.

If you look at fees, actually what we have is basically a growth in the number of account holders. So you'll see that basically we have a growth in the quarter, but you can see the counterpart which is the growth in the number of checking accounts. Mr. Marcio Cypriano, our CEO established the goal to increase by 2.5 million in unit number of checking accounts in this year. And we are ready this year grew by approximately 1.1 million. So actually this is already a benefit that we are seeing in fees, because of the number of growth of account holders.

Q - Maria Laura Pessoa {BIO 15006438 <GO>}

Thank you.

A - Milton Vargas {BIO 3347541 <GO>}

I would like to respond to Rafael Alquin Galliano [ph], the second question made by him about. The question relates the insurance provision is to make, what the bank securities expectations. I would like to ask you Rafael, our expectations in 2007 and to same drive we will be only one adjustment in our technical provisions relates to the health. It's the only thing that we made it until next December. Other officers [ph] would be made by the viewers is the regular viewers, no adjustments at all until December of 2007.

Operator

The next question is from Jason Mullen [ph] of Goldman Sachs.

Q - Jason Mullen {BIO 16602640 <GO>}

Hello everyone. My question is just a general question based on the guidance for 2007 and the changes you highlighted there that raising the expected growth in insurance premium remains at 10% to 12% to 14% and raising slightly the loan portfolio growth on the back of greater growth in corporate. How should we interpret that we have these which seem to be positive event when we are not looking at that moving to your guidance for an increased net income. We have your guidance for net income going from 4% to 10% -- staying flat at 4% to 10%. Should we just assume that there is going to be offsetting factors to this improved outlook?

A - Milton Vargas {BIO 3347541 <GO>}

We change a little bit of our expectation, similarly speaking, we change our expectation about increasing insurance premiums, because the response of the market in the GBL base point, and the recent increase of our overall premium, and because our experience in the profile. And a very good performance in industrial risk and commercial risk, would be made to change our expectations in terms of increase in the insurance premiums, the only reason is because the results until the first semesters would be very good and relate our expectations.

A - Jean Philippe Leroy

And the second question was relative to the guidance. Actually we raised our long portfolio expectation for '07, based on a very solid performance that we saw in corporate and even more with SMEs. Actually we didn't change the guidance for net income -- net interest income because basically what we are seeing is a continuity of our numbers inside of this range, but obviously before we well maybe closer to the lower end of this range and now we are closer to the higher end of this range. But we feel comfortable to change the guidance for the loan book but not to change the guidance for the loan book, but not to change the guidance for the net interest income.

Q - Jason Mullen {BIO 16602640 <GO>}

Just to confirm then, I think I just actually, probably assumed that, but that line, net, it should net interest income, not net income, right? That's going 4% to 10%, is that correct?

A - Milton Vargas {BIO 3347541 <GO>}

Yes. You are correct.

Q - Jason Mullen {BIO 16602640 <GO>}

Yes. Okay. You are not giving us guidance for net income then.

A - Milton Vargas {BIO 3347541 <GO>}

No.

Q - Jason Mullen {BIO 16602640 <GO>}

No. Okay. Thank you.

Operator

Our next question is from Mario Pierry from Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Good morning. I have a couple of questions. First is on the insurance business, we saw a big increase in claims, the claim ratio I think went from 73% to 79% this quarter, if you could be more specific, where you seeing this increase in claims and what lines in particular? Also, related to this increased guidance for insurance premiums, do you now expect growth of 12% to 14%? Is this driven primarily by lower prices or is this you expect to maintain prices fairly stable, or you just seeing an update of market? Then my second question is related to Banco BMC, as you said, you received the approval to complete this, the acquisition last week. Can you just remind us what is the goodwill associated with this acquisition? Thank you.

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Samuel speaking. And I will try to response the insurance questions made by you. Then about the claim ratio. Claim ratios would be that from the 79, 78.5 to 79.1. The reason is only one, which is about the -- it relates to the health -- individual health provisions, which made by us approved by the insurance department. So the sense, between the price requested by us and price approved by the government since 1997 until 2005 -- until 2004. There is no way we have to make this provision, this provisions -- the main of this provision collective, technical collecting is the premium provision for premium note issued by the company. This is a reason why the claim relation increased a much more when you relate to the first semester over 2006. If you are not going to see that provision our claims ratio goes to -- moves down 74, instead of 79.1. The second ratio is relates to the premium, increased premiums for the second semester. I would like to clarify to you, we claim to increase so much of our premiums for the second semester, but not relate to the reduction of the price. We plan to maintain the price and in our perspective we have not planned to reduce premiums for second semesters.

Q - Mario Pierry {BIO 1505554 <GO>}

If I can follow-up, I am sorry before you answer the question on BMC is a, yes we do notice that your healthcare provisions have remained high around the R\$200 million First Quarter. But it seems like you already have a very possible level of reserves. So I was just wondering why is there the need to continue the provision of maintaining these healthcare provisions high and through the end of the year? Then on the pricing also like, looking at one of your competitors result recently; it

seems like in auto insurance we see some pressure in prices. Then if you could be more specific about your expectations for prices in auto insurance?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Let me try to respond to the second. About the auto insurance, really we have -- our experience in profile underwriting is now completely of close to two years. Therefore [ph] in terms of insurance industry is a correct observation for -- to try to make the correct price for your portfolio. Given the reason why our pricing, some kind of cars, in some regions in Brazil reduce a little bit relates to the past. But this reduction has really not affected our combined ratio and our claims ratio. Because this is a correct experience, there is a underwriting for a basic on profile. We're the first in terms of health. The health, we would like to remember you. The health, individual health, the pricing is approved by the government since 1997, when the government achieved a law -- you have took over all the business, it depends on your policy and it depends of your contract lead or issues by the insurance. When that happened, every year they prior to request by insurance industries, the governments approved lower prices, and what happened in this case, you don't have the correct premium to face the risk there is to it and this is the reason why we have to make the provision took over this, the part of the premium not issued by us. We plan to close or to replace to close this provision, this specific provision until the end of this year. Of course, basically in 2008 we will request the price and it will end up to lower then, we have to complete the provision in 2008-2009 depend of their price approved by the government is requested by us.

A - Milton Vargas {BIO 3347541 <GO>}

The question relative to BMC, basically the goodwill should be of around R\$600 million and will be fully offset, so fully amortized in the Third Quarter because it was approved right now but it will not affect the bottom-line of the bank. And on the top of that, just reminding you that we are going to raise around R\$800 million the capital of the bank in order to make this transaction.

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you.

Operator

Our next question is from Daniel Abut, Citibank.

Q - Daniel Abut {BIO 1505546 <GO>}

Hey good morning. You showed in slide four I believe the improvement in the efficiency ratio of about two percentage point over the last 12 months or so and I think Jean you indicated that you expect further improvement or further room for improvement going forward I wanted to ask you if you have any specific target of how low this number can get over the next by the end of the year, by the end of next year and related to this I wanted ask you is the integration with American Express operation which you called a success in your remarks have you either defined any specific cost savings associated with that operation and if so have they already been factored in or a big part of that is still to come later on and how much that could be a reason for further improvement in this efficiency ratio?

A - Jean Philippe Leroy

Okay. Daniel just to give you an idea, the cost income ratio for Bradesco of 42%, has space to improve may be over the next six to 12 months we should be achieving a 40% ratio and over the long run over the next years we will be able to reduce it to around 37%. This is based on our own calculation. I didn't get the second question that you asked.

Q - Daniel Abut {BIO 1505546 <GO>}

I wanted to know really do you given that you expect further improvement of two percentage point over the next six to 12 months, if part of that is coming from cost savings related to American Express operations? I wanted to know exact integration would you call it success, realized gross savings or growth savings are still look up.

A - Jean Philippe Leroy

Actually when we talk about the cost income ratio it's looking at revenues and costs. It's not specifically because of the American Express. We always try to incorporate structures and we still have potential to incorporate more costs from other companies that we have, but also because that is for expanding the revenue. Revenues in margin and the revenues in fees as well, so all together it's combined and expected to have a cost refund ratio improvement.

Q - Daniel Abut {BIO 1505546 <GO>}

So that I understand being that the ratio is an overall ratio. I wanted to know though if you have done any analysis in relation to the integration of American Express pertaining to the valuation of cost savings after that integration or you have not done that?

A - Jean Philippe Leroy

No we already have been incorporating costs of American Express but some of them for example, we have a structure of co-standards and we keep it separated because they have a specific understanding of the type of customers that is, an America Express customers. So some costs we may be integrating, some orders we try to have separated. It's the same for example, when you talk BMC some costs would be integrated but the structure will continue to be managed by BMC for example, because they have the expertise to understand the business.

Q - Daniel Abut {BIO 1505546 <GO>}

Understood, just quick one last question on the goodwill amortization of BMC, I think you indicated R\$600 million that's the gross amount right. So mix of facts as said we should expect how much heeding your Third Quarter number?

A - Jean Philippe Leroy

Net its around R\$400 and just to correct myself, actually the dividends of the shareholders will not be impacted by that, but the bottom line could be because of the amount that we are amortizing, and it will be in the First Quarter.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you very much.

Operator

The next question is from Juan Partida, JP Morgan.

Q - Juan Partida {BIO 4768925 <GO>}

Hi. Good morning. My question has to do with slide 12, specifically the insurance line. I saw -- we see that there is an interesting increase in revenue from in financial revenue from the insurance company despite the falling rates. Is that due to an increase in volumes or what would be the driver behind that? And my second question is we saw in the quarter a very important growth in private label cards of close to a million cards. Could you explain where that came from? Thanks very much.

Operator

Our next question is from Saul Martinez...

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Just a second please, just a second please. From where I was speaking about the insurance revenues and financing, the reason why the amount, the amount of revenue insurance is -- financial insurance revenues is related to the volumes, its because the VGBL [ph] and UBL [ph] is very big amount of the reserve that we have. The increase is so much for this -- in terms of VGBL we increased it more than 26% relates to the last year, is there a reason we are having more -- more of reserves to apply and the reserves the volume of reserves increases so much relates to the last semester, is the reason why we increasing the more insurance financial revenues.

In terms of the question relative to credit card you are mentioning the slide number 22, I believe. And actually we see two components, a growth in the base of cards coming from the lower income classes, with the private label agreement. I could not specify exactly, right now what is the - which one has been more beneficial to this 1 million growth and the second thought would be the number the credit cards, but then I can say that American Express has been a major component of growth in base cards, to give an idea when we acquired American Express they had 1.2 million cards and now they have 1.7 million cards, the number of issuance of American Express had been very strong based on the footsteps of the agreement and the base of the product line and the focus we have been giving to the American Express customers.

Q - Juan Partida {BIO 4768925 <GO>}

Jean, if I could quickly follow-up the American Express growth is not really reflected in the credit card loans, right? It's mostly charge cards.

A - Jean Philippe Leroy

Exactly. Charge. Are you talking about slide 22?

Q - Juan Partida {BIO 4768925 <GO>}

Yes. But now I am talking about loans. There is still good loan growth in credit cards this quarter, but it's not related to AmEx, right?

A - Jean Philippe Leroy

Right. In terms of the line of fees you are mentioning, fees or loan book?

Q - Juan Partida {BIO 4768925 <GO>}

Loan.

A - Jean Philippe Leroy

We have in terms of the growth of loans, as we are saying credit cards are becoming more and more a way of financing. So we actually have been seeing growth in the number of people using the credit card as a way of financing. And normally, the American Express are charge cards, you are correct. But it's more because of people using more credit cards to finance their acquisitions.

Q - Juan Partida {BIO 4768925 <GO>}

Thank you very much.

A - Jean Philippe Leroy

You're welcome.

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Operator

Our next question is from Saul Martinez of Bear Stearns.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning. I have a couple of follow-up questions for Samuel on the insurance business. First on slide 32, you give your combined ratio, both as reported and excluding non-recurring events. Can you just, the discrepancy is pretty meaningful, can you just remind us what those non-recurring events are? I assume part of it is related to the premium deficiency reserves that you mention in the individual health business. But is there anything else in there, and why should we be confident that going forward, some of those non-recurring events will actually be non-recurring and not impact the combined ratio? And I have a follow-up as well.

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

The only feature there is no recovery, and we have exception in our combined ratio. It only relates to the health -- individual health only.

Q - Saul Martinez {BIO 5811266 <GO>}

And that explains for example in Q2 '07 and adjust you have a 94.7% combined ratio?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

Excluding that, that's 14percentage points, is that right?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

So we should expect going in to '08 combined ratio actually be 14percentage points lower than or around 13, 14percentage points lower than what it's actually be tracking?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Our expectation, when you see four, you see four until December, right.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes, right after you catch up with those provision in the individual health business.

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Yes. If you see -- if you look for Board until December, I would say to you the combined ratio would be the same as in the first semesters.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And after 2008, after the Fourth Quarter of this year in the 2008, we should expect the combined ratio to be 14percentage points or 13percentage points lower? And what it's been, is that correct?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Excluding these adjustments in health, I would say to you is this combined ratio is absolutely comfortable for us.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. So something close on an international combined basis, something close to 80%, 85%, 86%, 87%, is that what we should --

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

I would say to you in terms of international combined ratio, is calculated by almost 99% of the account, so I would say to you 87.7% or 85% as you know is a very good combined ratio for new line business, you know.

Q - Saul Martinez {BIO 5811266 <GO>}

I understood. But that's -- okay. Then that's -- so that should be a pretty big pick up in your results going in 2008 in your insurance business?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Second question, is kind of a follow-up to one. I wasn't really clear in your response on why the financial result increased so much from first to Second Quarter was R\$906 million versus R\$636 million in the First Quarter. I am looking at slide 27. It's hard for me to believe that VGBL volume growth accounted for 42% rise quarter-over-quarter. Was there anything else in that result? Did you have any equity gains in there that impacted because it seems like a pretty big number relative to the results you've been posting in previous quarters?

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

It relates to the start of the financial results, I would like to clarify to you that the increase is just tried by three things.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

First one is the total of reserves increased so much. The second, we invested a little bit more in the stock, in the equities. Stock market you would get good results, we can get very good results.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

A - Samuel Monteiro de Santos {BIO 18677825 <GO>}

And we sold the share for Arcelor, and which represents results in terms of financial results.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. That's very helpful. Thank you.

Operator

Our next question is from Victor Galliano, HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, hello there. My main questions have been answered, but some just to follow-up on what I think Jean was mentioning about IT investments. And he was talking about R\$270 million being invested in IT. Is that something that's already been accounted for, or is that something that's going forward you will be accounting foreign expenses and a lot of cost.

A - Jean Philippe Leroy

Victor the investment of R\$270 million that was mentioned in the speech. Part of that was already spend and part of that will be deferred over maybe some three years.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. So it's going to be a very small impact on expenses going forward.

A - Jean Philippe Leroy

Yes. But based on -- compared with the overall numbers of Bradesco it's a very small impact, very relevant impact.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Our next question is from Mr. Alcir Freitas [ph] from Itau Corretora.

Q - Alcir Freitas {BIO 15939541 <GO>}

Good morning. In slide number 7 you disclosed a total amount of unrealized gain. I like to know how much of that total is related to available for sales figures. And the second question is, this quarter you've increased significantly...

A - Jean Philippe Leroy

Could you speak a little bit louder please?

Q - Alcir Freitas {BIO 15939541 <GO>}

In this quarter you increased significantly the amount of trading gains I'd like to know if I could in for a better these higher gains are related to the fail of AS backed securities?

A - Jean Philippe Leroy

The impact of available for sales would be of around R\$2.9 billion vis-a-vis this number you are seeing on slide number 7. And this effect the equity directly. And next these would be representing R\$1.9 billion approximately.

Q - Alcir Freitas {BIO 15939541 <GO>}

Okay. And about the trading gains that were recorded in this quarter?

A - Jean Philippe Leroy

Actually these increase in trading gains, should be explained in two different ways; the first one is that we had a very good quarter, but the second answer is that the First Quarter was a little bit

lower at the curve of the trading gains and just to give you an idea, when you compare this numbers semester, vis-a-vis, semester actually the numbers are very close, they are almost the same, a very slight decrease. So basically a better quarter, a Second Quarter was a little bit better, the First Quarter was a little bit lower. So when you compare both the higher change in the six months comparison of '06 and '07 they were quite comparable.

Q - Alcir Freitas {BIO 15939541 <GO>}

Okay. Thank you.

A - Jean Philippe Leroy

You're welcome. Let me respond to question which was asked by the internet, about a possible IPO of Bradesco Seguros and if we think that Bradesco Seguros is correctly priced by the market. Actually no we don't intend to make an IPO Bradesco Seguros. And no, we don't believe that Bradesco Seguros is correctly priced. Actually when we see and compare Bradesco with other companies and also looking at the perspectives of other insurance companies that might be proceeding into a IPO, we believe that markets does not price correctly Bradesco Seguros. So at the end of the day, it does not price correctly Bradesco on run rate with that.

Because of the advanced timing, we would like to end the conference call. We will be available in our department. If you want to send follow-up questions or by calling or e-mail, please feel free. And thank you once again for the patience, and sorry for the beginning, being a little bit later of this call. Thank you very much. Bye.

Operator

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

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