

Q2 2010 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP, IRO
- Samuel Monteiro dos Santos, CFO

Other Participants

- Alishondrei Estada, Analyst
- Boris Molina, Analyst
- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, 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 Second Quarter 2010 Earnings Results Conference Call. This call will be conducted by Mr. Luiz Carlos Trabuco Cappi, Chief Executive Officer; Mr. Domingos Figueiredo de Abreu, Executive Vice President and Investor Relations Officer; Mr. Marco Antonio Ross, Chief Executive Officer of Bradesco Seguros e Previdencia -- Insurance; Mr. Samuel Monteiro dos Santos, Junior, Executive Vice President and Chief Financial Officer of Bradesco Seguros e Previdencia -- Insurance; Mr. Luiz Carlos Angelotti, Assistant Executive Officer; and Mr. Paulo Faustino da Costa, Market Relations Director.

This call is being broadcast simultaneously through the internet in the website, www.bradesco.com.br/ir. 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. Domingos Figueiredo de Abreu, executive vice president and investor relations officer. Mr. de Abreu, you may now proceed.

Thank you. Good morning, and thank you all for participating in our conference call. As you see during the presentation, Bradesco's results for the first half of 2010, having fully confirmed our positive expectation at the beginning of the year. These results were achieved within a much healthier, more solid and more promising economic scenario, which remain in place despite the turbulence abroad.

We performed well in all business segments, reaching and other times exceeding our established targets. We continue with the strategy of prioritizing organic growth and achieved a presence in 100% of Brazilian municipalities. We are continuing to expand our network and we closed the first half with 49,000 service points throughout the country. At the end of the period, we had 21.9 million checking account holders, 20.6 million of which are individuals.

In slide two and 3 represent the highlights of the period that we will be discussing with more detail in the following slides.

In slide four represent the reconciliation between reported net income and just or recurring net income, if you prefer, in the respective periods. This quarter our results were impact by only one non-recurring event, the constitutional provisions for economic plans in the gross amount of BRL75 million. As a result, our reported net income of BRL2.405 billion increased to BRL2.455 billion generating an annualized return of 24.7%.

In slide five is highlighting our net income for the past quarters, with significant increase in the last two quarters, as a result of our growth in the net interest income, higher fee income, and essentially due to a decrease in delinquency ratios, which is clear when comparing six month periods. I'd like to draw attention to the evolution of our earnings per share of approximately 6%, from BRL2.07 in the First Quarter to BRL2.19 in the Second Quarter 2010.

Slide 6, in this slide we show the historical behavior of our quarterly efficiency ratio. We also present a new calculation of the efficiency ratio accumulated over 12 months, adjusted to risk or to net provision for loan losses. When analyzing the quarterly ratio, we highlight an improvement of 41.9% ratio in the First Quarter of 2010 to 41.5% ratio in the Second Quarter of 2010. Basically because of an increase in the net interest income and in revenues from insurance pension plans and saving bonds.

With regards to the ratio accumulated over 12 months, the red curve, rises in the last two quarters are essentially due to outstanding treasury gains that occur in the first and Second Quarters 2009, which is payable this ratio for such periods. When you calculate the efficiency ratio adjusted to risk, we conclude that this ratio better reflects reality of presented earnings, as the deterioration of the ratio is clear during 2009, reflecting higher provision for loan losses and its recovery starting in 2010, giving to an improvement in delinquency and the consequent decrease in provision for loan losses.

Slide number 7, total assets reached BRL558 billion recording an evolution of 15.7% year-on-year. Return on average assets remain at 1.7%, while return on average equity increased to 22.8% in the first half. The Basel ratio closed the first semester at 15.9%, showing a reduction from the previous quarter, mainly due to the removal of a surplus allowance for loan losses on the capital basis as a consequence of change in regulation and the redemption of our subordinate to peso debt. In any event, liquidity ratio in alliance with our capacity to generate results puts us in a very comfortable position to sustain expected growth.

Slide number 8, in this slide we present the net income breakdown of our main operations. This quarter we saw an increase in the participation of financial activities from 67% to 71% in our results due to an evolution in all the lines and lower fees and securities. The insurance segment, despite

presenting results similar to the previous quarter, had a slight decrease in its participation as a result of the improved performance of the financial segment. Either way, it is an important pillar of our business, account for 30% of our consolidated results.

In comparing six month periods, slow operations upturn is clear, from 19% to 29% due to loan volume growth and the decrease in provisioning needs. It's worth -- also worth noting the reduction of the share of securities in our net income due to lower treasury gains if compared to outstanding gains in the first six months of 2009 and to decrease in interest rate.

Slide number 9, unrealized gains remain extremely high at BRL90.2 billion, despite the quarterly reduction, mainly due the 13.41% decline in the stock market and the consequent impact on the price of our (active) portfolio and offset investments, especially our interest in Cielo. Please note that these numbers do not include the potential we (believe) from our own properties of almost BRL2 billion.

Slide 10, on this slide I'd like to draw your attention to the constant improvement in the interest earning result, which increased by 14% in the first semester, in comparison to the same period last year. This performance was due to higher average volume and margins impacted by the increase in loans to individuals and SMEs.

Slide number 11, the net interest margin remaining flat over the Second Quarter at 7.8%. We have reported a significant improvement in these margins in recent quarters in comparison to the 7.3% posted in the same period in 2009. This performance was primarily fueled by the increase in the average volume of individual and SME loans and by improving funding conditions, thanks to lower funding costs and the incorporation of Banco Ibi.

In any event, we continue to believe that in the mid to long term the margin will record a gradual decline to the historic rate in 2008 due to the increase in lower margin operations and (dire) consequently (relative) (inaudible).

Slide 12, this slide we represent breakdown of net interest income. The quarterly highlight was the security margin, which increased by 45%. And this was basically due to great gains from securities as a consequence of increasing volume in the interest rates. The growth in funding results reflect the period's increasing interest rates, together with higher funding volumes.

The 20% reduction in the insurance line was mainly due to low returns from assets index to (IPCA), the Brazilian consumer pricing index, and the (motor mark de France). The highlight in the first semester was the 19% growth in the growth margin, chiefly driven by volume growth, including Banco Ibi (inaudible).

Slide 13, in this quarter the gross margin, the gray part of the graph, present an important evolution, especially due to increasing volume. Provisions for loan losses, the red part of the graph, remain practically the same as in the First Quarter, despite a growth in the loan portfolio as a consequence of improvement in delinquency.

As a result, the net margin from loan operations, the blue art of the graph, has once more recorded an important evolution. This dynamic becomes clear when we compare that data from the first two quarters of 2010 to the same period in 2009, where the gross margin present an increase of 19% and provision for losses decreased 26%. Therefore, we see an evolution in net margin of approximately (19%).

Slide 14, in this quarter, given the evolution and relevance of the figures and in order to provide a better view of the credit trends, we have included the balance of debentures and the promissory notes, whose risk was assumed by our commercial area. Considering this, Bradesco's total loan

portfolio closed the Second Quarter 2010 amounted to BRL258 billion, with an evolution of 4.2% in the quarter and 15.3% in the last 12 months.

Growth was chiefly driven by loans to SMEs, which move up by 6.7% in the quarter, and to individuals, which grew by 4.2%, led mostly by pay (receivable loans) and credit card operations. It's worth noting that the new borrowers, in other words people or companies who had no loans with Bradesco in June 2009, accounted for (86%) of the total growth we record in the last 12 months. Once again showing that we have grown with quality, while diversifying risk.

Slide 15, as expected, the delinquency ratio for loans overdue by more than 90 days continued to improve, recording 4% in the quarter, a level we only expect to reach towards the end of the year. It's important to note that this reduction was evident in all segments. We believe there is room for further improvement in this ratio, although at a reduced pace. Thanks to the maintenance of employment and consumption levels, reaching 3.7% by the end of the year.

Slide 16, this slide show the behavior of early stage delinquency of between 61 and the 90 days, which remain flat in the quarter, both in terms of the total ratio and that of the corporate segment. We also believe the individual ratio will stabilize in the coming quarters, despite a slight upturn in the Second Quarter.

Slide 17, this slide shows we are continue to maintain comfortable provisioning levels, with a surplus of BRL3 billion in relation to the amount required by the Central Bank, or BRL6.2 billion in relation to expected one year gross losses, or even BRL8.7 billion in relation to losses net of recovers also for a year.

Slide 18, this slide shows that even though we maintain our surplus provision level, our recovery ratio of the allowance for loan losses for (inaudible) overdue by more 90 and 60 days once again improved substantially. This is not only a consequence of lower delinquency, but also of the increase in the generic provision, which are more prevented in nature due to client ratings and/or operation ratings.

Certainly, this level gives us more than enough room to successfully (cover risk) and the reversal in the favorable scenario. Consequently, once again we see no need to institute additional provisions in the future, nor do we believe we will have to resort to our existing provisions, give expectation that the favorable scenario will continue for some years to come.

In slide 19, fee income increased by 4.1% in the quarter, strictly driven by loan operations and current account transaction that were impacted by increasing the clients base which has extended by 1.5 million accounts in the last 12 months. This growth offsets the reduction in the underwriting fees triggered by the lower volume of capital market business in the Second Quarter.

In the six months comparison, fee income increase by 13.2%, led by growth in credit card operation at 16.6%, loan operation at 13.9%, and a 15.8% increase in fund management fees. With regards to the growth in credit cards operation, this is partially due to the incorporation of Banco Ibi.

Slide 20, operational expenses increased by 4.4% in the quarter because of higher personal expense, essentially due to the increase in the structural portion. And this was in turn chiefly caused by increase expense from social payments and charge, impacted by the created concentration of vacation in the First Quarter, as well as expansion of the workforce. Remember we have more than -- we finish the quarter with more than 1,000 new employees, mainly drive by organic growth of course. We will discuss administrative expense in the next slide.

In slide 21, administrative expenses grew by 3.4% in the quarter and 22.7% in the annual comparison. In both case, the increase was due to respective period growth, including expansion of our service network and increase in business borrowing, specifically with regard to the annual

comparison, incorporation of Banco Ibi expense part of the upturn in the first six months of 2010. Additionally, advertising expense in the first six months of 2010 came back to its historical levels.

Slide 22, although total revenue from our insurance Group remains flat in the quarter, the health and saving bond segment improved substantially. The life and pension plan segments, on the other hand, record a reduction due to seasonal factors. In the annual comparison, there was a sharp improvement in all business lines, reflecting the (constant) economical recovery.

It's worth noting that Bradesco Seguros e Previdencia leads the sector in the terms of revenue, with a 24.6% share of Brazil's insurance market. This data is from May of 2010.

Net income remained flat over the First Quarter at BRL700 million, benefiting from lower claims and the reduction in selling expenses, which helped to mitigate the decline in the financial results, as we mentioned previously.

Slide 23 presents some of the main figures from our insurance activities. The combined ratio recorded a slight improvement over the previous quarters, mainly due to lower claim. Our own financial assets as well as guarantees of technical provisions totaled BRL88.5 billion and technical provisions stood at BRL79 billion, BRL69 billion of which are related to life and pension plan projects.

At this point, I'd like to emphasize once again that we work with actuarial assumption that will allow us to be comfortable in relation to our future commitment with the beneficiaries of our insurance and pension plans. With regards to the actuarial table, we use strict and advance calculation criteria adopting the (HE2000) model, with an improvement of 1.5% per year. In addition, in terms of expect interest rates for our assets, we have adopt a long term rate of 4% per year in real terms.

Slide 24 represent our economic departments projects for 2010 and 2011 regarding GDP, interest rates, inflation and the US dollar exchange. Certainly a very favorable scenario.

Slide 25. Thanks to strong growth in the first semesters, we have revised our guidance for mortgage loans from BRL6.5 billion to BRL7.5 billion. In relation to the other items, we have maintained our guidance. And given the results so far, we remain confident that we will achieve our objectives.

In conclusion, we believe that our Second Quarter results were highly satisfactory. We maintain it's (off) the provisions for loan losses, despite the growth in the loan portfolio, was certainly the main factor behind this improvement. In addition, our operations indicators have been recording a solid and consistent improvement, in line with the current economic scenario.

We have maintained and expand our investments, especially in organic growth. Although this resulted in some additional cost pressure, it will also ensure sustainability in the expansion of our future results. Thank you, all for your attention so far. And we are now available to answer any question you may have.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hello and congratulations on the quarterly numbers. I have two questions regarding your guidance. First, on the guidance of operating expenses, which is a growth of 9% to 13% for the year, and -- as of the first half you're up 19%. For you to reach the midpoint of your guidance, expenses in the second half would have to be basically flat relative to the first half.

And I'm just trying to understand how does that happen? Is there any cost cutting efforts in place? Can you share with us what the plan is because flat expenses in the second half versus the first half seems difficult given the seasonality of the banking business, the wage negotiations that happen in the second half. So if you can share with us how you get to the -- to your targets, that'll be great. That's my first question. I'll ask my second one later.

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

Okay, Jorge is Abreu. Look, I think is not comparable when you consider what's happened the -- consider only compares with the first half -- to the first half 2009. Because the first half 2009 we have a very -- we have -- we keep the expense more -- let's say the expense was lower than the normal side. When you consider other year, remember that the last year 2009 would have -- have some expansion in expense.

That why when you compare the year-over-year you can see it's not a big challenge to reach this guidance that we gave. When we gave this guidance we have our budget, and you can see there's some assumption in terms of agreement with the employees in September. Of course, we do depend that if the agreement would be around that we have in place.

But we don't have so far -- we understand that we are running the Bank with -- in specific terms of expense, in a base that is lower than that we had in our budget. You understand there is no -- wouldn't be a big challenge to be around that. I don't know if I answer your question properly. But I understand your point, but it's not really comparable when you look the first half it was different, you had bigger chance -- different.

Q - Jorge Kuri {BIO 3937764 <GO>}

I guess then -- so you -- but your guidance is based on your expected expenses for 2010 versus 2009, correct? Regardless of whether there were some different --.

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

-- one-timers or extraordinary items in 2009. So your guidance of 9% to 13% is full-year expenses versus full-year expenses. So the point is that the first half your expenses are BRL9.5 billion for this year. If you do BRL9.5 billion for the second half, which seems difficult, given the seasonality of the banking business, the wage negotiations that are coming, then you don't -- that's the only way you meet your guidance. So I'm just trying to understand if there is -- then should we expect September and December to have sequential decline in --?

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

Look. Remember that you -- the second half of 2009 you have a growth in expenses. When you compare a year, a full-year, you have the same impact. Of course you have some growth in expenses in the two quarters of 2010. We expect that we will grow low, that which the growth in 2009. The growth will be low that growth in 2009. When you compare the total, you can understand my point here?

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, let me ask my second question. Thanks for your answer.

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

The second question is on lending and what's happening in the economy. There's a debate -- ongoing debate right now whether the Brazilian economy is showing some signs of a slowdown. Some of the numbers that are coming out, May GDP number was flat, industrial production in two consecutive months with no growth, and the (coupon minutes) today certainly hints to that. Your loan book is up 15% for the year. That's way below your guidance of 21% to 25%.

Two questions. One, are you seeing some evidence of this slowdown that some of the macro numbers, the coupon minutes are referring to in your own business? And the second question is given where you are in achieving the guidance, is it likely that the guidance is going to be probably at the low end of the range or maybe even a bit lower than the low end of the range as a more realistic number?

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

Look, you are right. I think the Brazilian economy is destined to -- a moment more to, let's say, more to adjusting moment. We don't understand that it's -- we are -- we have been growing in a -- more that we could, in fact, for the beginning of the first half -- the First Quarter to be (see). I think the Second Quarter we have some accommodation in terms of growth. But not -- it doesn't mean that we expect to have some deterioration in the economy going forward.

But we continue to expand that we -- we continue to expand in the, let's say, more -- a more normal growth for Brazilian economy, not (right) -- Brazil's is not, you understand -- we cannot grow 7.5% that we have expect for the year -- for a long period unless we can create many, many (pressure) in terms of pleasure and other things.

That with the Brazilian economy is going to (throw) away to go back to the more normal growth. That's why it is scenario that we have (in life). Having that, we understand that the second half of the year normally -- in our budget, normally we consider the economy -- Brazilian economy -- the second half of the year is more -- we have more -- is more dynamic than the first. You have many, many events. You have more money in the hands of the population. That's why we expect that we'll continue to expand.

We are not feeling this -- any movement is that we cannot believe that you can see. We talk this morning in the conference in Portuguese about large corporate. Don't doubt we can hire to be in large corporate because large corporate is normally the more -- the most difficult to predict because normally we have talked about large (check) sometimes just one operation can feel the guidance of just one operation that we don't have, we cannot feel.

But the rest that we are confident to continue -- maybe we'll be more in the low of the guidance, yes, but we are -- we understand that's possible to reach.

Q - Jorge Kuri {BIO 3937764 <GO>}

Great. Thanks a lot.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, gentlemen. Congratulations on the results. I got a couple of questions. The first one, much like Jorge's question just now on expenses. I'm looking at your fee income and it's up almost 12% year-over-year, and the seasonality does bode well for the second half of the year as well. I'm just wondering if your guidance of 11% fee growth, if that's something that you're going to meet with some degree of ease.

And the second question is in terms of the expansion. You were guiding for a pretty strong expansion in branches and we only -- and so far only 70 branches have been opened or less actually, in 2010. I was wondering if you're still going to meet that guidance. What is the new guidance for branch openings in the year?

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

Look, Carlos, in terms of fee, we are posting very good -- very good numbers. We understand (inaudible) that we don't have the -- as we said we'll be more than two double digits in terms of growth at the end of the year. We -- unless we are not -- we are not expect to have many change in regulation that could be affected in a big changing in this. So we are confident we can -- very close to the high point of the guidance maybe.

In terms of branches, thanks for your question. Is good to clarify. In fact, we gave a guidance that we'll be to open 250 new branches this year. When you look at the numbers until June, we can see only 22 branches. We are increasing -- remember that the First Quarter we have adjusted one of our two branches, all right? We are now in a process that we are in our 18 more branches going forward.

But to think we'll not be able to match this guidance of 250. I think (the speeds) that we have in mind to develop this business is not going the way that we have in mind at first. But we think that we can be reach at the end of the year something close to 160 and 170 new branches. And the 250 will be reaching by the first half of 2011. Doesn't mean that we are -- we give up about 250 branches, but it does postpone the inauguration of some of them.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Great. You mentioned before opening 500 branches or more in three years, 600 branches in three years. Is that still a goal or is that coming down as well?

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

Look, we don't have the (inaudible) it's possible to do so. We understand that we have space to have many. We identify many, many places where we understand it's possible to open branch. But I cannot give you like a guidance because we don't have this in our planning -- strategic planning so far. Okay?

But I would say that consider the scenario of Brazil -- economic scenario for growing economy, I would say that there is no reason to believe that is not -- we don't -- we will not continue to expand the branch network in a region like this to have a (benchmark base) maybe the next three years. It's okay. But not -- again, is not a decision that we are ready -- we are ready to have taken. But is just to give a feeling that we have about that. This 250, I can tell you, because it's in the process to be opened.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay.

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

Right and you have a net of maybe more than 500 new place that can be. But again, it's not -- we did not have this decision yet.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, perfect. Thank you. Thank you, Domingos.

Operator

Excuse me, our next question comes from Mr. Daniel Abut from Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. Domingos, I have a question on your interest rate scenario, which if I understand it correctly you now predict (select to way) (inaudible) 25% by yearend and then to stay there throughout 2011. So only 50 basis point more high gain and then a long pausing by the central bank throughout the rest of the year and the entire 2011. What's the impact of that scenario if it were to come true on your top line income and net interest margin? That's question number one.

And question number two, although you're not forecasting 2012, if your economists were to take a best guess right now, would they expect by 2012 the central bank to restart the (easing) cycle and start re-lowering interest rate to trim back to the single digit level that we had before this (hiking) cycle started?

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

Look, Daniel, this changing in macroeconomic scenario for interest rate, it was -- I would say that is -- the exchanging was more driven by the global scenario. It help internal inflation and everything to have some indicators that inflation is more, let's say, under control. That there is no reason to central bank to be -- to tighten more the monetary policy.

Let's say that the affecting in our numbers is not, as we have been talking, is not direct because we have some balance of this. We can have -- we will have lower revenues from your working capital. But on the other hand, you can gain more in our fixed portfolio. So I would say that it should be affected the rest of the year, in this sense.

And I agree with you that we don't have this guidance for 2012. We don't have this number too. But I would take a risk to say that in consider this scenario that Brazilian economy continue to grow in a good way, like 4.5% with inflation under control, there will be space for banks central -- the central bank to reduce interest rate going forward.

Look, we understand that this scenario is very, very positive for bank. We talk about is structurally is very, very positive because you increase the demand for products in very good shape. We have -- we expand this the last year, 2008. You remember that we have expansion of the economy for the products like mortgage, products like auto finance.

You have more people that are capable to buy these things. So it's -- you reduce the risk (inaudible) so you can reduce the spread on the way. So it's a -- I see a very, very good, very, very positive scenario with interest rates in the lower risk (provision) two reason.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Domingos. That's exactly what I was pointing to in the consolidation of that positive scenario that continues increase demand, the structural demand for loans, for which some people would argue at the (rates) that you need lower rates even than the current ones. So I wanted to sense whether you expect that sometime in 2012 if all the starts continue to get aligned, that rising cycle to resume, and you gave me the answer I was expecting. Thank you.

Operator

Excuse me, our next question comes from Mr. Saul Martinez from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, everybody. How are you? I want to ask a question about the insurance and pension business. And if you could -- I don't know if you can talk a little bit about what you're seeing there from a competitive standpoint and whether you're concerned at all about the sustainability of the results. Especially as we see rates go up, are you going to -- are you going to see other competitors start to compete aggressively, more aggressively on price? Because when I look at your insurance business, your combined ratio is 84% to 85%, which, from a global standpoint, is very, very good.

And I'm just -- I'm just -- want to get a sense from you as to how sustainable the current levels of profitability are, whether you feel like you can continue to grow the bottom line over the next not only few quarters, but over the next -- over the next couple of years.

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

Saul is Samuel speaking.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi.

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

In terms of the sustainability of our results, we don't have doubts about this. Is because if you make some analysis from the 2004, 2005 and 2007 and forward, you can see sustainable combine ratio, which means that around 85, 84.

But I would like to mention to you a very interesting thing related, for instance, to dental. In terms of dental, which we have a huge operation jointly (inaudible) not start until now the scenery which we plan to start in the end of this month and that continues until the end of the year. There is in this kind of operation would be a very strong opportunity to reduce costs, you know? And in the order size in terms of a healthy, we have a lot of opportunities to put pressure on our stakeholders to reduce this, at least to maintain the cost of the services relates to the health.

In terms to (P&C), there are a lot of interesting opportunities and we are running now which a lot of operations relate to the home insurance. According I mentioned to you, I think I mention to you before, we sold in the last eight months around 1.03 million new policies of the home.

So this kind of information to you, to everybody, is there -- I have very huge opportunity to getting market share in our operations. You can see according the news from the insurance department we get -- we got 1.6 points more in term of market share in six months. This is very, very huge opportunity to grow up our results from the next six months.

I'll say to you, almost 100%, because our Company is very realistic in terms of technical provisions. I remember you that provisions we made before a lot of the (floats) happen in (ridge and hills) Sao Paulo and the famous disease which calls in Portuguese the (great selina) everything was made by provision by us in the results.

So the claims would be a little bit down off lower of this provision, which happen to in our statements are lower combined ratio and a lower claims ratio. I would say almost 100% absolutely right when I say to you until the end of this year, our results are completely (sustainable).

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. That's very helpful. If I can ask a follow-up question as well on -- maybe to Domingos. But you pointed out a pretty favorable scenario for the medium and long term for Brazil in terms of economic growth. And there are some concerns, however, that have been expressed by some industry participants, including Serasa, about the debt levels of the Brazilian consumer, the seemingly high level of debt servicing capacity that -- debt servicing load that the Brazilian consumer currently has and that leveraged levels have increased.

Are you concerned at all that that -- about the borrowing capacity of the Brazilian consumer and whether that will ultimately lead to slower growth and even an increase in asset quality -- or in NPLs?

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

Look, Saul, I understand that the data that Serasa normally they are posting, I saw some written that they will have some deterioration in terms of delinquencies. I would say that we are not perceiving this in our data. We are -- look, sometimes Serasa data, they are not -- they don't consider -- they don't have comparison, like they just consider -- like, for example, in 2009 you had 100 people in debt, and now we had 120. So they say delinquency increased 20%.

It's not true because depend all in relative basis. You have in 2009 100 people among 1,000 people, it means 10%. You have 120 now among 200, it's 6%. So it's something different that sometimes you have this kind of -- I'm not telling that is the case that we are -- you are talking now, but sometimes you have some kind of this data -- you have some conflicting data when you compare what Serasa is saying what we have here. All right?

But what I can tell, we have a mass of solid in Brazil is continue to expand. You have the -- an employment rate in the lower level that we ever had. We had a discussion this week with our economic team. They are upon investigation that they understand that Brazil is reaching -- is still around new level of employment rate. So everything that we have, that's why we have no reason to believe that we can have these kind of -- expect to have some deterioration (inaudible).

When we see that that level, you know that the -- what we mention in our speech when we say that our growth in credit this year, when you consider year-over-year, the growth that we have, 86% of this growth was explained for new in terms, in other words new borrowers. So it means that we are not -- you have new people come to the market, new people come with new demand and everything, so we are not putting all your crabs in the same family.

Q - Saul Martinez {BIO 5811266 <GO>}

That's very helpful. Thank you very much and congratulations on the quarter.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Mario Pierry from Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. Let me ask you two questions. One is related to your insurance operations. As you showed partial results from insurance increased almost BRL200 million in the quarter, but then you gave all of that back in lower investment gains from insurance. So I was trying to get a better sense of the composition of your investment portfolio in insurance or what kind of return did you realize during the quarter?

Then my second question is related more related to the Bank. I understand this is the time of the year when you start the negotiations with the union. What kind of wage increases are being demanded right now? What are you expecting in terms of wage increases for the year? Thank you.

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

Okay. Mario, Abreu talk about this. Look, it's very early to say about the -- what they are asking because normally they asking something that is prohibited to say, right, is not common to say. I would say that their expectation that -- our expectation is that we will be -- normally they start with a big amount and we close with amount lower. Let's say, in other words, we expect something very close to inflation, the previous inflation. Maybe you have something in terms of profit sharing, we'll have something this way.

But we have been -- we're having in our guidance, as we talk with Jorge Kuri before, in our -- when we gave our guidance in our budget, we have some expectation that we can -- of course, we cannot tell how much we have in our guidance, but I don't think -- I think the guidance that we gave, we have relatively protected with what's going to happen, unless we have a big surprise in terms of what we are to be -- to come up with the agreement with them. All right?

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

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

I told you everything and I told as much as we can talk so far. Sorry I don't have more detail about that. I transfer for Samuel to talk about insurance.

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

In terms of investment results would be a little bit lower in the Second Quarter in relation to the First Quarter. Is basically in terms of the share of the equities in a stock market. We most part of our portfolio in terms of shares is market to market. But some of them are used to make some movements to sell and buy shares. Other parts of this is invested in funds, which have to make a mark-to-market every month. Is basically in terms of shares, in terms of our portfolio in equity.

In terms of the composition or the breakdown of our investment assets, I would say to 95% is in bonds, government bonds, which has a recording in terms of accounting team in maturity way. And in the BRL3 billions and EUR3.5 billion are equities in a stock market. This is a reason why in the Second Quarter was lower than the First Quarter.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So if I can just get an idea, then, of your equity investments as a percentage of your total portfolio, then is about 5%, what was this ratio, let's say, a year ago? Have you been increasing your exposure to equities?

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

No. In (rarity) I reduce a little bit, is not increased our exposure in terms of shares, or in terms of the equities. We only talking about equities in stock market. No equities relates to the permanent investments like (inaudible).

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Okay.

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

This is a strategic investment.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

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

Q - Boris Molina {BIO 1904979 <GO>}

Yes. Good morning. Most of the questions that I had have been answered. Only one remaining issue regarding the performance of the securities portfolio. And again, I don't know if Domingos or someone would be best to answer. When you look at the movements in your equity accounts, we see a BRL400 million mark-to-market loss from available for sales securities. And I wanted to see if you could give some idea of what proportion of this mark-to-market loss comes from the Bank balance sheet versus the securities portfolio in your insurance operations.

The reason why I think it's -- I would like to know, this is a very volatile account which has very strong movements given when interest rates move in Brazil. So what could we expect for this line going forward? I mean what has been the performance in this mark-to-market losses? Are they stabilizing? Are you recovering recently? And basically what is the breakdown between bank and insurance operations?

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

(inaudible) talk about the unrealized gains that we posted in slide number 9?

Q - Boris Molina {BIO 1904979 <GO>}

No. If you look at your audited financial statements, you have the movements in your shareholders equity, you have beginning equity, earnings for the quarter, dividends and interest payment, and then there's the mark-to-market available for sale portfolio. And the movement in the quarter for that account is minus BRL405 million.

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

Look, it's to be careful with -- only for this information is to understand everything that is around. If I understood you, you are talk about the change that you see in our footnotes, yes?

Q - Boris Molina {BIO 1904979 <GO>}

Yes. And --.

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

Yes. Look, depending on what's -- let's say that first thing, for insurance, I would say there is no mark-to-market there because, look, the big proportion of portfolio insurance you have -- have too much of (it). The portfolio in equity is -- you mark-to-market in the equity. There's no mark-to-market result is available for sale -- to classify like that. So it will rest in the Bank's side, the biggest proportion that you have is when is tradable, you have something mark-to-market in the institute in the Bank. (inaudible).

Sorry, boys, one moment, just to be sure. Sorry, boys, I don't think we go out exactly your point. I don't know if we're able to clarify right now. But I think it's better to -- if you can talk later and --.

Q - Boris Molina {BIO 1904979 <GO>}

Yes, I will do that.

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

-- can post these results in our website to everyone.

Q - Boris Molina {BIO 1904979 <GO>}

Okay. Thank you.

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

Thank you.

Operator

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

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. Thank you. Yes, most of my questions have been answered. But just talking a bit about the -- talking about the margins that you saw in the quarter, very strong margins, and obviously, Domingos, you mentioned in the conference call that there was a very healthy loan mix here, the change in the loan mix is very constructive for that with the consumer and the SME and also the fastest growing bits of funding there to fund this were actually low cost funding.

But if you look at the second half, and certainly taking into account what you were saying, which is that you could see some pickup on the corporate portfolio or to get close, at least, or even meet your guidance overall in terms of loan growth, you could get some kind of lumpy loan coming through from a large corporate, could we expect perhaps to see some margin pressure coming in the second half of the year as the loan mix kind of switches back? And what do you expect from the funding side as well? Is there increasing pressure on funding costs and costs of funding?

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

No. In terms of funding costs, no, we are not -- is a very, very favorable moment for funding. We are -- we have a very good level of liquidity and we don't -- we are in a movement even to reduce the cost. We are not see any pressure in terms of funding. In the sense it's positive, so we -- our expectation.

It well understood your point, in terms that we are expect to grow portfolio in large quarters, yes, this could be reduce the margin in terms of -- as a proportion of the total assets, yes. But in nominal terms, our expectation of the margin is to continue to expand because we have very good perspective of growing.

We have a maturity of the growth that we have so far in terms of that, doing all the Second Quarter. Okay. In other words, we have approval for this new portfolio in a full six months, let's say. And you have very good expectation of continue to grow. So in the sense of, let's say, in terms, let's say, margin in nominal terms, we -- our expectation is continue to increase. And the NIM -- the net interest margin, well, as we mention, we are -- to be honest, we are positive surprise that we are keeping the same level that we started in, 7.8%.

Our expectation that we have -- to have some movement to have this margin to reduce because we are working with lower margin now. But again, once you have a start with the total portfolio, the (inaudible) of the old portfolio with the higher margin has been sustain, these margins is level. But we -- as we mention in the speech, in the -- we understand that the natural movement for this net debts to margins to reduce going forward.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay, so, you're talking about the margin maybe coming under pressure, but net interest income - healthy net interest income growth. Is that what the distinction you're making?

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

Just one moment, please. Let's say that, again, we have experienced a very, very strong growth in terms of where to have growing economy. Very, very good. Of course we have pressures in terms of spreads. We have scenarios very, very competitive. But again, we are returning in terms of spreads at the level that we had before the crisis. We're not expected to reduce more spreads unless we have a scenario where we have expectation of reduction of delinquencies everything.

In this way, we don't expect to have dramatic change of this in a short time, let's say. In the long term, again, we reinforce what we said before, that we are putting more operationally to lower spreads. We are change our mix, change our portfolio so the net (interest) margin tends to reduce.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. And just one quick follow-up, if I may, on credit quality and provisions. Are you comfortable with the current level of provisioning that you're doing? I mean in terms of the quarter it was about, it is my calculations 1.35% of average loans. Are you comfortable with this level of provisioning going forward?

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

(inaudible). Let's say that -- look, when we look at the last quarter, when we look the total -- on page slide 13.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

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

We have the representative (inaudible) of the total provision for the margin, the gross margin --

Q - Victor Galliano {BIO 1517713 <GO>}

Right.

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

-- very close to 37%. I think you -- is 37%. Sorry, I thought it was -- we had put in this in the slide. We don't have this. But you look at this, you can make this calculation very easy.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes.

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

This month, this quarter we have 37.5%. Is the lowest level that we have when you consider all the (starts) that we have is the lowest level that we have.

Q - Victor Galliano {BIO 1517713 <GO>}

Right.

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

The First Quarter was to have an idea of (38.9%) and now it's 37.5%. You ask me if you are -- we are comfortable. I'd say that we are very, very comfortable with this level. Of course it depends on your portfolio that you have. It change sometime. If you grow more in a portfolio, that will have more risk. Of course, the margin tends to grow more, but the provision tends to gain more representativeness. But assuming the same level will not have any change in mix portfolio, let's say this level, 37.5%, is very, very good for us, let's say.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you, Domingos. Appreciate all that.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello (Abreu), hello, everyone. Thanks for the opportunity. And congratulations on the results. Most of my questions have already been answered, but I'd like to touch on the competitive environment currently. Wondered if you could elaborate a little bit more on if you're seeing any signals that competition is starting to increase? I ask that because look at the central bank data. We've seen some, like, decline in spreads in the quarter, particularly in the vehicle financing and also on customer credit, which includes the payroll earning. So can you comment a little bit if this is a trend you're seeing that could eventually lead to some margin pressure in the future? Thank you.

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

Look, Marcelo, thank you for your comment. And look, as we are talking before with Victor Galliano, I think the competitive environment is very strong, is always has been very strong. You understand that is best to, in general terms, to understand there is, especially reduced spreads is not -- the competition has -- is a force that can induce a reduction in spread, yes. But I think the most important thing that we can have to reduce spread is the perception about risk inside Brazil.

To understand that spreads are going down not only because the competitive environment, but more because the perception of risk. Everyone has -- have bank or everyone has been the same perception that the economy is going in a good way. So it means that there is space to reduce debt. We are not -- you talk about some specific segments. We have, for example, you mentioned the vehicle -- auto finance.

Remember that until the end of 2008, the spreads in this market was very, very low. During the crisis the spreads went up, and now it's continuing in a way to reduce. We don't think it will reach the point that it was before the crisis because I think the crisis gave not for us but everyone in the market that gave some signs that there is space to reduce spreads or some space in some side.

That's why understand, specifically, I would say, and not note some -- is not hear from our commercial people on specific things like this for not a difference in this market and not difference in consumer side market about this for competition. But again, I think it is reduction in spreads is more because everyone has been the same, let's say, favorable scenario, in my opinion.

Q - Marcelo Telles {BIO 3560829 <GO>}

Excellent. Thank you very much for your response.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. (Alishondrei Estada) from Itau Bank.

Q - Alishondrei Estada

Hi. Good morning. My question is regarding competition also, but more towards BNDES. I would seem to think growing at faster pace than private banking versus even the last month. And also if you look at Bradesco's financial statements, you see that (Finanizon Lendings) are one of the highlights for the quarter. So my question is to what extent does BNDES competition concern you? And also, do you feel BNDES could be cannibalizing other higher spread credit products?

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

I think BNDES has a very important role in Brazilian economy. I think they are -- to be honest, they are the only instrument that we have to long term financing in Brazil. We don't have the funding for -- that we manage that we have funding to finance operation, for example, 10 years, 12 years because we don't have appropriate funding for that. So I think BNDES has a very important role in these terms.

We are important, not only Bradesco, but all the banks in Brazil are very important partners of BNDES in these operations in the way that we can reach different clients, let's say. What BNDES is saying directly is more or less some big groups or something like this.

To be honest, if you ask me if I agree with this, I'd prefer that they use more this partnership with the banks. It would be more. But once they decide to make this directly, to take the risk directly, okay, it's a part of that. But I don't think it should be changed dramatically the situation. When they see the -- when they see the datas about -- the data about market share of credit, you can see that the BNDES is gaining market share. But look, there's very specific market share, very specific market, all right. So I don't think should be -- make difference going forward.

We understand that in the other markets we don't -- we cannot see BNDES would be acting in other markets. First, they don't have -- there is a limit for doing that. So I think they have more things to be worried. I think Brazil will pass for a very important moment in the next five years, four years, have a lot of investment to be done going forward. So there is no reason to imagine BNDES. I think they are more worried. We are have some discussion with not only BNDES, but with the government, that way that can create appropriate condition for the private sector even the public banking, other big (public banks) to finance some kind of this (investor) because we will need all the support that we have.

Q - Alishondrei Estada

Okay, excellent. And congratulations for the results.

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

Thank you.

Operator

Excuse me, our next question comes from Mr. Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. This is a follow-up question. Just want to make sure I understand a number that you mentioned answering a previous question. Did you say that around 86% of loan growth over the last year came from new clients, meaning clients that previously did not have a lending product from Bradesco? Is that right?

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

Jorge is if you look at this in the last three years, you see a number very, very close of that. We posted this chart in the -- if you look your -- in pages 37, and I'm (inaudible) see in these in the Portuguese, I don't know if in English it will be the same page. But you see very clearly if you look at the previous year you see the same.

What does it exactly is the part to clarify? I'm not telling that is new clients, everything is new clients. I'm say that every -- 86% of this growth is explained for people that -- people are comp that didn't have credit at the beginning of this period. All right? Maybe they could be our client at that moment, but they don't have credit for a loan, more reason or not, but just the (inaudible) for the number of social security, let's say.

Okay, if you don't have these new clients that had client this year, our credit should be going very close to 14% that it was the growth that we report. But you see what have been happen the last, not only this year, but the last three years, you see something very similar. So that explains the question.

Q - Jorge Kuri {BIO 3937764 <GO>}

Yes.

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

(inaudible).

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay.

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

That if you are not have many, many people with -- to fulfill the capacity of people to taking credit. In fact, what has happen here, we have a social mobility in Brazil. We are creating new opportunities of expanding credit in different lines. We have new companies creating that they are needing for finance to cut. It explains more or less the dynamic that we have.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right.

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

All right?

Q - Jorge Kuri {BIO 3937764 <GO>}

Yes, great. Thank you.

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

You're welcome.

Operator

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, sir, go ahead.

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

Okay. I'd just like to thank all of you again for your patience to be here as far as so far. In fact, we are very, very happy with the results that we post and we are very, very confident that we can continue this way. All right? Thank you very much.

Operator

Thank you. That does include Banco Bradesco's half year conference call for today. Thank you very much for your participation and have a good day.

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