Q4 2011 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP

Other Participants

- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Federico Rey-Marino, Analyst
- Marcello Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Fourth Quarter 2011 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, Mr. Julio de Siqueira Carvalho de Araujo, Executive Vice President, Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Segura's group insurance. And Bradesco Executive Officer -- Vice President, Mr. Carlos Angelotti, Executive Managing Officer and Investor Relations Officer, Mr. Moacir Nachbar Junior, deputy officer, Mr. Paulo Faustino da Costa, market relations department director.

This call is being broadcasted simultaneously through the internet and the website, www.bradesco.com.br/ir. In that address you can also find a banner to which the presentation will be available for download. We inform all participants will be only listen in 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. Please, sir, go ahead.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. Good morning, everyone. Welcome to our conference call.

2011 was historic year for Bradesco, when we had the opportunity to overcome challenges. We reaffirm our focus, priority and commitment to Brazil -- Brazilian market. It was a challenge to adopt our strategies along the year to better fit changes in the current conjecture and business opportunities while guaranteeing the developing of our (grant) growth project.

We consider the results to be very good given the massive investment in infrastructure and technology carry out in 2011. During this period, Bradesco open more than 1,000 new branches and hired more than 90,000 new employees. Unexpected event brought out excellent business opportunities. The strategic acquisition of Banco do Estado do Rio de Janeiro, BERJ, brought to us over 400,000 public employees, with whom we can now build lasting relationships.

The state of Rio Janeiro has the second largest GDP in Brazil, besides being a state with enormous economic potential. And that has been the target of substantial investment, especially those related to the pre-salt exploration, the 2014 World Cup and the year 2016 Olympic games.

The discontinuation of the Banco Postal agreement was a second factor which challenged us to invest in our sales network and further to strengthen our capillarity. You now understand this was the right decision is that the amount invested in locations where we were only present via Banco Postal was lower than the final price in the auction. In addition, which branches installed in these areas, we can expand the range of product and services offered and ensure better customer service through our branches managers.

In addition to expanding the sales network, we continue to invest in our IT improvements project, which should be conclude in 2012. These investments are absolutely necessary if you are to ensure even better services for our more than 65 million clients, (put is) of 25 million checking accounts, 43 million saving accounts. And more than 40 million insurance products.

Now moving on to our presentation, we can see some of our period of highlights on slides two and three. I would particularly like to emphasize our 2011 adjusted net income, which total close to BRL11.2 billion, 14.2% up on 2010. I would like to emphasize also our total assets, which increased by 19.5%, reaching BRL762 billion, the expanded loan portfolio that reached BRL346 billion, 17.1% up on the previous year. And delinquency over 90 days, which account for 3.9% of the total portfolio, 30 basis points above the ratio at the end of 2010. But below the average in the market.

Slide four, the main nonrecurring event in the Fourth Quarter was the provision for civil contingencies in regard to economic plans, which totaled BRL79 million. Adjust for these and other events, our book net income increase from BRL2.726 billion in the quarter to BRL2.771 billion and from around BRL11 billion in the year to around BRL11.2 billion.

Slide five, First Quarter net income was impacted by higher personnel in the administrative expense due to a strong organic growth in the second half, as well as lower gains from our trading position given the volatility that we had in the last of December. On the positive side, we recorded higher fee income, mainly thanks to credit card and checking account transactions and the lower provisions for loan losses.

Our annual net income increased by around BRL1.4 billion, or 14.2%, fostered by the upturn in the net interest income, higher fee income. And increased revenues from our insurance group, together with the healthy results from the upturn in the business (world), led by the net addition, for example, of 10.5 million new credit and debit cards holders and around 2 million checking account holders.

Earnings per share in the last 12 months moved up by around 12% in the year, from BRL2.61 to BRL2.93.

Slide six, this slide shows our efficiency ratio which following a period of stability increased slightly in the Fourth Quarter, primarily due to expenses from the expansion of our service network, which had a direct impact on personnel and administrative expense, as well as higher advertising and marketing expenses. We expect the ratio to stabilize at its current level in the short term before improving as the recent investments mature.

Slide seven, as we mentioned before, our total assets came to BRL762 billion, a growth of BRL124 billion, or 20% over December 2010. Return on average assets came to 1.6%, while adjusted return on average equity stood at 21.3%. The Basel ratio closed the period at 15.1%, a 40 basis points improvement in the quarter -- in the year's ago. The quarterly improvement was due to the recent central banking measures that reduced capital requirement for certain loan operations and investments.

Slide eight, this slide shows the relative share of our main operations in the net income. In the annual comparison, this share remain stable. In the quarterly comparison, the highlight was the increase in the relative share of our insurance group to 31%, not only due to the good performance of the segment itself. But also to increase pressure on financial activities due to, as we mentioned before, the higher expense and the lower trading gains.

Slide nine, realized gains total a robust BRL10.6 billion in the quarter, an increase of BRL1.6 billion over September 2011, basically due to the appreciation of some of our investments, especially Cielo shares and fixed income securities. Once again, I'd like to remind you that these figures do not include the potential goodwill from our own properties in the total amount of around BRL3 billion.

Slide 10, on this slide we show the evolution of our net interest income from both non-interest and interest earning operations. The highlight was the interest earning portion which increase by 19.5% in 2011, largely due to the upturn in the average business volume, led by lower (unfunding) operations.

In the quarter the non-interest portion reported lower trading gains reflect, as we mention before, increased volatility in last -- mainly last December. Please note that the Fourth Quarter result includes, again, BRL179 million from the partial sale of our investment in Cetip.

Slide 11, net interest income increase by 3.3% in the quarter, basically due to the higher gains from loans and securities. Most of this growth came from the higher volume of business, which maintain the annualize net interest margin at 7.6%. We believe net interest income will continue to record growth in 2012, given the addition of the new businesses, although the net interest margin should suffer a slight reduction, mainly due to the change in the loan portfolio mix and expect reduction in Selic.

Slide 12, this slide gives a breakdown of our net interest income. Securities record the most growth in the quarter, including gains from derivative financial instruments in the management of our fixed commercial portfolio, which offset the reduction in funding and insurance portions, which were impacted by the decline in Selic in the period.

In the annual comparison, the highlight was the 50.6% increase in income from funding, fostered by the higher business volume and higher average spreads, mainly due to the improved funding mix and increase in average Selic rates.

Slide 13, this quarter gross interest income from loans, the gray area, increased by 3.4% to BRL7.162 billion sustained by the high volume -- business volumes again. The red area show the provision for loan losses, which record a decline this quarter due the allocation we made in provisioning levels according to expected losses from certain operations with corporate customers, which offset the period upturn in delinquencies.

In the annual comparison, the 13% increase in net interest income from loans was mostly due to the higher business volume given the increase in the average loan portfolio.

Slide 14, this slide show a total expanded loan portfolio, which close December 2011 at BRL346 billion, 4% up in the quarter and 17.1% up on December 2010. This improvement was mainly due to the increase in loans through micro businesses and SMEs, which moved up by more than 6% in the quarter and 22.7% in the year.

In the annual comparison, the corporate portfolio highlights were mortgage loans, working capital loans, export finance and capital (marks) related to operations, which had risk basically comprising debentures and other securities.

Slide 15, this quarter our total delinquency ratio for loans overdue by more than 90 days went up by 10 basis points over September 2011 to 3.9%, mainly due to the increase in loans through micro business and SMEs. Delinquency in the large corporate segment remain stable in the last 12 months.

In 2012, primarily due to the First Quarter seasonality, we expect the ratio to move up slightly until the Second Quarter. However, given the expect increase in the pace of economic growth in the second half, we expect a certain stability in the reduction in the latter period.

Slide 16, this slide shows delinquency ratio for loans overdue by -- between 61 and 90 days, which, as you can see, has remained relatively stable.

Slide 17, this slide represents the (activities) of the renegotiation portfolio in relation to the total loan portfolio, which remains flat over September 2011 at 3.2%, in line with the performing portfolio trends.

Slide 18, this slide shows that provisioning levels have remained high and stable in relation to delinquency of more than 90 days for the renegotiation portfolio. In December 2011 our allowance for loan losses was equivalent to 63.8% of the portfolio for the delinquency of 27.6%, rates which we had maintain for the last three years.

Slide 19, this slide highlights our high provisioning levels. Despite the slight upturn in delinquency in the last three quarters, provisioning levels have remained comfortable. As such, we had a surplus of BRL4 billion in relation to the amount required by the Central Bank or BRL9.3 billion in relation to expected gross losses in the next 12 months, the dotted part of the blue line in the graph.

Or even BRL12.6 billion in relation to losses net of recovers, I'm referring to the dotted part of the purple line, also for the next 12 months.

Slide 20, reinforce what we mention in regard to the previous slide. You can see the coverage ratio of the allowance for loan losses in relation to credits overdue by more than 90 and 60 days, which, despite the Fourth Quarter reduction, remain highly comfortable and among the highest core Brazilian banks.

Slide 21, Fourth Quarter fee income totaled more than BRL4 billion, 5.4% up on the previous three months, mainly due to higher revenue from cards, with 8.2%, checking accounts, with 5.6%, underwriting operations, with 53.4%, reflecting the higher volume operation and the expansion of the client base.

In the annual comparison, fee income moved up by around 14%. The highlights were revenues, again, from cards, which increased 21.3%, consortium with 21.7%. And checking accounts with 18%. Again, basically due to the increase in the customer service portfolio and the net addition of around 2 million new accountholders and increase in our credit card base, for example, for 4.8 million, as I mention previously.

Slide 22, operating expense increase by 8.5% in the Fourth Quarter, mainly due to expenses related to organic growth, higher salaries and expansion of the workforce. The 12 months increase in personnel expense was primarily due to the 2010 and 2011 collective bargain agreement, together with expansion of the workforce.

It's always worth mentioning that the expansion of our workforce is concentrated in our sales force related to both organic growth and improved segmentation.

Slide 23, administrative expenses move up by 8.1% in the quarter and 16.3% in the year as a whole, driven by higher expenses from advertising, especially in the Fourth Quarter. And expenses related to the acceleration of organic growth, for example, transportation, security and surveillance, maintenance and conservation of assets, as well as variable expenses related to the increase in revenues and business volume, for example, call center and banking correspondence.

This increase are compatible (and now understand) with the growth of our service network, which increase, again, by around (11 and 35 service points) in the last 12 months, including more than 1,000 (points).

Slide 24, we give you a better idea of the behavior of our operating expenses. On this slide we present some of our organic growth figures. We have broken down the effects of this organic growth, as you can see. If this impacts were excluded, our administrative and personnel expenses would have increased by 14% year-over-year, which we consider compatible with the growth of our business in the same period.

It's also worth noting the expansion of our service network and our workforce. The latter reported a net increase of more than 9.4 thousand employees in the last 12 months, mostly, as I mentioned before, concentrated in our sales force, in line with our strategy of strengthening our base business structures in a way that is consistent with the projected growth of our operations.

Slide 25, this slide shows revenues from our insurance activities, which increased by 23% in the Fourth Quarter, mainly due to the strong growth in the pension plan segment. In the annual comparison, overall growth came to 21.3% led by the life insurance, pension plans, health insurance and saving bond segments.

Fourth quarter net income total BRL860 million, 10.3% up on the previous three months and 10.2% in the last 12 months, essentially due to the upturn in the revenues, the reduction in the claims ratios. And the improved financial position.

Slide 26, the combined ratio recorded 83.6% in the Fourth Quarter, (260) basis points down on the previous three months, basically due to the increase revenues from the life insurance and the pension plans product and the reduction in claims ratio. Financial assets total BRL113 billion, a growth of 17% in the year, while technical provisions stood at BRL103.7 billion, BRL91 billion of which are related to the life and pension plans products.

Slide 27, this slide shows our economic departments GDP, interest rate, inflation, exchange rate estimates for 2012 and 2013. Despite the expected slowdown in the global economy, we expect domestic growth to accelerate in 2012 in response to the various stimulatory measures.

Consequently, we believe this scenario is favorable for the development of our business in regard to the both financial and insurance activities. In any event, it's worth noting that the expected dynamics in 2012 will be the opposite that we had happen in 2011, with a lower growth in the first half, followed by a more accelerated pace in the second half.

Slide 28, as usual at this time of the year, this slide compares our 2011 guidance with our actual performance. We achieved virtually all of our guidance figures except in the case of the auto portfolio, where we made the strategic choice to prioritize the portfolio's quality and the margin instead of gains on the market share, thereby affecting the total operations within individuals.

Mortgage loans did exceptionally well, as we originate around BRL15 billion in 2011, 63% up on 2010. We also recorded large increase in regard to the interest earning portion of the net interest income, fee income and insurance premiums.

All the operating expense remained within their expected limits. It's worth noting that the guidance for this year I think was revised in the last quarter due to the acceleration of organic growth. And just to remind you, our initial guidance for these expenses was an increase of between 11% and 15%.

Slide 29, we believe our loan portfolio -- we talk about our guidance. We believe our loan portfolio will continue to expand in 2012, growing by between 18% and 22%, pushed by corporate loans, especially through micro business and SMEs. And certain individuals line, such as credit cards and payroll deductible loans. As for mortgage, we believe we originate around BRL11.4 billion in the new operations in 2012, slightly less than in 2011 but still a very healthy figure.

As for operating expense, we believe the greatest impact has already occurred given the heavy investment 2011. So we have good expectation for expense to grow from 8% to 12%. But we are confident that we will be able to meet this target. As of this year, our expectations include a growth in revenues generated by the increase in business volumes arising from the strong organic growth in 2011.

Well in conclusion, our 2011 results were highly satisfactory, despite slightly more pressure in the last two quarters from the lower trading performance and increase in expenses, despite the signs of slowdown in the global economic scenario and the uncertainties regarding the pace and sustainability of growth in the developed countries in the coming months. We can take some reassurance from Brazil's social and economic performance in 2011 and 2012, further reinforcing Bradesco's positive long term outlook for the country.

The last few years and most recently in the last six months we have experience a wave of investments in infrastructure, technology, new products and services, service points and our workforce, in line with organic growth strategy. Despite the slight upturn in the delinquency ratio this quarter, we have maintained high provisioning levels.

We have also kept a constant eye on the quality of our loan portfolio, whose growth is in line with the sustainability of our results. We believe our expansion strategy will allow us to pursue all the new business opportunities that arise, not only in the consumption and financial markets. But also in all segments in the insurance business.

Thanks for your attention so far. And now we are open the floor for your questions.

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. Daniel Abut from Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, Domingos and team. A couple of questions on your guidance. A key one for me is the guidance of operating expenses that you're giving 8% to 12%, significantly below the performance that we saw last year. And I would say significantly below the performance of expenses over the last quite a few years. In large part, as you explained, Domingos, because you've been investing in infrastructure, you've been investing in IT and revamping your systems and IT platform.

What measures are you taking to give us more comfort that you will be able to hit that aggressive guidance? I think you said that the IT project will not be complete until the end of this year, suggested that there're still expenses related to that to come, are you slowing down significantly, your opening of new branches. And that's part of the equation? What concrete plans can you share with us that will give us more comfort that this time you can hit that guidance?

And second, on the fee income one, it seems to me that that's the opposite after a very good performance in 2011, where you grew fee income about 14%, you are toning down your guidance there to 8% to 12%. Suggesting that perhaps you're being too conservative there, what makes you feel that this year should be tougher in terms of fee income growth than last year?

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

Okay. Let's try. Look, you're right. Remember, we mention in our speech that we have the last three or four years we have been having an impressive movement of organic growth and investment in IT.

For 2012, certainly we'll have a slowdown in this investment. You mentioned about branches. We expect to open few branches in 2012. But if something grows around 70 new branches but only the branches that we are in the process to build to do this.

We understand 2012 would be a year to consolidate this movement that we made, right? That's why we understand the -- even in IT we have some investment to do. But when we make a comparison with the previous years, it's much, much lower. So that's why we are confident to meet this guidance for expenses this quarter.

The last three quarter we certainly -- the last year we certainly met the guidance for expenses. If you don't need to change the -- to our investment to accelerate our process, as you mention, we already talk about. But we are confident, certainly, in this project. And don't forget that we have some -- we don't have the wait of -- to pay the fees of Postal bank staff so we need to have the reduction (dispute that you) compensate the growth that we have in our branches in something like this.'

In other words, we change the part of variable costs for Banco Postal to fix the cost for new branches and other things. So that's why. And you are now starting from a baseline, higher baseline. So okay, we can assume that.

The fee income is different. We understand that we'll have a positive trend. But is different. In terms of cost, we start with your base of cost during the year. We have the natural increases in the costs during the year. But we lower that increase this year. If you start with a lower base, once you have the maturation of this investment, the new branches and other investments, you have a growth in the fees. You certainly finish the year in a better way in comparison in terms of fee that we started the year.

In terms of the dynamic of the behavior of the costs, for example, you see along the quarters the reduction in the growth when you compare year-over-year, while the fees you see a movement of growth. So we expect to reach (fourth in this). In other words, I think at the end of the year certainly we'll be in a better position if not we be in the beginning of the year. I don't know if I was clear.

Q - Daniel Abut {BIO 1505546 <GO>}

Yes, just to clarify --

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

Expect the efficient -- Luiz remind me that's why the -- I mention that the efficiency ratio it tends to be in the level that is now to have some expectation to have some improving by the second half of the year.

Q - Daniel Abut {BIO 1505546 <GO>}

So efficiency ratio should improve in the second half. But say, around the (government) levels in the first half?

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

Yes. I don't have them but --

Q - Daniel Abut {BIO 1505546 <GO>}

You --

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

We start to (inaudible; multiple speakers)

Q - Daniel Abut {BIO 1505546 <GO>}

Think by what you said on branches, you said only 70 new branches planned for 12012?

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

Yes. Only the branch -- we know that we have some space to continue to expand. But this year in particular we understand is a moment to consolidate all this investments that we made, all the effort that we made so far. But we need to finish what we had in the pipeline.

Q - Daniel Abut {BIO 1505546 <GO>}

And no more branches are needed for the Banco Postal replacement project?

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

No. No, regular branches. We are in the process -- that we were in the process. The Banco Postal project -- to replace Banco Postal we already finish all the investment.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Domingos.

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

You're welcome.

Operator

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

Q - Carlos Macedo {BIO 15158925 <GO>}

Good afternoon, Domingos. Good afternoon, gentlemen. I have a couple of questions. One, I want to talk about the guidance again, go back to the loan growth guidance versus the net interest income expansion guidance. And what we see is that different from last year where you were guiding stronger net interest income growth than loan growth, this year you're guiding stronger loan growth than net interest income growth. Could you talk a little bit about what is going to factor into this slower growth in net interest income? Is it a base rate? Is it trading gains? Is it insurance? And that's on one side.

The second question is with respect just in general with the guidance. It does seem like even though you have -- you still have an acceleration of economic growth in 2012, that your guidance for 2012 in -- with the exception of loan growth, is weaker than what you actually did in 2011. And what to expect to fee income, net interest income, certain portfolios of growth, particularly individuals and things like that. I was wondering if you can give us some color with respect to that what exactly will drive -- will lead these lines to be weaker despite a stronger year of growth.

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

Okay, in terms of margin, Carlos, if you please take a look on page 12, slide 12, it's better to understand. You see that we grew in 2011 19.5% and it does include -- it's important to emphasize, does include trading gains here, right? We have 19.5% of growth. But credit portfolio represents -- the growth was around 15%.

What we have here, we have conjunction of the funding. The funding we grew more base on the -- remember that we have a movement of increase in Selic during the year. At the end of the year we're not moving to reduce Selic. But in the average we have Selic higher then we make a comparison with 2010.

What we expect the next year, we have Selic to reach something close to (9.5%) and keep with 9.5%. So it would be -- we have a more pressure in this line in the funding. Certainly a part of the equity of insurance, we see the same movement. We have a pressure on this side. That would be this line, it would be as we have a chance to talk before, we be compensated these reduction with the gain that we have in our fixed portfolio. That would be -- you see this materialize in the securities, right?

But is this gain that we have here, we compensate the reduction in the other line. But that not be enough to present a growth when we make a comparison. That's why the dynamic of this year will give us the growth in the margin. In other words, the growth in the margin for this next -- this year would be only depending on the credit portfolio in this sense. That's why.

Q - Carlos Macedo {BIO 15158925 <GO>}

One question is in the past you used to say that 100 basis points of decline in Selic would have, if I remember correctly, BRL500 million or BRL600 million of an impact on your net interest income. Is that still -- does that still apply or has that changed?

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

Just a minute. Yes, something around BRL500 million. But remember we have compensation the other lines, as I mentioned, that we don't have there. We have a growth of the volume that -- our expectation for the funding, for example, that would be more or less the same, the same level that we have during the year.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay.

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

Okay. So you have an idea, even with the reduction in Selic. But we don't have a growth in this line, right?

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay.

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

In terms of fees, we have some from (math) remember that our guidance we made last year we revised by the end of the year, right? Normally in terms of fees we are conservative in that. We expect to beat this. But we have -- we need to have in mind that we are starting a year with a baseline higher. So it's very difficult.

And you have a maturation of this investment during the year, right, as we talk in the previous question with Daniel. We see a different movement. We start this new -- these new branches and new investment that we make, we start a lower level of activities. And we again, represent activities during the year. So in the average, we don't have the same growth that we expect.

Q - Carlos Macedo {BIO 15158925 <GO>}

What about mortgage --?

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

If you get the last quarter, for example, growth, certainly you annualize this during the one year, certainly would be higher than we make during this other years, let's say.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. What about mortgages and auto loans? Because mortgages, it is quite a sensitive, large acceleration in origination.

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

Yes.

Q - Carlos Macedo {BIO 15158925 <GO>}

And auto loans is a pretty low amount of growth for a portfolio that is a pretty big part of your total loan book.

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

Mortgage, certainly we grow it a lot during this year. But we understand that the moment of -- even the companies now are revising their plans to slow down a little bit the movement of growth because you have -- they have the (figures) to deliver in the time that they promise something. So this is just adjustment, let's say. But it's a market that we understand, we are confident that we'll continue to have space to grow. But to make a comparison with the strong growth that we have 2011 really is difficult.

In terms of -- and auto loans, is a market that is far the most competitive market. So we have competition factor here to see. And we are -- and we have a strategic decision here to not -- to grow market share in this market unless we have condition to do this in a safe way. In other words, with good spreads and with lower risk so that's why, once you have sometimes this market is very, very competitive, is that we don't have good expectation to grow too much of this market.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Domingos. Good luck on your new functions.

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

Thank you.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, or good afternoon to you in Brazil. A couple of questions as well. First on asset quality, I want to understand the dynamics a little bit better. Obviously during the course of the year for the system, your performance on credit quality was much better in the system. NPLs for the system have gone up meaningfully, for your major peers they've gone up, much more than for -- than for you guys.

But it seems like perhaps you're a little bit more cautious in terms of the First Quarter and the first half of the year. And if I'm not -- if I'm correct, I think you indicated on the Portuguese call another 30 basis points of NPL pressure in the first half at a time when the system NPL seemed to be maybe peaking.

Can you just talk about what -- how your portfolio differs or how your NPL evolution has differed from the system? What's driven the better performance thus far? And is there anything that would suggest that your NPL performance will be worse in the first part of 2012?

Then secondly, I wanted to ask just a follow-up on the expenses. The -- it seems aggressive to me in light of the fact that even if you've made these investments, your average headcount's going to be much higher -- it's going to be higher in 2012 than 2011. You've had the wage hike in September, which puts some pressure on your personnel costs as well. And not only that, in the Fourth Quarter the base of your costs is much higher than it was in the beginning of last year. So you'd have to have a reduction in the first part of the year.

Can you just give us a little bit more detail on specific things you're doing that make you comfortable that you'll be within that 8% to 12% growth guidance?

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

That's not for NPLs. What you observe with our NPL became to get deterioration by the second half of the last year, if you remember. It was different so that's what's happening with the market as a whole, the market will start this movement earlier.

What we see that -- our NPL followed more or less the dynamic of our economy when you saw -- when the second half of the year we have a slowdown in our economy. That's why we have this assumption that our economy will continue this movement. Not to slow down. But to start to recover. But still in a lower pace. That's why this (inaudible) can have some effect in the -- in our NPL in the first half of the year.

When I say that 30 basis points, is not a certain. We don't have this in mind, in fact. But something that's similar this (move now) to have 10 basis point one part and another and then maybe we start -- we see that our portfolio is really very linked to what the dynamic of our economy. So that's why we expect the first and second half of the year we start moving to grow. In the second half, will be in the highest point of the growth. That's why we have more good expectation for delinquency in the second half than the first half.

In terms of expense, what we have, don't -- you're right, you have expectation in our guidance to have a new agreement in September with the employees. In the insurance business we have the expectation to have agreement now beginning in January, we have that. It includes some assumptions on this. It is more that we have certainly we have more pressure to meet the guidance. But we are confident we are able to do so.

But certainly we don't get only the last quarter and as it compares for all the year because the last quarter is higher than the First Quarter. Certainly the First Quarter in terms of expense would be lower. But we won't see our expenses in movement that start when we make a comparison 12 months or 12 months in the first half of 2012.

You won't see something inside the guidance that we gave. Certainly you see this is reduction. Now we finish with (17) points before. Maybe you see something close to 14% the next quarter. And the movement of reduction and to reach the guidance that we have there.

Q - Saul Martinez {BIO 5811266 <GO>}

Thank you. That's helpful, Domingos. I guess the -- even considering those dynamics and tougher comps in the first half and easier in the second half, for the full year you're guiding for 8% to 12%, incorporating the whole year. So I'm just struggling with how you get there and is it -- do you -- is your headcount going to be flat? Do you think that it'll even decline next year? Is it -- are there less investments in certain types of -- I think you mentioned lower IT. I'm just looking for a little bit more specificity on how you get that type of efficiency improvement.

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

Look, if you got only the expense in 2012 in last quarter, you multiply for four, you have something close to 12%, to have an idea.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes.

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

But as I mention, the last quarter is not the same. The First Quarter normally is lower. You have low pressure and expense that we have in the last quarters in terms of advertising, you have more activities in the last quarter than you have the first. So we have this movement.

But I make only this -- you're right we have more pressure in terms of inflation, in other costs, you have pressure in terms of new -- you have new agreement with employees and so on. But it's all inside our budget we have that. But then you have on the positive side, this we don't have the -- remember that we already have in our base of cost the fixed cost of the new branches to replace Banco Postal, for example.

Q - Saul Martinez {BIO 5811266 <GO>}

Right.

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

We already have in this base. But you don't have the fees that you need to pay for Banco Postal anymore in the next year. So we have this in the positive side that you have. You said it, it's sort of, it's inside to resume at this point is we have in our budget.

We know that we need to -- will be very carefully looking for distinctly the year of consolidation of this investment that we made. And we are focused very, very, very close with this thing, that the best message that we can tell you that we are very, very confident that we'll meet this guidance, yes, we'll meet it -- we have that.

Unless you are talking about a different things, like last year what we have, two big investments that requires to change our view at the beginning of this year. But if everything goes the way that we have last year there is no way not to meet at this.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thank you.

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

You're welcome.

Operator

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

Q - Victor Galliano {BIO 1517713 <GO>}

Hi, Domingos. Thank you.

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

Hi.

Q - Victor Galliano {BIO 1517713 <GO>}

Just a follow-up, really, on credit quality. Can you -- can you give us some guidance? I see the coverage has come down a bit in Q4. Can you give us some sort of guidance as to what you would expect in terms of credit charge for 2012? Would you expect that to be kind of in line with loan growth coming down a little bit, a little bit higher? How do you see that? Or is it kind of a game of two halves, as you describe, in credit quality? Thank you.

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

Sorry, Victor. You talk about charge-offs?

Q - Victor Galliano {BIO 1517713 <GO>}

No. I'm talking about provisions against earnings.

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

Expense and provision.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes.

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

Okay. We understand that we can have some improvement. But for it to be conservative, we understand that it will be something around that if we had, if you look in the slide 13, that would be something around an average around 38% to 39% of the gross margin. But we can -- if we have this positive environment in the second half of the year, we can even to have some good surprise by the end of the year.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you. Just a quick follow-up, if I may, on OpEx. So you said that really the IT program will be done this year. Banco Postal is done. So on that basis, clearly following up from Saul's question, you seem to be pretty confident that you're going to hit this guidance this year in terms of cost. And really just kind of thinking of that, what -- where do you expect -- or how far do you expect you might be able to improve on the efficiency ratio by the yearend?

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

Look, we have expectation to keep the expense relatively in a good mood and expect to gain revenues along the year. That's why expectation to keep the efficiency ratio around this 43% at least one or two quarters. And then to have some improvement.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

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

We don't have an exercise for that. But would be (such) party to -- at the end of the year with something close to go back for in the annualize basis. So something close to 42.7%, which would be very good. Then for the following year certainly have more space to improve.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. So thank you.

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

(How's it going?)

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, (inaudible) on your new appointment and all the best.

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

Thank you very much.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Hi, everybody. Most of my questions have been answered. But let me follow up, then, on this question about expenses and efficiency ratios. Clearly, as you mention, that the Bank has been making significant investments over the past three years, IT, opening new branches. And is still showing a good efficiency ratio of 43%. Most of these investments should be completed by 2012.

So on a long term, if we look beyond 2013, let's say 2014, could we eventually see this efficiency ratio below 40%? Would you feel comfortable with such a ratio?

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

Look, we have chance to talk before about this. We don't have a guidance for efficiency ratio. But we have internal challenges. We have efficiency commit and we are confident that we can reach something close. We have I would say that is a guidance or a target because there is a lot of things to happen until then.

But we understand it's possible to be around 39% by the end of 2014. That's what we are looking for, right? It would depend on the condition of the economy and everything. But we understand it's possible.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then second question is to go back to asset quality, also a similar question. We're seeing your coverage ratio now at 184%.

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

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

-- which is on reserves over nonperforming loans over 90 days. This is the lowest level, I think, since '09. Are you comfortable in reducing this coverage ratio, especially as you going to be growing more into, I would say, more secure type of loans, more into corporate loans rather than consumer?

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

Look, Mario, this ratio, in fact, is a result offered our policy of provisioning and everything, right? We are comfortable with this level, as I think is the highest that we have here in Brazil. And we don't have a target for this, right? If you have condition to keep a good level over, I think we try to keep. But definitely is not something that we are -- have this, like I want to have this -- I want to be better when we make a comparison with our competitors. But not necessary we have a target for this level. If you are comfortable with our portfolio, the cover that we have in each different portfolio, each different segment, it's okay. But you know the (reason).

But we expect to keep this BRL4 billion in excess that we have. We don't have plans to increase or not to reduce it.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

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

But the movement, this would be depending on the way if you have improve in delinquencies. Certainly this would increase more. You have more pressure in delinquencies that we don't expect too much. We can have some deterioration in this coverage ratio. But not necessary.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then final question, like you mention, do you expect delinquencies to probably pick up in the first and Second Quarter? Central Bank data is showing that corporate delinquencies already started to improve in December. Can you then just give us guidance on when you say you expect a further deterioration in the first half of the year, which segments are you more concerned about?

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

Look, we understand that we can have some more pressure in -- at beginning of the year, as usually we have that seasonality we have on (somatec) but not something significant, big impact.

In the corporate, you see large corporate is very, very stable. And SMEs we have, a part of this is the duration. But we at good the biggest part of this is a matter of mix. You are growing more in smallest business. So the mix change here inside this, right? So you see a part of this is mix. We don't see -- in general I think we be more in individual will continue to be a little bit

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

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

Right?

Q - Mario Pierry {BIO 1505554 <GO>}

Great Figueiredo. Thank you very much.

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

Thank you, Mario.

Operator

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

Q - Marcello Telles

Hi. Good afternoon, gentlemen. Thanks for the opportunity once again. My question is regarding your loan growth expectation for the year, the 18% to 22% growth. One of your peers yesterday guided much lower loan growth expectation, around 15% to 17%. Are you expecting to grow above the market or you think that your guidance is pretty much what you also expect the market to grow?

And the second question is you seem to be pretty bullish on retail lending growth with don't expect a growth of 16% to 20%. Given that we are at, let's say, very high levels in terms of consumer leverage, at least by looking at Central Bank data, are you concerned at all that this growth in individuals might actually lead to a potential continuation of the upward trend in delinquency towards the second half of the year? I mean despite, of course, a better economic environment for the second part of the year. Thank you.

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

Look, we understand that we have space to gain some market share, yes. In some line of business we certainly we can lose market share, as I talk about auto loans, for example. We are not looking for market share in this business. We are looking for profitability. So we can depend on how our competitors will be in the market during 2012. We even can lose some exchanges.

But anyhow, the portfolio expect to gain market share given all this investment that we made. And so certainly has space to compare part of this market share. The assumption that we have is this one.

In terms of in the consumer side, your question, right, we have some movement in 2012. Like, for example, the new minimum wage, for example. And we have other signs that we given more revenues for the families during this year. So certainly have space to continue to grow in this market. And certainly we can have space not to compromise too much the revenues they have.

The data that we have inside the bank for the Central Bank data in the -- with the reduction in tariff rates, certainly we reduce the commitment of the families in terms of what they need to pay. So it certainly can create space to develop the business in this side. So that's why we have. But certainly would be very -- continue to be very, very conservative in terms of policies of -- to approve new credits like we are do -- we always do. So we try to be.

Q - Marcello Telles

Thank you, Domingos.

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

Thank you very much, Marcello.

Operator

Excuse me, our next question comes from Ms. Regina Sanchez from Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Hi. Hello, everybody. My question is really a follow-up on the other questions. It's related to the NPL ratio during the year. You said maybe it's because of seasonality we'll have an increase in the first half of the year, basically more in the First Quarter of the year.

But then do you expect overall for the year to be flat, to go up to 30 basis points in the First Quarter, first half of the year. And then declining? Because I want to reconcile this statement with your expectation that maybe provision for loan losses could be -- could grow even less than the loan portfolio growth. Then a follow-up after your answer. Thank you.

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

Look, Regina, we understand that the delinquency will follow more or less what the dynamic of the economy, as we talked before with a previous question, you colleague made the question. We understand that we are following this the first half of the year. Certainly we have some individual portfolio more (this effect) seasonality, yes. But in an average, I don't think would be significant impact.

But we continue this movement that our economy is leading a movement of decelerating, we start accelerating again. So but you still see this impact of the -- in the delinquency until we recover the pace that we have -- we expect to be in the second half of the year. That's why we can see some slight deterioration, yes. But don't -- we are not really concern about this, the duration that we see.

If you have -- we don't even -- if you have this deterioration, is not something that would be worried about but we have good expectation for the second half, yes. It means that the first half of the year, certainly we see some -- require more expense. Yes, could be. If you right in our assumption that in terms of economic growth, economy in Brazil, certainly the second half you have lower pressure in terms of expenses.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. And we also noted that in this Fourth Quarter one of the reasons you have seen a decline quarter-over-quarter in provision expenses was that you have a lower level of discounts granted for clients, which in the case of Bradesco you classify in the provision for loan losses line instead of the net interest income. And also you -- we saw a decline on generic provisions because of upgrade of some rating from corporate clients.

We know that loans classified as Letter C declined from 23% to 18% and also the rate -- the loans classified as Letter B went up from 9% to 15%. There's more room for this type of reclassifications of ratings, especially considering that Bradesco has the highest level of coverage of any payout ratios. And this could be a possibility maybe to help in this expectation that maybe overall provisions for loan losses could grow less in the loan portfolio growth in 2012. Thank you.

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

Regina, look, it's important to understand what we -- what happened, in fact. What happen in specific portfolio that our risk, we have a specific area in the Bank that's the risk department that analyze all the line of business and all the provision that we have if you have (F) or not for some specific line of business or specific segment or other.

In this case in particular was specifically portfolio that we identified that we have more than (20) times provisions for. We have loss in the last, for example, three years. So the decision was to make an upgrade on this. That even with this upgrade, this portfolio keeps 10 times provision than the expected losses. So that's why.

If we identified something like this, maybe we can do. In other words, if you have other portfolio that would identify that you have a lack of provision, maybe you need to make some adjustment. But is something that is a natural movement that you do during the year. They analyze, they present this, we have a committee of risk that they make the decision when is necessary. But you can say that if you understand that it seems like this very, very, let's say, over excess provisions, just maybe you can do that or something.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Then if I may, just as a final follow-up, I know that you don't provide guidance in terms of profitability or earnings per share growth. But more was a long term view considering the (inaudible) the guidance. But you're desiring to reach the 39% efficiency ratio by 2014, do you think would be a level of returns above 20% are sustainable -- is sustainable for Bradesco? And maybe in the case of this year, a double digit earnings per share growth also makes sense considering the guidance that you are providing for the market.

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

Look, Regina, is very difficult to talk about that. But we understand that -- I think it would be something around 20% of return on equity base on what we know so far in terms of regulation, in terms of everything. This is something -- in terms of spreads. So I think is normal. But to -- you know that every year is different year. you have different movement in economy. You have different situation.

So but we need to analyze. But we understand that we have been able to keep this in different movement in different situation. That's why we can say -- is very difficult for me to see above that because I won't be here the next year to deliver this, that will be here to deliver, will be my friends Luiz Carlos Angelotti. But I think is something around 20%. I think something that we can work in a good thing. Some year we could be a little -- will be highest. And a year a little bit (lower). But something in an average 20% is good.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you. So much and good luck in your new responsibilities.

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

Thank you very much.

Operator

Excuse me, our next question comes from Mr. Federico Rey from Raymond James.

Q - Federico Rey-Marino {BIO 15009016 <GO>}

Hi. Good morning, everybody. I have a follow-up question on the margin side. According to your guidance, you're forecasting a decline in the margins in 2012. In a previous question you mention that this could be related to the expected reduction in the selling rate. But you also mention something about changes in the portfolio mix.

My question is how your guidance in term of loan growth and how this would change the participation of SMEs and large corporate relative to, for example, individual lending could offset the margins considering the portfolio mix. Thank you.

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

Look, it's important to emphasize that we're not only by segments. Also have this mix. We are going more in SMEs then expectation then the large corporate. If you look only for the -- on the Company segments, certainly we can expect to have improvement in the mix, right because SMEs has more than. But when you make the total segments of corporate are growing more than the individuals, then you have a reduction in the mix in this sense.

But inside the segments you have some change in mix, for example, individual segments. We are going more in mortgage with lower spreads. We are going more in payroll deductible loan with the lower spreads when we make. In relative basis, you gain more representative in this portfolio. Certainly in the average you have this change in the mix.

Inside the -- even inside the SMEs, if you're going SMEs in portfolios with, for example, discount receivables, for example, we have a reduction in the spreads, all right? Then you have the mix even inside the segment, you have this movement. So it's a natural movement. But certainly you need to expect a reduction in delinquencies. You know that it doesn't happen in the same moment, this movement. But once you are growing more secure portfolio, the improvement in delinquency come later. But actually more or less the dynamic of that, we understand.

Q - Federico Rey-Marino {BIO 15009016 <GO>}

Thank you very much.

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 do like to thank you all of you for your attention so far. If we remind, any other questions, please feel free to contact our investor relation area. They will be more than happy to attempt all demands that you can have.

I do like to take this opportunity to thank you all of you for this years of working together, where we be able to understand, we built a healthy relationship. I am confident that Luiz Carlos Angelotti, along with the marketing relation department will do an excellent job in investor relations, continuing our tradition of transparency and dedication. Thank you very much.

Operator

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