Q2 2003 Earnings Call

Company Participants

- Jean Philippe Leroy, IR Executive Superintendent
- Unidentified Corporate Participant

Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Mario Pierry, Analyst
- Paul Tucker, Analyst
- Yolanda Courtines, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Bank Bradesco's first-half 2003 conference call. Today, we have a simultaneous Web cast with slide presentation on the Internet that can be accessed at the site www.bradesco.com.Br Investor Relations area. There will be a replay facility for this call in the Web site. We inform that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks are over, there will be a question-and-answer section. At that time, further instructions will be given. (OPERATOR GIVES CALLER INSTRUCTIONS).

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Private Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Bradesco management and on information currently available to the Company. 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 Bradesco and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Jean Philippe Leroy, Investor Relations Executive Superintendent of Bradesco.

Jean Philippe Leroy

Thank you. Good afternoon, everyone. Welcome to Banco Bradesco's first-half 2003 conference call. We would like to open by just commenting presence in our meeting room by the following members of our senior management -- Mr. Marcio Artur Laurelli

Cypriano, Chief Executive Officer, Mr. Milton Almicar Silva Vargas, Executive Vice President, Mr. Jose Luis Acapedro [ph], Executive Vice President and Investor Relations Director, Mr. (inaudible) Fadilla (ph), Managing Director, Mr. (inaudible) Vera [ph], Managing Director and finally, Mr. Domingos Figueiredo de Abreu, Managing Director. Let me right now just transfer the call to Mr. (inaudible).

Unidentified Corporate Participant

Good afternoon, everyone. Welcome to our first-half 2003 earnings results conference call. Bradesco's net income for the second year reached R1.027 billion (inaudible), which rose by 13.6% relative to the results achieved in the same period of last year. Consequently, our annualized return on average equity stood at 18.7%. We paid our provisions, taxes and contributions, including Social Security, in an amount exceeding R1.6 billion or more than 159% of our net income in this period. Our stockholders equity reached R12.5 billion, having expanded by more than 23.7% on an annual basis, including the R501 million capital increase regarding subscription of new shares by our stockholders and increases of R158.7 million due to the contribution of new stocks to the minority shareholders (inaudible) and 630 million to the stockholders of (inaudible). As a consequence of our policy to add value to the stockholders, we distributed R344.3 million (inaudible) in the period, compared to R212.9 million in 2002, a 62% increase. Our total assets reached R154.5 billion by the end of June 2003, having risen by 23.9% year-over-year. Third party assets that we manage (inaudible) exceeded R83.3 billion, an annual growth of 36.8%.

On the corporate side, the first-half of 2003 was marked by the acquisition of (inaudible) and J.P. Morgan (inaudible) Management Activities. On the customer service side, we consolidated the (inaudible) branches and Bradesco branch on May 19th. Similarly, we will incorporate BBV [ph] Bank's network to Bradesco on September 22. These actions will provide higher synergies on the cost side and we will maximize the (inaudible) customer service (inaudible) to our more than 13.8 million account holders.

We increased our investment in (inaudible) due to the integration process of (inaudible) employees to Brazil and to include our sales force (inaudible) in particular, to the creation of Bradesco (inaudible), which also (inaudible) of high-end individuals. With that in mind, we confirm the conclusion of our total customer (inaudible).

On the (inaudible) side, following the best practice of corporate governance, Bradesco's controlling group appointed two external members to our Board of Directors -- Victor Joseph (inaudible) Garcia and Mr. (inaudible) representatives of (inaudible) and (inaudible) respectively. (inaudible) international experience. We also established a corporate goal of (inaudible) to all of our employees. We are (inaudible) for growth and (inaudible) information disclosed to (inaudible).

On the operating side, we highlighted the performance of consumer credit (inaudible), which holds more than R7 billion (inaudible) and one million (inaudible) achieved the revenues over R1 billion in just five months of operations. We are responding to more than 30,000 clients and delivering more than 840 automobiles, houses (inaudible). We also believe in the Agricultural segment, where we've reached an amount of current operations exceeding R4 billion in this semester. (inaudible) where we promote operations like (inaudible) contracts, we've recorded (inaudible) R5.8 billion, compared to a total portfolio of approximately R7.2 billion.

On the social side, Bradesco has increased its efforts to include the (inaudible) banking system (inaudible). However, it is (inaudible) of the country (inaudible). With its 2830 branches, Bank Postale [ph] has already added 582,000 new clients who make more than 5.8 million (inaudible) transactions. Finally, also in this semester, (inaudible) (inaudible) and is now present in all of the 26 Brazilian (inaudible) and in the federal district, providing increased (inaudible) for more than 105 (inaudible).

Now, I will turn over the conference to Jean and will be available at the end in the Q&A session. Thanks all of you for your attention.

Jean Philippe Leroy

Okay. Let us begin this conference call in the part of the presentation that you hold by talking a little bit briefly about the economic variables which impacted the first half of this year. Foreign exchange rates -- the Real rose 18.7% relative to the U.S. dollar. Interest rates after the increases in rates in the First Quarter (inaudible) started the descending trend to 26% in June and to 24.5% in July.

Reserve requirements -- mandatory requirements on demand deposits that are not (inaudible) rated rose by 15% in February. Loans -- based on the reports issued last week by the Central Bank of Brazil, total loans in the banking system expanded modestly to R381.1 billion. As a result, the loans to GDP ratio is back again to almost 25%.

Additionally, I would also like to share with you our economic scenario prepared by the economic team of Bradesco for this year. GDP growth expected to be between 1.5 and 1.7%, CPI rate close to ten %, (inaudible) rates between 19 and 20% by the end of this year. The FX rate standing between 3 and R3.15 per dollar also at the end of the year. And the loan growth expansion for the whole system should be extending between nine and ten %.

So, let us move to slide number two. Bradesco's net income reached R1.027 billion in the first half of the year and rose by 13.6% relative to June, 2002. In the Second Quarter, we posted a profit of R519 million, or a 2.2% higher level than in the First Quarter of this year. I would like to stress that the amount of interest on capital paid of provisions reached R633 million in the first half of this year, more than twice the amount of the first half of 2002. What we also wanted to highlight in this year is the conclusion of the acquisition of BBV Banco [ph] and incorporation of the branch network and client base of (inaudible) San Paolo into our Bradesco branch network.

Slide number three -- in this slide, we would like to begin by stressing that our earnings per share reached 65 cents of Real vis-a-vis 63 cents of Real as of last year per block of 1000 shares, a more than three % jump. Our total assets are higher than R154.5 billion, rising by 23.9% relative to the first half of 2002.

Turning now to the acquisition of BBV [ph] Banco -- this figure would have been a 15.8% jump. Third-party assets managed by (inaudible) rose to R83.4 billion, reflecting a substantial year-over-year 36.8% growth. This issue restates the soundness of the brand name and the trust of investors in our work awarded by several media participants, as well as by several independent entities. Our loan book reached R3 billion, a slight drop in comparison to the one presented in June 2002 and flat with the First Quarter if we exclude the effect of the BBV Banco [ph] acquisition. Total deposits reached R56.8 billion, rising by more than 11.7% in a year-over-year analysis and more than 3.5% quarter-over-quarter. If we do not consider the deposits came from BBV Banco [ph], there was a slight 2.7% drop due to the preference of investors in asset management products. Our stockholders equity reached R12.5 billion, rising since June, 2002 by 23.7% and by seven % on a quarterly basis thanks to the increase in profits, the capital increases and the impact of the marked-to-market of the securities classified as available for sale.

Slide number four -- the return on average equity reached 18.7% for the first half of this year, slightly lower than the 19.1% posted in the first half of 2002. This drop is basically explained by the sound expansion of our capital base in which the capital increases like Mr. (inaudible) mentioned in the beginning, driven by the acquisitions of Banco (inaudible) San Paolo and BBV Banco [ph] (inaudible). Respectively, as mentioned, gross capital increases amounted to 630 and R150 million. The return on average assets reached 1.4% for the first half of this year, the same level stripping out the acquisition costs (inaudible) BBV Banco [ph] but slightly below the 1.5% ratio achieved in the first half of 2002. This effect was due to the impact of the acquisitions, which increased, as you know, assets in a very short-term and add increasingly more value over time, as well as the (inaudible) -- because of the extremely low demand in loans in our marketplace.

Our payout ratio, considering dividends paid for our provisions, net of taxes, reached the substantial figure of 55.2% for the first half of this year, a 17.8% improvement vis-a-vis the first half of 2002. Our (inaudible) ratio continues to be extremely comfortable, standing at 14.5%. And even more comfortable standing at 15.2% if we take into account the impact of the Central Bank of Brazil's July circular Number 3194, which reduces the weighting factor on foreign exchange positions from 100 to 50% in the BIS calculation. Keeping in mind that the Brazil minimum BIS [ph] ratio requirement continues to be 11%. Our fixed asset ratio at 43.9% at the financial consolidated level is also totally adequate, keeping in mind that this ratio must stand at less than 50%.

Let us gather the explanation of the slides numbers five and six. In these two slides, we're going to disclose the performance of the Bradesco Seguros [ph] Group, which consolidates our insurance, pension plans and annuities activities. We highlight that from this semester on, we are disclosing our profit and loss accounts, the financial impact of the insurance pension plan and annuities, assets and provisions in the marketplace. Written premiums grew on a 2002 and 2003 comparative analysis consolidating the Bradesco Seguro's [ph] leadership. Technical provisions variations move from R427 million to R1.7 billion due to the increases in pension plans sales and in particular to the (inaudible) product and on a lower proportion, to the growth in car and health sales.

In relation to results, profits shrank from R345 to R247 million , again comparing year-over-year, due to the following events -- number one, the equity impact of IRB Brazil, the reinsurance entity, in which we own more than 21% of the capital was negative in our equity investment line by approximately R50 million on a year-over-year comparison. This IRB contribution in our equity line had been positive in the first half of 2002 in the amount of R22 million and was, on the other hand, negative in the amount of R28 million in the first half of 2003.

Number two, the results in health insurance due to the increase in the IP&R [ph] insurance occurred but not recorded. The calculation moved from six to twelve %, making an increase in this variation. In a quarterly comparison, the Bradesco Seguro's [ph] profit follows the same explanation as before, characterizing the negative IRB contribution in our capital line by R25 million and the negative impact by IBNR [ph] in the total amount of R44 million.

Slide number seven -- in the first half of this year, banking activities represented 70.3% of our profits. Insurance-related activities, 25.3% and participations we own in different companies, 4.4%. The Insurance Group contribution was, on a comparative basis, lower due to the before-mentioned explanations.

Slide number eight -- this half year, the financial margins amounted roughly R6 billion, a 27.3% higher figure compared to the first half of 2002. This improvement was driven by the recovery of -- (technical difficulty) -- securities following the impact of the marked-to-market and by the increase in the number of clients, products and services sold, which added substantially our results. However, during the Second Quarter, the opposite effect occurred, as the financial margin fell by 22.2% due to the FX [ph] impact since the Real appreciated by 5.1% in the First Quarter vis-a-vis 14.3% in the Second Quarter. Bearing in mind that the FX in dollar-the non-denominated assets affects the margin, whereas its counterpart, the provision for FX movements, is highlighted in other operating revenues and is therefore not included in the margin calculation. Moreover, the recovery of the price of the securities following the impact of marking to the market was higher in the First Quarter than in the second, whereas the impact of the reserve requirement increase impacted partially the First Quarter but entirely the Second Quarter.

On the other hand, allowance for loan losses reached R1.4 billion, raising just 3.8% relative to the first half of 2002. If we exclude the additional provisions, R312 million in the half-year period and R57 million in the first half of 2002, the allowance for loan losses, expenses on this semester dropped by 15.9% relative to the first half of 2002, which restates the improvement in the outlook of the nonperforming loans for the system as well as our sound asset quality. Proving this perspective, according to Feragos [ph] (inaudible), the number of both bad checks and past due billing collections fell relative to the previous periods. (inaudible) the disclosing process of our financial margin, we're also presenting in this slide the financial margin adjusted by the different provisions. Based on this information, one can see that our adjusted margin improved by 8.3% in the comparison between June 2002 and June 2003. In a quarterly analysis, the adjusted financial margin dropped from 10.2 to 8.1% due to the sharp appreciation of the Real vis-a-vis the U.S. dollar.

Slides number nine and number ten -- so we are going to again gather the explanation for both slides. On those slides, we're going to talk about securities and derivatives portfolios. As one can see, the portfolio changed its profile, driven by maturing securities and our treasury's decision to increase the concentration of securities for trading in comparison to available -- (technical difficulty). The expansion of this portfolio in the Second Quarter relative to the First Quarter also reflects the impact of the acquisition of BBV [ph] Banco. As for your analysis, we're opening the balance sheet and the income statement of BBV [ph] Banco in one of our footnotes.

Slides number 11 and number 12 will be explained together -- talking about credit portfolio. This portfolio reached at the end of the period a volume of R53 billion, or 34.3% of our total assets. As we can see, the demand for loans continues to be extremely weak in 2003 and was also the case in 2002, as you remember. BBV Banco [ph] added a portfolio of approximately R4 billion to our own. This half year, our AA2C [ph] ratings (inaudible) 90.1% of the book in comparison to 91.1% in July, 2002. In our quarterly analysis, we can also see the same declining trend with a AA to C ratings (sic) moving from 90.7 to 90.1%. These deteriorations were driven by the maturing loan book which, as previously mentioned, had not been increasing this year. However, with the decline in interest rates trends, as well as with the second half 2003 economic growth expectations, we believe in an asset quality improvement perspective.

Slide number 13 -- as announced by the Central Bank of Brazil, we are allowed to state that our AA to C [ph] ratings continue to be better than both the financial system as well as the private sector, which illustrates our correct credit management, as well as the selectiveness of our loan-granting process.

Slide number 14 -- (inaudible) following the operation (inaudible) rated reached R2.9 billion in the first half of 2003, or seven % lower to the one of the first half of 2002. On the other hand, our coverage ratio of these operations improved considerably between the first half of 2002 and the first half of 2003, rising from 114.3 to 143.1%. Required provisions had a flat evolution, amounting R3.24 billion in the first half of 2002 and R3.29 billion in the first half of 2003, equivalent in both periods to approximately 6.2% of the book. On the other hand, the excess of provisions reached R817 million in June, 2003, rising 182.7% comparing to June, 2002. The growth in excess of provisions is in line with the conservative provisioning policy that Bradesco adopts.

Slide number 15 -- as we can see in this slide, past and fallen-due loans D2H [ph] rated (inaudible) by 4.7% relative to the First Quarter of 2003. But the coverage ratio increased from 142.3 to 143.1%. The excess of provisions reached R817 million in the Second Quarter of 2003, a quite comfortable level given the current economic scenario. In other words, although the volume of operations past and falling due from D2H [ph] having slightly increased, we did not use our (inaudible) provisions. (inaudible) provisions increased by 6.2%. But stripping out the BBV [ph] Banco acquisition, this jump would only have been up one %.

Slide number 16 -- on this slide, we show the nonperforming loans behavior measured by total past and falling due operations D2H rated compared to the respective coverage ratios. Nonperforming loans reduced step by step from 5.9% in the Second Quarter of 2002 to 5.4% in the Second Quarter of 2003. On the other hand, the coverage ratio moved from 114.3% to 143.1%.

Slide number 17 -- we will now show you our fee income breakdown as of June. Fees reached a volume of R2.1 billion in the first half of 2003, or 17.2% higher than the R1.8 billion we presented in the first half of 2002. As you can see in this slide, fees are well diluted in several items in that they are not overly concentrated in any particular company. However, we would like to highlight the performance of our service and credit card fees, which were favorably affected by the year-over-year increase of one million new checking account holders and 1.2 million credit card holders respectively.

Slide number 18 -- in regards to our operating expenses, we will start our explanation opening the two elements -- personal expenses and other administrative expenses. Personal expenses in the half-yearly analysis were impacted by -- one, the acquisitions of both (inaudible) San Paolo, which was only consolidated in the Second Quarter of 2002. And BBV [ph] Banco, which had an impact on the month of June. Two, the collective labor agreement and profit-sharing. Three, the increase in training expenses. Four, higher spending in benefits. In a quarterly analysis, we should mention the impact of the acquisition of BBV [ph] Banco, the additional expenditures in benefits as well as the additional expenses in training and incorporation of the branch network and client base of (inaudible) San Paolo, the implementation of Bradesco prime, which is focused on the high-end individuals, as well as to the impact relative to the concentration of vacation of employees in the First Quarter, which reduces the personal expenses of the First Quarter.

On the administrative expenses side, in the six months analysis, we were impacted by the acquisition of BBV [ph] Banco, by the increase in expenses in rents -- as you remember, many of the Bradesco branches were auctioned -- and by the several increases in and (inaudible) and prices. In terms of the quarterly analysis, expenses did not rise significantly, being impacted by the acquisition of BBV [ph] Banco, as well as by the incorporation of the (inaudible) San Paolo branch network process.

Slide number 19 -- in this slide, we are disclosing the FX impact net of taxes in the several periods we are here analyzing. Because of the appreciation of the Real, we used our whole FX provisions, absorbing the additional in our earnings, which was significant in the Second Quarter of this year.

Slide number 20 -- total (inaudible) provisions reached, net of taxes, R539 million in the Second Quarter of 2003, having falling R329 million relative to the First Quarter of 2003, in order to face the 14.3% appreciation of the Real vis-a-vis the U.S. dollar during this period.

Slide number 21 -- as we can see, the differences in has reflected in both Brazilian and U.S. GAAP reporting in 2000, 2001 and 2002 are quite insignificant (sic). Bradesco's profitability in both accounting (inaudible) principles are very close, showing the consistency of the accounting procedures adopted by Bradesco.

Slide number 22 -- in this slide, we show an overview of the impact of on BBV [ph] Banco on Bradesco.However, more than the figures, we believe that the joint efforts of these two large banks will enable Bradesco to experience an overall operating improvement. We are well aware of the value of the BBV [ph] Banco professionals and of BBVA [ph] substantial international banking expertise. The agreement was signed at the beginning of the year does not merrily involve the sale of the operations to BBV Banco [ph] operations to Bradesco (sic). It also includes an operating relationship and the mutual sharing of experiences. Thank you, very much for your attention. Let us begin our Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (OPERATOR GIVES CALLER INSTRUCTIONS). Jason Mollin of Bear Stearns.

Q - Jason Mollin {BIO 1888181 <GO>}

Good afternoon, everyone. My question is regarding the decline in net interest margin that we saw in the quarter. You did give us this breakdown in your presentation of the net interest margin net or adjusted for provisions, yet we still see approximately a 210 basis point decline after backing out the FX provision. You discussed two other impacts. The reduction in trading gains, if you could help us quantify that in the Second Quarter versus the First Quarter due to the marking-to-market of your trading portfolio. In addition, you talked about the increase in the reserve requirements that was implemented in February. If you could help us quantify the impact. I mean, I think that's actually a pretty reasonable thing for us to calculate. But I'm just trying to figure out what you're trading gains or marking-to-market were in the quarter. We did see the 412 million that -- as I believe in your presentation -- that's for the adjustment of the loss on the net foreign exchange position abroad. If you can help us understand the trading -- I think they might have even been losses or limited this quarter.

A - Jean Philippe Leroy

Okay, Jason. Yes, we explained on the slide about the margins, which is slide number 8. We explained the impact in the margin. As you can see, the margin moved from 9.7 to 7.2; that adjusted by provision from 10.2 to 8.1%. We could be linking this slide with the slide where we talk about the FX impact, which is slide number 19, where you can see in both periods, in both quarters, the impacts that we had. Actually, what happened is that we basically eliminated the provision for FX because of the very solid appreciation of the Real in the Second Quarter, which is slide number 20; you can see that we used that. And we used that even further (inaudible) and these impacted --.

Q - Jason Mollin {BIO 1888181 <GO>}

Jean?

A - Jean Philippe Leroy

Just a second, please. Yes, the impact you can see in the slide is disclosed on slide number 19. So we used the whole provision for FX plus additionally, as we had an impact of 188 million, we absorbed and reduced our profitability in the quarter because of the solid depreciation. You have to bear in mind that, as we explained, the longbow [ph] expansion did not exist in the Second Quarter and the higher profitability you make on interest-bearing assets is on loans. Actually, you have an impact that was caused not so much by the trading gains, not so much by the reserve requirements but much more by the FX impact that we had in the quarter itself.

Q - Jason Mollin {BIO 1888181 <GO>}

Let me just follow up. You a R412 million loss before the opportunity cost, which is not incorporated in your financial statements. Then the reversal of the provision for 338 -- so basically you're only talking -- that almost cancels it out, the reversal of the provision versus the losses on the investments abroad after hedging costs -- almost reverses it out. What's not stated here is the impact of the marking-to-market, which went through the net financial income, or the net interest margin. My question is, how much did you earn last quarter when we saw very positive movement? I can remember the number. I think you gave it to us in the conference call in the First Quarter versus (sic) what were the trading gains in the Second Quarter? How did that impact the margin? I think you've done a very good job at discussing the FX and the FX impact on your margin. But I'm not sure if I understand the trading gains impact on the trading portfolio.

A - Jean Philippe Leroy

Okay. So let me open the impact in the marked-to-market on the trading securities. In the Second Quarter, it was R57 million, gross of taxes, gross of taxes. In these six months, it was R114 million. (indiscernible due to multiple speakers). The difference would be the First Quarters.

Q - Jason Mollin {BIO 1888181 <GO>}

Very similar then.

A - Jean Philippe Leroy

Yes. In terms of the impact that we have on the equities because of the available for sale securities, it was in the Second Quarter of this year -- R7 million but these numbers are already net of taxes. For the year, it's a minus R15 million.

Q - Jason Mollin {BIO 1888181 <GO>}

That's very helpful; thank you.

Operator

Mario Pierry of Deutsche (inaudible).

Q - Mario Pierry {BIO 1505554 <GO>}

Good afternoon. Could you help us quantify the cost savings that you could achieve in the next 12 months related to the integration of Banco (inaudible) BBV [ph] and also, any merger-related expenses that we should see also in the next 12 months? Hello?

A - Jean Philippe Leroy

Just a second, please. I would say it would be better for your instead of us talking about the FX expectation on cost-savings by integration; it would be better to talk about the profitability that should be raising, as well as the efficiency ratio that we would like in the medium-term to be back to 50%, or lower than that. I would say it's more (inaudible) than just quantifying the expectations. You remember that we are just managing BBV [ph] Banco for one month and (inaudible) we have basically two months of incorporation of the branch network. So, I would say, in one year, we should be coming back to lower -- to better efficiency ratios. We prefer to talk about that than quantifying just line-by-line the expectation on both personnel and (inaudible) expenses because you know, they do not depend (inaudible). We had the label agreement in September and also, the tariffs depend on the evolution of inflation, for example. So, I would say efficiency ratios should be coming back on track to better and increasing factors.

Q - Mario Pierry {BIO 1505554 <GO>}

What about merger-related expenses?

A - Jean Philippe Leroy

I'm sorry, could you repeat?

Q - Mario Pierry {BIO 1505554 <GO>}

What do you expect to book as merger-related expenses in the next 12 months? Have you already incurred all the integration charges that you're anticipating?

A - Jean Philippe Leroy

Approximately R100 million.

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you.

Operator

Paul Tucker of Merrill Lynch.

Q - Paul Tucker {BIO 2367847 <GO>}

Good afternoon, everybody. Jean or whoever is most appropriate, I wonder if you could comment on the long FX position. Specifically, we've seen a fairly unusual appreciation of the currency this quarter. I'd like you to comment on the policy of the Bank and the ability to protect the Bank against such movements or indeed to profit from them, should they occur again?

A - Jean Philippe Leroy

Basically, we have approximately 1 to $1.2 billion of assets outside Brazil. We normally would have those assets -- we would have a position to lower but it does not mean that we always are longer. Sometimes we are shorter in this position. I would say, we don't want so much to talk about the strategy of the FX position. And it is a very important part of the strategy of the Bank. I would say that in general terms, you should bear in mind that we have a lower position. We don't know approximately the amount of assets that we own abroad. But sometimes we are longer than that and sometimes we should be shorter than that.

Q - Paul Tucker {BIO 2367847 <GO>}

I'm just trying to differentiate a little bit between yourselves and what we may be hearing from some of your competitors here. You know, we have had an unusual movement in the currency, one. One could argue that a more aggressive Treasury Department may have taken the deal of hedging that position substantially. Clearly, the Bank hasn't done that. (indiscernible due to multiple speakers).

A - Jean Philippe Leroy

(technical difficulty) -- conservative, trying to match as much as we can assets and liabilities by currency and also by maturities. But I believe we should be (inaudible) explanation.

Operator

Does that complete your question?

Q - Paul Tucker {BIO 2367847 <GO>}

Thank you, yes.

Operator

(OPERATOR GIVES CALLER INSTRUCTIONS). Yolanda Courtines of J.P. Morgan.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Good afternoon, gentlemen. Two questions -- first was on the reversal of provisions. I understand what you did on the FX front. But if I look in Other Income that you recorded, it looks like there was (sic) some reversals of some other provisions, in at least the six-month period if not the quarter, beyond the FX. And maybe if you could comment on that.

And then my second question was regarding the Bradesco Prime initiative. My original understanding was that that would be fairly small in scope at the outset. And if I understand your press release correctly, you already have 109 agencies that you've branded Bradesco Prime. I just wanted hear a little bit more about that initiative and what your strategy is there.

A - Jean Philippe Leroy

Okay. Yolanda, dividing in two different parts, this explanation, I would tell that we had the reversal of the whole provisions we had for FX, as disclosed in the slides -- as well as, we reversed approximately 181 million Reais of fiscal provisions, gross of taxes, in order to counterattack or counteract the very solid appreciation of the Real.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Okay.

Operator

Ma'am, does that complete your question?

Q - Yolanda Courtines {BIO 1552757 <GO>}

There's a second half.

A - Jean Philippe Leroy

Hello, Yolanda?

Q - Yolanda Courtines {BIO 1552757 <GO>}

Yes?

A - Jean Philippe Leroy

Sorry, is there another question?

Q - Yolanda Courtines {BIO 1552757 <GO>}

There was a question on Bradesco prime.

A - Jean Philippe Leroy

(LAUGHTER). Sorry, could you make it again?

Q - Yolanda Courtines {BIO 1552757 <GO>}

Okay. I just wanted to understand the strategy with the Bradesco prime. Because I understood originally that it was going to be smaller and more focused. If I understand correctly, you have 109 branches already of the Bradesco prime. I just wanted to know a little bit more about what you're doing there how that is progressing.

A - Jean Philippe Leroy

I would say that we used the opportunity of integration of the (inaudible) branch network to choose the branches that we would be having with the Bradesco Prime concept together. Part of the branches are only Bradesco Prime. And part of the branches are mixed. You have them making businesses with Prime and also with retail customers. So, in terms of this thought, we have approximately 450,000 clients that already we're working in the concept of Bradesco Prime. So, I would say that we have a portfolio of existing prime-focus customers of approximately half a million customers.

Part of them come from Bradesco, part of them come from (inaudible) and part of them also come from BBV [ph]. So the idea for us is to use this franchise, which is different in terms of layout of the branch and in terms of the preparation. And that was the reason why we increased the training in our front offices. We have people that are better prepared to deal with those customers, as well as we have a specific portfolio of products and services that is more directed to those types of customers. So, I would say the idea for us is to continue to strengthen the profitability, to add profitability by having this structure be implemented, which is, I would say, very feasible to believe that we are going to add profitability as well as we are going to add quality in terms of the branch, the clients that are Bradesco Prime customers.

These customers that have a high income -- more than R4,000 -- and actually, now our branches -- we have a subdivision to more than R8000 and between 4 and R8000 -- is actually, right now, a very big source of competition between existing banks in Brazil because those clients, they have a possibility to buy a lot of products and to add a lot of healthy profitability to us. But we must treat them the way they want. So this is the concept of Bradesco Prime.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Do you have a target number of Bradesco Prime branches that you want in the shorter or medium-term horizon?

A - Jean Philippe Leroy

We would have a (inaudible) from the existing 100 -- plus 109 to approximately 130 would be the expectation. So as you can see, most of the profit is already concluded, since you have just maybe 20 or 30 branches that will be added.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Thank you.

Operator

Carlos Gomez of Citigroup.

Q - Carlos Gomez {BIO 15024854 <GO>}

Good morning. Two questions -- the first one -- (inaudible) capitalization ratio, which is now at okay levels. You have (inaudible) a fair number of shares recently. If you don't have any acquisitions and you don't have a lot of loan growth, would you consider not having the (inaudible) issue at the beginning of next year? Has the Bank already started a policy in that respect?

My second question refers to the time when you outsourced your communications and technology to (inaudible), you made a special provision at that point for the gain that you obtained. Have you used that provision? Thank you.

A - Unidentified Corporate Participant

Have we what? Sorry, I didn't understand the second part of the question -- the second question.

Q - Carlos Gomez {BIO 15024854 <GO>}

The second is, you made an extraordinary gain that you set aside as a provision because you did not want to distort the earnings. I was wondering if that still remains as a generic provision on your balance sheet.

A - Jean Philippe Leroy

Okay. In terms of the (inaudible) ratio -- I would say, you know that we have very (inaudible) BS ratio considering Tier 1 and Tier 2. The minimum is 11%. We even have a higher BIS ratio after the impact of (inaudible) that we mentioned. But actually, we cannot guarantee that next year we would not be doing a capital increase because of having a solid BIS ratio. I would say, one other portion of the explanation must be understood by the fixed asset ratio. So actually, the capital is not (inaudible) important because of the BIS ratio but it is also important for the fixed asset ratio calculation.

You know that it must be lower than 50%. So I would say the trend is mainly to continue to have a solid capital (inaudible) for the future; it does not mean that we're going to use it. Actually, you know that -- or maybe you don't -- but the capital market in Brazil is not like you have in the U.S. where actually it's easier for you to issue securities; it is easier for you to issue other measures. In Brazil, actually, the capital market is not so in this direction.

In terms of the second question, I would say that the provisions that we have for (inaudible) that was in June, 2002 of R289 million actually was transferred to provisions for credit. So actually, in part of those provisions for credit that now we have R817 million as of June, 2003. Part of them come from -- part of them come from (inaudible).

Q - Carlos Gomez {BIO 15024854 <GO>}

That was done in June, 2002?

A - Jean Philippe Leroy

One part was in the first half of last year. And another part was in the second half of last year.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you.

Operator

(OPERATOR GIVES CALLER INSTRUCTIONS). Ladies and gentlemen. there appear to be no further questions at this time. I would like to turn the floor back to Jean for any closing comments.

A - Jean Philippe Leroy

Okay. I would say just continuing the explanation to Carlos, the provision from (inaudible) was R320 million gross of taxes. But maybe someone else would be liking to make the last question, or we should just end up this conference.

Operator

(OPERATOR GIVES CALLER INSTRUCTIONS).

A - Jean Philippe Leroy

Okay, gentlemen. Ladies and gentlemen. thank you for the participation in the conference call. Remembering that we're going to host a conference call in approximately one hour to the Brazilian audience. So for those who want also to participate in the next call, please feel free, or we can just handle the calls and the responses through the Investor Relations area of Bradesco. Thank you, again and see you next time.

Operator

Ladies and gentlemen. than you very much for your participation. This does conclude today's Banco -- (technical difficulty). (CONFERENCE CALL CONCLUDED)