Q1 2005 Earnings Call

Company Participants

- Jean Philippe Leroy, IR
- Jose Luiz Acar Pedro, Executive Vice President and IRO

Other Participants

- Jason Mollin, Analyst
- Mario Perry, Analyst
- Pedro Jiminez, Analyst
- Raphael Bello, Analyst
- Yolanda Courtines, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banco Bradesco's First Quarter 2005 earnings results conference call. Today, we have simultaneous webcast with slide presentation on the Internet that can be accessed at the site, www.bradesco.com.br/ir. Also at this website, participants can send questions online to the speakers of this conference. There will be a replay facility for this call in the website.

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 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 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'll turn the conference over to Mr. Jean Philippe Leroy, Investor Relations Executive General Manager of Bradesco. Mr. Jean, you may begin your conference.

Jean Philippe Leroy

Thank you. Good morning. Good afternoon to each and everyone. We have here in our meeting room the presence of Bradesco senior management, Mr. Marcio Laurelli Cypriano, CEO, Milton Vargas, Executive President and CFO, Jose Luiz Acar Pedro, Executive Vice President and IRO, Sergio de Oliveira, Managing Director. And Mr. Domingos Figueiredo de Abreau, Managing Director. To begin this call, I would like to transfer the floor to Mr. Acar.

Jose Luiz Acar Pedro {BIO 1895666 <GO>}

Good morning, ladies and gentlemen. and welcome to our earnings results conference call. Banco Bradesco posted in the First Quarter of 2005 a 1.2 billion Reis net income, a solid 13.9% growth in comparison to the Fourth Quarter of 2004. Stockholders' equity stood at 16.5 billion Reis. (inaudible) return on average stockholders' equity of 34.7%. In this quarter, we continued to experience the loan (inaudible) growth bank in particular to individuals. We reached our (inaudible) 75 billion Reis (inaudible), taking into consideration sureties and guarantees. The 22.3% balance growth over the last 12 months shows our corrected strategic positioning in the market with this leverage by improving Brazilian economy as well as by increasing the number of Brazilians to access to banking products.

Looking at this scenario, we are prepared to (inaudible) administrative and sales efforts to conquer more market share. As you see in our presentation, we feel confident to state that the positive results begin to appear as well as incredible values of our business model as we continue to search for quality in processes. Finasa, our consumer finance company, is in an example of this. Its operations continue to evolve (inaudible) with a total consistency. The management is challenged to achieve higher efficiency and profitability in order to maximize shareholder value. And we are very satisfied to see the success of our present and cautious option to grow organically and through acquisitions, implementing the full segmentation of our customer base and efforts to add new clients and to promote cost reduction. It's part of our strategy to leverage the potential of consumer finance growth due to the several operational agreements reached over the last month. We (inaudible) such as (inaudible) year-end model (inaudible). And more recently through the acquisition of the 33 mini branches of the Mirada [ph] group.

We continue to focus on better productivity ratios. This comes through a reduction in costs, which is a priority to our organization. In this respect, we move forward in the quarter, which can be seen by the substantial improvement of our efficiency ratio, which (inaudible) this quarter at 52.7% visa-a-via 59% in March of 2004. We consider these an appropriate performance as it indicates a clear improvement trend going forward.

Bradesco Capital is taking part in the strong Brazilian export performances. In exports we reached 2.5% market share. In the closing of operations in total volume of $2.3 billion (inaudible). In (inaudible) contracts, we reached 15.21% market share (inaudible) $80 million (inaudible). Bradesco also made available for customers during this quarter the digital specification that proceeding in this manner we are now (inaudible) in the (inaudible).

Foreign and domestic (inaudible) operations mainly (inaudible) recorded a balance of 7.4 billion Reis. On the collateral loans the balance reached 6 billion Reis. In March the Bradesco financed in this quarter, the construction and acquisition of nearly 1900 homes, applying 35% more resources vis-Ã -vis the same period of 2004.

On capital market showing our important position in this growing segment considering the total amount of registered operations that (inaudible) Brazilian Securities and Exchange Commission, we reached 25% market share in the issuance of debentures. In addition, we closed (inaudible) with five related to (inaudible) and one to project finance.

In the asset management, on the top of the (inaudible) growth of assets and management, Bradesco asset management (inaudible) recorded for the 30 years in a row the highest number of funds (inaudible) stocks, according to the best record of ranking in combination with the quantity of our services in this important and competitive market.

It's also worth mentioning that Bradesco (inaudible) sold in the first three months of the year more than 15.3 (inaudible) its lending position both in the real estate and the (inaudible) whole segment. The total activity focus surpasses 150,000, a remarkable 132% growth over the last 12 months. We are convinced that we have been working in the right path in creating shareholder value. Our understanding is a (inaudible) the fact that our market capitalization reached at the end of March 35.6 billion Reis, a 75% increase vis-Ã -vis the 20.3 billion Reis in March 2004.

On March 1, we had approved 21% increase in the month of mostly interest on loan capital distribution. This eventual rates benefited our shareholders in March. The Company's social responsibility, activities motivates (inaudible) each and everyone at Bradesco. On March 5, (inaudible) promoted for the 30 years in a row on National Volunteer Day, helping 700,000 people with more than 11,000 volunteers in more than 100 (inaudible).

We are optimistic for 2005, believing that we will achieve a significant growth of more than 3.5%. We see no reason for trends leaving to higher volatility in the coming future. Besides, we perceive that the (inaudible) economic quality has been conducted with consistency respecting contracts (inaudible). I would like now to turn the floor for Jean's presentation and we will be available during the Q&A session. Thank you, very much.

Jean Philippe Leroy

Today, I will conduct a 20-slide presentation which will compare the evolution of the main figures and ratio of Bradesco between the First Quarters of '04 and '05. And between the First Quarter of '05 and the last quarter of '04.

Slide No. 2. Banco Bradesco posted a 1.2 billion Reis net income, almost doubling its profit with the same period of last year and increasing by 13.9% quarter-over-quarter. The net income is due to a conjunction of factors as (1) client base growth, (2) expansion in the loan portfolio, (3) evolution of new business lines, (4) strong cost control, as well as (5) expansion of the economy as a whole. Earnings per share stood at 2.45 Reis, almost twice as much as the 1.28 Reis posted 12 months ago. Quarter-over-quarter, ETS increased by 9.9%. Our return on average stockholders' equity is continuously improving from 19.3% in the First Quarter of '04 to 31.7% in the last quarter of '04. And, finally, 34.7% in the First Quarter of this year.

Our loan portfolio increased by 20.2% over the last 12 months. And by 5.1% just in the quarter, reaching a balance of 66 billion Reis. In addition, we have more than 9 billion Reis in sureties and guarantees. Double (inaudible) rate at operation represented 92.5% of the total book against the 92.3% in December of '04. And the 90.4% as of March 2004, a very positive trend we expect to continue for the coming period. There was a clear improvement in efficiency in the back of this quarter's 46.6% ratio below the 50.3% presented in the previous quarter.

In the accumulated 12 months compilation, Bradesco posted a 52.7% efficiency ratio vis-Ã -vis 59% in the First Quarter of '04. And 55.5% recorded in the previous period. One can see that Bradesco is fully committed to the efficiency improvement.

Slide No. 3. In the next slide we will be presenting the main numbers of Bradesco shown in three columns. First quarter of '04 -- '05, Fourth Quarter of '04. And the First Quarter of 2004. Additionally, you will see in the right two columns comparing the variations in percentage of the previously mentioned periods. Total assets surpassed the 191 billion Reis mark, recording a 6.3 billion Reis jump in the First Quarter, highlighting the loan growth -- the loan portfolio growth. The book grew especially in the segment of individuals. The stronger demand in the segment is due to our comprehensive branch network present, the reduction of the unemployment rate. And the strong penetration of Finasa in more than 34,000 sales points. One should not forget the solid growth in (inaudible) funded by BNDF, confirming higher capex from (inaudible). In particular, in (inaudible), which is a line focusing on financing of tractors and agricultural goods.

Total deposits increased by more than 12 billion Reis over the year, with demand deposits growing by 18.4% totaling 14.9 billion Reis. And savings deposits by 11.5%, reaching 24.4 billion Reis. Stockholders' equity reached in March 16.5 billion Reis, an 8.7% growth in the quarter due to the accrual of results and to the latest 700 million Reis capital increase.

Assets under management by Bradesco Asset Management, BRAM, reached an important mark of 104.8 billion Reis, of which 2.9 billion are third-party resources related to specific services of management, custody and controllership.

Slide No. 4. As for our ratios, besides the ones previously mentioned, I would like to mention that the return on average assets also showed a significant evolution moving from 1.5% in the First Quarter of '04 to 2.3% in the last quarter of '04. And finally to 2.6% just in the quarter.

As established in our bylaws, we continue to distribute more than 30% of our net income to our stockholders. In the First Quarter, we paid a provision to more than 366 million Reis as interest on capital. Bear in mind that last March, Bradesco improved 21.12% increase in the monthly interest on (inaudible) capital payment, benefiting all of its shareholders. Our efficiency ratio as stated before is also on an improving trend, moving from a 57.3% ratio in the First Quarter of '04 to 50.3% in the last quarter. And 46.6% in this quarter.

I would also highlight the continuous process of our asset quality improvement, proving our correct risk analysis, the efficiency of our credit scores. And the improvement of our system on the back of (inaudible) bank acquisition.

Our BIS ratio stands at 15%. And gives us plenty of room for (inaudible) growth. As a matter of example, considering the current capitalization level, we can potentially grow our loan portfolio by more than 53.6 billion Reis. The expanded combined ratio regarding the insurance group activities presented herein will be more specifically analyzed in slide No. 16. But it is important to state its improvement.

Slide No. 5. Lending is the main business of all the banks and a tradition at Bradesco, which has never stopped raising funds and fostering the economy, financing investments and consumers. Because of this focus, we have been accumulating knowledge of our customer needs and therefore we could be granting loans with solid expertise. We hold the largest loan portfolio amongst private banks in Brazil, a solid distribution network of 3,000 branches, a relevant customer base of more than 16 million account holders. And a strong consumer financing arm, Finasa, which operates with known account holders. Additionally, we have closed since December of last year, important operational agreements with (inaudible) such as (inaudible) and (inaudible). And various banks.

Our loan portfolio grew by more than 11 billion Reis over the last 12 months. And approximately 3.2 billion Reis in the last quarter, mainly in loans to individuals, as I mentioned before. The 5.1% quarterly expansion and the 20.2% annual growth are in line with the behavior of the banking system as a whole, which in the same period increased loans by 4.3% and 21%, respectively. Our book comprises 23.6 billion Reis of loans to individuals, 23.2 billion Reis to large companies. And 19 billion Reis to SMEs. It is important to remind you that the 8.1% depreciation of Reis in relation to the US dollar in the year impacted our dollar to foreign currency (inaudible) assets, which are mainly originated by large corporate customers and to (inaudible) finance operations. Sureties and guarantees continue to present strong growth.

Slide No. 6. Allowance for loan losses reached 4.3 billion Reis, the equivalent of 6.5% of our portfolio, is at least 6.6% in December '04. And 7.6% in March of '04. (inaudible) are continued and continues asset quality improvement. Additional provisions total 938 million Reis, growing the quarter by 13 million Reis. One should mention that in the quarter -- in this quarter from the 622 million Reis of expanses for allowances for loan losses are included 166 million Reis built on the back of our decision to down rate a large utility company. This decision should be analyzed as being conservative as a success of the restructuring of debt of this very company is almost certain. So (inaudible) is non-recurring effect, expense provisions should have been 21 million Reis lower than as posted in the Fourth Quarter of 2004. And 80 million Reis lower than in the First Quarter of '04. This just confirms once again our asset quality improvement. Corporate ratio considering past (inaudible) operations of more than 60 days continues to remain at a very comfortable ratio, as one can see in this slide.

Slide No. 7. The continuous improvement in information of our customers allows us to highlight the consistency of our provision policy. Provisions are proving to be sufficient to meet the minimum parameters required by the Brazilian Central Bank as well as to cover our loan losses. As one can see on the red line, we plot total provisions vis-Ã -vis the loan portfolio. On the blue line, evolution of required provisions as a percentage of the total book. On the yellow line the evolution of non-performing loans of more than 90 days. And, finally, in the black line, an important indicator of the asset quality. This line measures the percentage of write-offs over the previous 12 months in comparison to the existing book. For an adequate analysis, we proceed in this chart to the displacement of this curve of write-offs issued 12 months before in order to allow the comparison between what was in the loss outlook and the write-offs which really took place. From these analyses, we can see that the percentage of past due and falling due each rated operations over the total loan portfolio has been showing a trend very similar to the one recorded with losses (inaudible) anticipating its future behavior.

Slide No. 8. In Brazil, customer finance continues to follow strong growth. At Bradesco, as previously mentioned, we foster landing opportunities for account holders to Bradesco Bank and for non-account holders to Finasa. On the top of our branch network, we count on more than 5300 postal bank outlets. Finasa has a solid distribution network of more than 14,000 auto dealers. And more than 19,000 retail stores. And we are recognized by our customer service quality and agility. The quarterly growth in consumer finance stood at 12.5% and (inaudible) 48.1 increase over the last 12 months. The main growths were concentrating in auto finance and direct lending, the latter being influenced not only by the performance of our branches network. But also by the Finasa 121 branches' performance. Operational agreements closed with large retail chains and banks are also the key to our success. In the credit card line we are presenting our numbers regarding revolving credit for individuals. In addition, we have a total of 1.7 billion Reis of receivables related to credit cards that are not part of our loan portfolio, as they do not earn interest. But which also represent an important source of fee income for the group.

Slide No. 9. Our securities portfolio not including repos amounted to 56 billion Reis, 35.2 billion are involved in securities, 9 billion are corporate bonds. And 11.8 billion are securities related to pension plan products as BGBI and PGBL, which are defined contribution plans. And 65.5% of the securities were classified as trading, 23.7% available for sale, 8% held to maturity. And 2.8% as derivatives.

Slide No. 10. Net interest income increased by 13.7% in the First Quarter compared to the First Quarter of last year in a year-over-year comparison at 20.1% growth. Quarter-over-quarter, the 483 million variation is due to (1) 211 million Reis increase in interest earnings. And (2) 272 million Reis raised in non-interest earnings where the 327 million Reis result from the reduction of our stake at (inaudible) is included.

As one can see, analyzing interest earnings approximately 70% of the quarterly variation is due to increases in volumes. Over the last 12-month analysis, the 347 million Reis contribution in net interest income was fully originated from the increasing volumes of operation, since interest rates contributed negatively to that by 63 (inaudible).

Slide No. 11. Over the quarter (inaudible) reached the amount of 1.66 billion Reis. This amount is only 14 million Reis below the one reported in previous quarter. However, excluding the 47 million Reis effect of the elimination of the additional one month of (inaudible) income, which took place in last quarter, one can notice a 33 million Reis rise in our total fees. Fee income has been growing consistently due to the evolution of our customer base, our assets management, as well as the growth in transactions. In addition, we highlight in the quarter the 14.5% increase in credit operation fees. And a 5.9% evolution in fees related to maintenance of accounts. Besides that, it is important to take into consideration the seasonal effect that impacts positively fee income every year and every year-end because of the payment of certain salary and Christmas. In the 12-month analysis, in addition to the previously mentioned fees, we should also highlight asset management and (inaudible) fees.

Slide No. 12. Bradesco's management is fully committed on improving efficiency. And the market is recognizing our efforts in this issue. As one can notice, personal expenses increased by only 3.7% comparing First Quarter of '04 and First Quarter of '05, which is far lower than the recorded inflation over the period. On the other hand, administrative expenses dropped by 1.3% over the last 12 months, proving important cost savings originated by incorporation of the acquired banks. Efficiency ratio has also recorded a significant improvement in the periods moving from 59 to the year-end 52.7%.

Slide Nos. 13 and 14 that we have will be showing the evolution of our personnel and administrative expenses listed as fee income.

On Slide No. 15, we depict our (inaudible) ratio, which compares those expenses with our fee income. As one can notice, in both cases, there has been (inaudible) decrease in expenses as from the Second Quarter of '03 on. And that the (inaudible) ratio is consistently improving since September of '02. This job consists on consolidating activities, incorporating banks, rationalizing processes. And the branch network, as well as integrating one more back office activities between Bradesco Bank and Bradesco Seguros, our insurance group.

Slide No. 16. Bradesco Seguros has been consistently improving its figures and ratio. Net income of the insurance group stood at 427 million Reis, vis-Ã -vis 312 million Reis in the Fourth Quarter of '04. And 164 million Reis in the First Quarter of 2004. We are presenting on these slides a breakdown of the amount of issued premiums, contribution to pension plans. And revenues from savings bonds. One can notice a concentration in life and private pension plan premiums corresponding to 45.8% of the total. Automobiles, property and casualty correspond to 23% corporate-held insurance to 17, savings bonds to 7.9% and, finally, individual health plan with 6.4% of the total. Consolidated income from insurance, pension plan and savings bond operations reached 3.6 billion Reis in the First Quarter of '05 vis-Ã -vis 3.4 million Reis in the same period of '04, a 5.4% growth.

In this quarter, we decided to build in our health insurance company an extraordinary provision in the amount of 324 million Reis in order to adequate provision (inaudible) to the level of required provisions for the insurance holders older than 60 years, with individual health plans contracted before the issuance of law No. 9656 of 98. And also for the benefit related to the special plan.

Last year the government agreed to allow increases of 10 to 11% in premiums related to those two issues. The Company continues to focus on sales of corporate plans, which currently represents around 73% of the total health insurance portfolio. The increase in the number of insured beneficiaries in this segment translates the high level of (inaudible) elevation and personalization of the Company's (inaudible) corporate plans, which is the strongest differential in this market. More than 12,000 companies choose Bradesco Seguros for involving their employees. And out of the 100 largest Brazilian companies, 32 are our clients in health and dental care.

The personnel and general expenses ratio over earned premiums dropped from 8.3 to 7.9%, showing our concern with cost in all the companies of the Bradesco Group. Combined ratios presented herein recorded as (inaudible) improvement when compared with the First Quarter of 2004 and 2005. And do not take into consideration the financial gains inherent to the activities.

Slide No. 17. In this slide, we present the breakdown of our recurring and extraordinary goodwill amortization over the last period, as well as the incremental goodwill originated by new acquisitions. As one can notice in 2003 and '04, we amortized extraordinarily approximately 1.2 billion Reis of goodwill. This quarter there was a recurring amortization of 80 million Reis, which leaves us with an amortization balance of 946 million Reis.

Slide No. 18. In this quarter we present the recurring flow of goodwill to be amortized. If we maintain the current level of amortization, we can eliminate 58.9% of the goodwill balance up to the end of 2006.

Slide No. 19. In this slide we present the macroeconomic outlook we are projecting. We basically expect '05 to be a good year in terms of economic growth, with inflation rates lower than 2004, the slight devaluation of our currency vis-Ã -vis the US dollar. And a 17.5% interest rate by year end. Interest rates should be kept stable at the current level until the Third Quarter of this year, when we expect them to be lower.

Slide No. 20. In this slide we will show; we are showing some projections we got in Bradesco. We believe credit growth will continue especially to individuals. So we are expecting a growth of the loan book between 20 and 25%. We intend to continue improving our main income lines, (inaudible) income fee, income and premiums. And controlling our expanses according to the percentages that we are presenting.

I thank you all for your attention and now I would like to open the floor for the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is coming from Jason Mollin of Bear.

Q - Jason Mollin {BIO 1888181 <GO>}

Good morning, everyone. My question is related to your last slide and the guidance. I'm just comparing it to your prior guidance. It seems as if you've increased the expectation for loan growth. At the end of the First Quarter you were talking 20 to 22% growth for the year. Now you're taking 20 to 25. The other assumption seems to be pretty much identical with the exception -- the only thing that's not on this chart that you had previously was your guidance for return on average equity, which was previously 22 to 24%. Given the return equity that you reported this quarter, perhaps you could comment if you've adjusted that guidance based on the strong results that we saw in this quarter. And maybe you could comment on the recurring nature of some of the items in this quarter. For example, you talk about your expense control in the First Quarter was excellent. But given your guidance for the full year, it seems as if you're expecting a substantial increase in the level of expenses through the rest of the year. Otherwise, maybe that guidance would come down. Secondly, in terms of the recurring nature of provisions, you mentioned that there was one corporate loan that was mainly responsible for your increase in provisioning. But given the strong growth, should we expect asset quality deterioration to continue? In fact, on my numbers, which are a little bit -- I used a little different -- for years we've been using E through H loans. We showed an increase in non-performing loans and a decrease in reserve coverage. If you could comment on those issues. Thank you.

A - Jean Philippe Leroy

Okay, Jason. In terms of the outlook for the year, we have been seeing and experiencing very solid growth in consumer finance, both in the bank as well as to Finasa. And we also have very good expectations based on the agreements we have with retailers and with banks. And we are beginning to -- since March, for example, (inaudible) beginning to make operations with Bradesco. This is the largest retailer in Brazil. And it's definitely -- it's showing very solid strength, adding value and growing the loan book expectations for the Bank as a whole. Based on that, we thought we could be raising the estimate of loan book growth. So, mainly we are talking about the loan book growth driven by consumer finance and basically by individuals. And taking into account, also, the good numbers and perspective from the agreements that we signed. So this is the reason why we raised from 20 to 22% to 20 to 25%, the loan book expectation for this year.

In terms of the return considering end of period equity, the guidance we would like to provide is a 24 to 26% return on equity. Again, considering end of period equity.

In terms of expenses, the quarter was very good. There was just one item that I would like to comment, which is in the personnel expense line, that we had 37 million Reis less expenses at the recurring level based on the concentration of vacation of employees in the First Quarter. So, basically, the Bank during the three quarters every month makes provisions for vacation for its employees. These are exactly the same calculations that are granted for all the vacation calculations of employees, not only banking. But the oldest companies in Brazil. They have to give one-third more salary to their employees. And we make the provision every single month. And there we have the concentration on vacation the First Quarter. So at the end we don't have to make the provision in the First Quarter, an we transfer the amount of provisions we have been building during nine months to the employees. And this actually is just to make it clear that from the personnel expenses that we posted in First Quarter of 1.2 to 1 billion Reis, you could be adding another 37 million Reis because of this effect.

In terms of administrative expenses, we have been really focusing on everything that we can, trying to lower expenses as much as we can. And we continue to provide the guidance of a 6% evaluation of nominal increase in expenses, lower than 6% for the Bank, for the conglomerate as a whole. We have in September the negotiation of wages, which is based on the calculation of inflation between September of '05 and '04. And we also have all the increases in prices of all the suppliers, utilities. And so on. So taking into consideration everything, we continue to believe that we can have growth in expenses just in line with the expected inflation as you saw in the presentation.

Talking about provisioning, actually what happens with Bradesco is that we are not changing that much mix of our portfolio. Bradesco was already very strong in consumer finance, strong in financing individuals, we just continue in this path. Based on that, as we are not changing very much the mix of our loan book, as well as because of the way that the agreements we find with banks and retailers, we believe that even if we increase more as you see in the perspectives, the loan book for individuals, which is by definition a more riskier loan than for corporate, even though we are going to raise more, we feel comfortable about the asset quality behavior in the next coming quarter. So we don't see anything very particular in this (inaudible).

This provisioning of 166 million Reis was a one-off event based just on the conservative decision by the management of the bank looking at the company that is not yet in restructuring, is under the process of trying restructuring. We feel comfortable that the restructuring will be reached and we decided to dollar rate the risk of this client, which does not mean that afterwards -- after the restructuring is done, if we cannot come back to an original rating, or maybe use this dollar rating or this provision as excessive provision. So this is not decided yet. But we in general terms are quite comfortable with the level of asset quality behavior. And the only one-off in the expenses in the quarter were related to this 166 million Reis. As mentioned in the presentation, if you strip out this 166 million Reis, the provisions are lower in this quarter than last quarter, as well as in the First Quarter of 2004.

Operator

Thank you. Our next question is coming from Pedro Jiminez [ph] of I&G.

Q - Pedro Jiminez

First, congratulations on the results and I'd say Bradesco de Seguros I think the best results in many years. Related to the questions, the first question is related to the quality (inaudible). We see reduction in the rate of total allowance for the loan portfolio from 7.6 to 6.5 in the last 12 months, even though increased by 44%, (inaudible) and 22% (inaudible). So the first question is, if you expect an increase in this ratio since those SMEs (inaudible) in the last corporate (inaudible). The second question is related to insurance. The extraordinary provision for individual health segment of 324 million. I would like to know if this is extraordinary, if you expect some other (inaudible) provision, because this accounts for only 6.4% of the total premiums. So I would want to understand a little more about this point.

The third one is if you can give us a number of the unrealized gains of all the known financial holdings that you have in Bradesco Seguros in the line of the (inaudible) that includes -- if you can give us a number. Thank you.

A - Jean Philippe Leroy

Okay, Pedro. Thank you for the congratulations. Actually, in terms of the loan book, what happens is that the asset quality is improving. So what is dropping is the level of required provision. The extent of provision as a percentage stands at relatively the same level. So as yet, that quality is improving. You have been seeing the ratios of AA to C growing quarter after quarter. We feel comfortable about this drop of the level of provision from approximately 100 basis points year-over-year. Again, the excessive provision remains roughly the same. But the required provisions are moving down as the asset quality is improving. So the perspective would be to continue to have this level of provision at least at the excessive provisions we wanted to keep. And the required provisions are expected to drop maybe lower than the 5% year-over-year. But at least the trend is quite positive.

In terms of the second question, we decided to make the provision of 324 million Reis at Bradesco Seguros during the quarter. These are extraordinary provisions. But they are recurring provisions. They are in line with the business of individual health. And they were created basically because of the discussion of a law that was signed back in 1998 that was opening the coverage of health insurance plan for individuals for all types of sickness. This was not (inaudible) at the time because it was just created by decree at that period. So we built this provision in the quarter. In terms of the future prospective, we cannot tell you if we are not going to do other provisions, not for these two items, for 60 years and the special plans. But I would say last year we built solid provisions for incurred but not reported claims. And we are totally finished with that. And we feel comfortable with the level of provisions. For the plans of 60-year-old and special plans, we don't feel that we need additional ones.

In terms of the last question, you asked -- we have a footnote, which is footnote No. 10B, where we open the book value of our investments in stocks. And also the market value. As you can see in this graph, the total unrealized gain will be 480 million Reis. The idea of Bradesco is to continue to focus on banking and insurance. And we will try to sell all the participations that are not relating to banking and insurance. But we don't have any hurry for that. We don't have any obligation. We just want to add better to the shareholders, selling at the best pricing those participations in the moment that we feel is the best.

Operator

Thank you. Our next question is coming from Mario [ph] Perry of Deutsche Bank.

Q - Mario Perry

Good morning. I have two questions. First on the net interest margin. If we exclude the non-recurring gains from the sale of stake in (inaudible), we actually -- I calculate your net interest margin was actually down from the previous quarter despite seeing improvement on your loan mix and despite the higher interest rate environment in Brazil. So I just wanted to get an idea from you how these seemingly competitive environments in Brazil for lending -- are you feeling pressure to lower your rates in order to achieve your loan targets, or how do you see it going forward?

And then the second question is on the BIS ratio. The BIS ratio is now at 15%, it was at 17% two quarters ago. How comfortable do you feel at this level. And how much room do you feel like you have to continue to grow your loan portfolio without needing additional capital? Thank you.

A - Jean Philippe Leroy

Okay, Mario. Just calculating together, the margin was 3.999 (inaudible) Reis the First Quarter. And we had 327 million Reis of gains related to selling (inaudible). If we strip the 327 million on the 3.999, we end up with 3.672, which is higher than the 3.516 we boasted in last quarter of last year.

Q - Mario Perry

Right. No, I'm talking about the net interest margins. So that divided by your earning assets. I think you calculated that it was flat. I calculated that it was down about 10 basis points. So I'm more interested in hearing on the margin side.

A - Jean Philippe Leroy

Unidentified Participant: Okay. If we strip out the gain of (inaudible), we end up with 7.97% of net interest margin vis-Ã -vis 7.9% in the previous quarter. So it's roughly the same, just a little bit higher in the quarter. I would say what is more important, I believe, is the trend that we are seeing. We have been experiencing in Brazil a very solid competition in all the different segments and for a long period of time. First, the competition was more fierce in large corporate, then it went down focusing more on SMEs. And now we are experiencing more competition in individuals. But it is clear that the actual competitive landscape in Brazil is much more aggressive than people might think. So we don't believe that we are going to see deterioration in net interest margin going forward. We see that the average (inaudible) this year will be higher than last year. And this is a complement in the net interest income. And we don't see any particular movement, even though the competition is fierce and was already fierce in the different businesses of lending. So I would say the trends are quite comfortable. Again, we want to stress the point that with this agreement that we are making in consumer finance, we have very good perspective to grow on a very good qualitative way, because we are sharing, for example systems, we are sharing data with retailers. So we are also helping to build a better system of Bradesco. And better data for the Bank. So we feel quite comfortable that net interest margin will be actually at least the same trend for the next quarters. And we don't see any particular movement in this sense.

For the BIS ratio, we have a BIS ratio, which was impacted mainly -- the drop was basically impacted by the hedge of the positions that we have outside. You know that we have approximately 1.6 billion dollar of equity outside Brazil. And we make hedge of this position and this hedge actually impacted the BIS ratio. If you could maybe look at page 209 of the fact book, you have the full analysis of the BIS ratio or the (inaudible) that has been increasing and decreasing the BIS ratio for the Bank itself and for the conglomerate as a whole. So that you will see. But I would say the major impact was relative to the hedge of the position in just correcting by formation the equity outside Brazil standard $2.1 billion and not $1.6 billion.

Operator

Thank you. (Operator Instructions) Our next question comes from Yolanda Courtines of JP Morgan.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Gentleman. Good morning. Congratulations on an excellent quarter. I don't want to harp on the asset quality scene. You did show in the slides quite good trend. But looking at the B category through D category loans, you do have a big pickup in the level of abnormal credits going from December to now. I just want to understand a little bit if it's a mix issue, if this is a seasonal issue, or what might explain that. And if we should be concerned that's a forward-looking indicator of some potential future asset quality deterioration.

And my second question is with regards to the deposit mix. Do you see a big pickup in time deposits this quarter? I know you're going to have a trickier time going forward in terms of savings accounts and the need to deploy a greater portion of those deposits into housing loans. Can you talk us through a little bit if your outlook on the deposit front on your general funding structure?

A - Jean Philippe Leroy

Okay, Yolanda. In terms of the asset quality, I would say in the First Quarter, there is normally a low seasonal effect, because you have people taking vacation. And also the fact that some people take loans in the last quarter of the previous year. And they have a slight deterioration. And they have -- there is a slight non-performing impact. But nothing that we believe shouldn't be changing over the next quarters. This is something that we consider more seasonal.

In terms of the deposits, I would say what has been important in the mix of deposits has been the fact that asset management continues to be the leading driver for deposits, they are mainly off balance sheets. And I would say part of the impact in the quarter was the change in the taxes policy and pension plan, where the government at the very end of last year launched a law which has been -- which is an obligation for people to choose which type of taxes they want to pay going forward in the pension plan. It's a law called No. 11053. And because of that, some people have been a little bit confused about which way of choosing the old way of taxes or the new way. And based on that, I believe you saw and noticed that pension plan premiums decreased (1) by the season (inaudible) First Quarter being weaker than the last quarter. And (2) if you compare year-over-year, it was the change in this policy. We will try to receive more and more demand deposit and savings deposit. This is where, really, we want to focus. But we have been experiencing also -- and maybe this could be also an impact from the change in policy of taxes -- an increase in the CDs, in the number of CDs. So overall the prospective of deposit growth continues to be strong. We have the benefit of low-income deposit -- of low cost deposit because of the postal bank, which adds a lot of demand deposits and savings deposits. And we believe that year after year, the postal bank should be adding more and more low cost deposits to the bank.

Q - Yolanda Courtines {BIO 1552757 <GO>}

So you're not concerned at all about increased necessity to deploy these sources of funds into housing loans.

A - Jean Philippe Leroy

No. In terms of the housing loans, there is a discussion every quarter between the Bank and the builders of buildings and homes. And we basically are working -- the three parties are working together to reach something that we believe will be growing, which is housing in the future. I believe you noticed the amount of resources in housing that we deployed this year were 35% higher than last year. We are working basically in hand with the targets from development. And now there is a discussion about the obligations of housing for the Second Quarter of this year. We are in discussion. But we believe that a good solution should be reached going forward.

Q - Yolanda Courtines {BIO 1552757 <GO>}

Thank you, very much.

Operator

Thank you. Our next question is coming from Raphael Bello [ph] of Citigroup.

Q - Raphael Bello {BIO 19197418 <GO>}

Yes. Good morning. My question relates a bit more about the future in terms of what would make you slow down your growth in your loan portfolio? I would assume that if interest rates kept going up, that would be an important element in your consideration to slow down growth. I don't want to dampen your (inaudible) . We're very happy to see 40% rates of growth. But I think it would be very naÃ¯ve to assume that that's going to continue forever. Could you indicate to us what are the, let's say two most important microeconomic variables that you are following very closely in order to kind of in the future look at that in more, I would say conservative rate of growth, if that is the case. And I would assume that that's the case, that there will be one point at which you will not feel as comfortable in growing your portfolio as much. And maybe if that relates to the selling rate or the general level of interest rate, if you can provide us with some specific number that you think would be the one that would trigger a slowdown in your pace of growth, that would be very helpful.

A - Jean Philippe Leroy

Okay, Raphael. I would say the leading driver for growth in loans over the last quarters and over the last couple of years has been consumer finance. Consumer finance, the two most important variables will be the behavior of the real wages and the unemployment rate behavior. And we can see that both numbers are getting better quarter after quarter. We have an unemployment rate close to 10% for Brazil. And the behavior has been quite positive. Over the last 12 months, approximately 1.7 million jobs were created. And there is a growth in the real wages. We have as of May 1, a new minimum wage of 300 Reis. So growing more than inflation, looking at how the -- today's 260 Reis moving to 300 Reis is a growth of approximately 6%, 7% more than inflation that we have year-over-year. So for individuals, the most important variables are those two.

For large corporates and SMEs, they depend more on the behavior of interest rates, it's clear. But we also are seeing companies, when you look at the total utilization of plans, a lot of companies are working with 80 to 85% of their full capacity. So we see a growth in companies making investments through BNDS Life, which is something that we have been talking about. And SMEs are also trying to tap this market, trying to also built more investments. So we feel comfortable that we will see a growth in loans. In general terms, we have a loan to GDP ratio that stand between 26 to 27%. And it has been very difficult moving higher than 30%. But we believe that for the long term, we should see loans growing by three to four times the GDP growth. As we project GDP growth at some, let's say 3 to 4%, these would be three to four times more than what we are seeing. And we see a phenomenal and absurd number of people who never had access to loans and are beginning to have access to loans. And definitely this helps the growth. So the basis of loans has been very, very low. And we believe that the growth will be continuing over the next years.

Q - Raphael Bello {BIO 19197418 <GO>}

So as a followup, let me assume then -- let's say that everything else equal. But if you were to see 100 basis points increase in unemployment rate, would that make you a bit more cautious with your growth strategy, or at what point -- I'm just trying to get some sensitivity here. At what point do you say, well, fine. The future for Brazil is very bright and that loan GDP has to grow. And we will agree on that. But on a more short-term basis, would that make you stop, or not really? I mean, pretty much any rate of unemployment rate would not make you stop?

A - Jean Philippe Leroy

Yes. You know, sensitivity analysis is always very important. But -- and we always analyze what we do and the perspective. But, for example, we are tapping a lot of new markets with agreements with retailers that we believe will be adding a lot of value. We have also different agreements with banks. And we are making finances to retirees. So these are markets that are beginning to boom. And we have been seeing the numbers growing more and more. It's clear that the behavioral unemployment rate of 1% unemployment rate increased definitely has an impact on the loan book demand for individuals. But on the other hand, you are tapping a lot of new markets that maybe could counter -- have a counter effect on the potential increase in unemployment. But we feel comfortable that the unemployment rate trend is positive. We don't see anything happening (inaudible). We see companies hiring more people. And because of that, we don't believe -- and even more, a 1% change in unemployment rate is pretty tough. We don't see this expectation going forward in a watchdog effect.

Q - Raphael Bello {BIO 19197418 <GO>}

Okay, thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Thank you. (Operator Instructions) There appear to be no questions at this time. I would like to turn the floor back to Mr. Jean for any closing remarks.

A - Jean Philippe Leroy

I would like to thank the participation of all. But I would now like to transfer the call to Mr. Acar.

A - Jose Luiz Acar Pedro {BIO 1895666 <GO>}

I would like to thank you all for participating in our conference call. I would like to emphasize that Bradesco (inaudible) revenues and higher (inaudible). You are witnessing a very positive upturn of these measures and we continue to post solid earnings results. We understand that (inaudible) indicate in improvement in profitability in a sustainable way. Thank you, very much. And have a nice day. Thank you.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.