Q3 2009 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, Managing Director
- Jean Philippe Leroy, Department Director
- Luiz Carlos Trabuco Cappi, CEO
- Marcio Artur Laurelli, CEO
- Samuel Monteiro dos Santos, Junior Executive VP and CFO of Bradesco Seguros Insurance
- Unidentified Speaker, Company Representative

Other Participants

- Daniel Abut, Analyst
- Ian Smith, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. We'd like to welcome everyone to Banco Bradesco's Third Quarter 2009 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 Investor Relations Officer; Samuel Monteiro dos Santos, Junior Executive Vice President and Chief Financial Officer of Bradesco Seguros Insurance; Mr. Jean Philippe Leroy, 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 through which the presentation will be available through download.

Be informed that all participants will only be able to listen to the conference call during the company's presentation. After the presentation there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management, and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks and 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 result of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Jean Leroy, Department Director.

Mr. Leroy, you may proceed.

Jean Philippe Leroy

Thank you.

Good afternoon, to everyone. Thank you for participating in our call. Before transferring the floor to Mr. Trabuco, I just wanted to inform that we also have Mr. Marco Antonio Rossi, the CEO of Bradesco's Insurance Group taking part in the call.

Mr. Trabuco, please.

Luiz Carlos Trabuco Cappi {BIO 2400673 <GO>}

Okay. Thank you for all.

Good morning, everyone. Welcome to our conference call.

First of all, the Brazilian economy continues to recover throughout the Third Quarter, with a gradual improvement in the construction, employment and the earning indicators. Fueled by a gradual reduction in companies' idle capacity, the inflation figures allowed the Central Bank of Brazil to reduce the significantly Brazil's basis rate even further, leaving then the real interest rate to one of the lowest ever levels.

Our currency continues to appreciate and thanks to the country's solid fundamentals in the economy. Sovereign risk fell strong 284 points in June, to 234 at the end of September. Just to give you an idea of the significance of this, the sovereign risk reached 331 points in September last two years. Within this scenario, Bradesco posted a net income of BRL5.831 billion in the first nine months of this year, very close to the same period of 2008, with a very strong contribution from our Insurance group.

The net income in the Third Quarter totaled BRL1.8 billion. Adjusted net interest income in the last 12 months moved by 33.7% due to a high volume of loan operations, which offset the lower spreads.

Total assets reached BRL485.7 billion around 15% in a year-over-year comparison. Loan volume went up slightly along the quarter, with the total portfolio climbing by 1.3% over the Second Quarter of 2009, and 10.2% over the last 12 months.

As we predicted in April, the delinquency rate for loans overdue by more than 90-days increased slightly, closing the Third Quarter at 5% of the total loan portfolio, due to the economic slowdown. However, we are optimistic over the future given that the pace of delinquency gross amount of our clients is declining.

Our coverage ratio remained at the (inaudible) at the created[ph] level, reaching 166.5% in the quarter. The Basel ratio stood at 17.7% indicating the high level of capitalization which is demanded in a scenario of future credit growth. The efficiency ratio of 41.7% also improved, reflecting our constant commitment to maximizing the revenue and cost control.

However, the Insurance groups combined ratio worsened, because of the higher number of health claims, in turn, basically to the effects and increased frequency of the swine flu, as well as the increase of vehicle claims aggravated by the exceptionally heavy rainfall in the south and the south east regions of the country.

Finally, I would like to draw your attention to the importance of the Health Insurance Business Association between OdontoPrev and Bradesco Dental, which will unite the group. We recognize the expertise with a group that has a uncomparable distribution network.

And now I will hand you over to my friend Abreu, and I will be at your disposal during the question-and-answer section. Thank you, all very much.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good afternoon, everyone. As Mr. Trabuco already mentioned, net income in the first nine months of 2009 surpassed BRL5.8 billion, slightly above the figures posted in the same period of last year. In the Third Quarter itself, net income stood up BRL1.811 billion. It's worth noting that this quarter Bradesco recorded a non-recorded gain on the sale of the supplementary lot of VisaNet shares in the gross amount of BRL410 million.

On the other hand, the net income was also affected by additional legal provisions, especially for economic plans, totaling BRL387 million, and the two included special new expenses due to the collective bargaining agreements which reached BRL145 million.

I would like to remind you that last quarter's net income also benefit from other non-recorded provisions, as a divestment on the main lot of Bradesco's VisaNet shares in the gross amount of BRL2 billion, and the constitution of additional allowances for loan losses, in the gross amount of BRL1.3 billion.

Our 12 month operational efficiency ratio recorded yet another quarterly improvement. This time moving to 41.7%, thanks to the performance of the net interest income. And slide number five, total assets amounted to BRL486 billion, 15% up over the same period last year. Return on assets totaled 1.6%, and return on average equity reached 21.8% in the period.

Debt ratios were very strong, given the prevailing economic environment. The Basel ratio also improved reaching 17.7% in September. This ratio would allow us to increase loan portfolio something around BRL231 billion, leaving us in a highly comfortable position, capable of sustaining expected growth in the coming years without depending on additional needs of issuance of the equity. Also in September, Bradesco concluded the issue of USD750 million, through subordinated notes abroad, categorized as Tier II, capital.

Slide number six. In this slide, one can see the breakdown of net income, which shows that around 66% derived from financial activities, 34% from insurance. In the financial area, one can see that the loan portfolio relative participation increased in this quarter, basically due to reduced provisioning needs, as will be explained further on.

However, in comparing the first nine months of 2009, in the same period of 2008, the relative participation spreads over the net income suffered a reduction due to the higher provisioning needs, while the relative increase in securities line, was due to good performance of our proprietary treasury desk.

Slide number seven. I would now like to draw your attention to our unrealized gains, with a substantial amount of BRL10 billion, up by more than BRL1.5 billion in this quarter, due to the recovery of market conditions affecting positively both assets and fixed income securities.

Slide number eight. On this slide, we show our historical interest earning, and non-interest results. As you can see, the non-interest earning portion has done exceptionally well in the last three quarters, mainly thanks to the increased gains from treasury operations. Also, it is worth noting that income from interest earning operations increased by a solid 18% in the period, mainly due to the higher volumes of loans.

In the quarterly comparison interest earning portion moved up by around BRL120 million, due to the increase in average volumes and the change in the loan book rate.

Slide number nine. Our net interest margin improved again, reaching an annualized 7.6% in the Third Quarter compared to 7.3% in the previous one, and 7% at the beginning of the year. This performance reflects improved conditions in terms of bonds and interest rates, as well as the increase in loans and individuals. However, we understand that in the medium and long terms, these ratios tend to fall, due to the addition of operations with lower margins.

Slide number ten. This slide shows a breakdown of the net interest income. In the year-to-date comparison, net interest income from loans increased strongly by around 24%, mainly due to, as we just mentioned, the growth in the change in the loan portfolio mix. In the same way, the quarterly increase can be explained by the BRL171 million jump in income from loan operations, thanks to the improved portfolio mix and the reduction in the base rate facility.

Slide number 11. The highlight here is the improvement in the net margin from loan operations in this quarter, the blue part of the graph, due to the growth of the gross margin and the reduction in the provision expenses. However, in the nine months comparison, the net margin fell by more than 13%, indicating that gross margin growth was not sufficient to observe the increase in provisions.

And even given the exceptional positive absolute progress in Brazil's economy, and the consequent impact on employment, we are confident that the worst fear in terms of provisioning needs was in the Second Quarter. From now on, therefore, we expect these margins to record a continuous improvement.

Slide number 12. Bradesco's total loan portfolio stood in September at BRL215.5 billion, 8% up over the last 12 months, and 1.3% higher, if compared to the Second Quarter. The lower large corporate loans growth was partially due to appreciation of the real against the US dollar, which impacted dollar indexed loans which accounts for around 15% of total loans in this segment.

Loans to SMEs moved up by 9.3% over the last 12 months, and by 1.5% in the quarter. Individual loans had a year-on-year increase of 8.2%, and a quarterly growth of 1.7%. Consumer financing continued to move up, especially payroll deductible loans, which increased by 6% in the quarter, and by 22% in 2009.

Agricultural loans and mortgage also recorded significant performance in both fields. We noted the demand for loans has increased over the recent months, not only for individuals, but also for companies, which began to expand investments.

Once again, we therefore believe our 2009 guidance for loans book growth between 8% and 12%, to be achieved. For 2010, although we have no detailed guidance yet, we believe a floor of 20% for loan book expansion to be feasible, given the expected GDP growth of 5.4%

New borrowers in 2009 who are people or companies who had no loans with Bradesco in September 2008, accounted for BRL19 billion of loans, driving, half of the loan growth over the last 12 months, underlining Bradesco's ability to expand with quality and diversify its use.

Slide 13. As we have already been anticipating, our delinquency ratio for loans overdue by more than 90-days, deteriorated this quarter, reached around 5%. However, we believe delinquencies have reached their peak in this quarter, as we expect them to stabilize and we even record a slight reduction in the coming quarter.

Slide 14. We show here our short-term delinquencies between 61 and 90-days. Those that are individual delinquency ratio has fallen since June, while the corporate ratio has remained virtually flat since the peak of February 2009. Thanks to this behavior, plus improvement in the economic activity, we are confident that the worst is now behind us.

Slide 15 intends to show our level of provisioning and their real level of excess of provisions for bad loans. If you look at the historical figures for the allowances for loans, losses in a given period and the effective losses over the subsequent 12-month period, we can see that write-offs has a strong correlation with the line of E2H rates, non-performing loans. Thus making us feel comfortable as to our provisioning level.

This strength allows us to assume that our expected losses a year from now, will be close to 5.5%, indicating a real excess of provisions of 2.28% of our spreads portfolio, equivalent to around BRL5 billion, giving us a very comfortable position to cover any possible delinquencies that may arise.

Slide 16 shows the coverage ratio of the allowance for loans losses in relation to loans overdue by 60 and 90-days. As you can see, this ratio resumes to our historical level of coverage, as did Second Quarter '09, which is a very comfortable one. Therefore, our constitutional[ph] for the additional provisions will not be needed in the near future. And also, the provisions already constituted do not have to be reversed because, as we already mentioned, an improvement on the delinquencies is expected from now on.

Slide 17, as one can see this moved up by 5.5% over the last 12 months and the fell by 1.9% over the last quarter. The decline in card fees was due to the reduction in our stake in VisaNet as we now consolidate only 26% of DISA net's revenues compared to 40% before the IPO.

The decline in the order line of[ph] fees, was caused by lower underwriting fees, which stood at higher levels in the Second Quarter.

It's also worth remembering that IVI numbers have not been integrated into the Bradesco's results yet, since the shareholders' meeting only took place last Friday.

The reduction in the checking account line was due to the elimination of the fees for renewal of forms as of July of this year. It's also worth emphasizing, the good performance of fees from asset management consortiums, custody and brokerage, half of which moved up substantially.

Slide 18, in the quarterly comparison, the upturn in personnel expense was due to the full provisioning of the pact of the collective bargain agreement. It's important to note that the approximately BRL80 million of this amount can be attributed to the two previous quarters, given that the result of the collective bargain agreement was slightly higher than the amount provisioned in those periods. The year-on-year growth was basically due to the effects of the 2008 and 2009 bargain agreement.

In the case of other administrative expense, both the quarter and year-to-date upturns, were due to the higher numbers of points of service and increased business volumes.

Slide 19 shows our revenues from insurance premiums, pension plans and savings bonds, which increased by 9.7% in the quarter, reached BRL6.7 billion. I would particularly like to draw your attention to the performance of Life Insurance and Private Pension Plans, which reported a quarterly growth of 11.9%.

Based on the elastic figures from Susep and INS[ph], as of August '09, Bradesco's Insurance Group maintained its leadership position, with a 23.5% market share.

And slide 20 shows some of the main figures of Bradesco Saude. A combined ratio, which mirrors the operational efficiency of the Insurance Group, but affecting this quarter, basically, by higher claims in health insurance, mainly due to the swine flu. The financial assets which guarantee the secondary reserves, totals around BRL80 billion, of which BRL62 billion corresponds to the investment portfolio of the Life Insurance and DGBL segments.

It's also worth mentioning that as we start to adjust our provisions for pension plans, in order to make them even more in line to the current environment. We adopted the assumption for asset returns of 4% per year in real terms, versus the 4.3% assumed until then.

Moreover, the actuarial table of mortality, 82,000[ph], with improvements of 1.5 per year, 1.5% per year, is adopted by Bradesco, as it is considered as more appropriate to guarantee an adequate provision level.

Slide 21, and in this slide, I would just like to talk a little bit about the recent association agreement that is set with Odontoprev, which will integrate our subsidiary, Bradesco Dental, into its business. At the conclusion of these operations, Bradesco will have a 46.5% stake and a share control on the combined company, along with Mr. Handow Louisanet[ph]. Mr. Handow and his current team will be in charge of the business.

We expect associates will benefit us from the benefits in potential gains in scale and synergies. On the combination of the best management practices over claims and mainly from the consolidation of sales component in the market that is growing around 20% per year.

Taking you to 2009 asset base, the new company will be in charge of around 4 million lives and the net return of BRL533 million. It's also worth mentioning that the estimated market capitalization of the new company will stand at around $2 billion, according to the current stock market. What it means that our stake would reach BRL870 million, much higher than the books of BRL320 million.

On slide 22, one can see our economic department's projection for 2009 and 2010, regarding GDP, interest rates, inflation and the foreign exchange rate. In 2010, the reduction in the idle capacity of the economy and the increase in commodity prices will impact inflation. Consequently, we expect the consumer price index, CPI, up to 4.6% next year, in line with the stronger economic forecast.

As the economy becomes stronger, the pressure of inflation becomes higher, thus, forcing a response from the monetary policy. We therefore believe that the base rate, the SELIC will increase as of April 2010. Although this should not harm the economic growth, as we expect the GDP expansion of 5.4%.

Finally, I would like to say that given the challenges we face this year, we recorded an excellent operational performance and generated positive results, reflecting not only our strong market position, but also our capacity to adapt to different scenarios and challenges. We also optimistic over the future, thanks to the health of loans, as this economy has been showing strong signs of recovery, with an improvement in both the consumer and corporate confidence index.

We have invested heavily in technology, always aiming at resource optimization and focusing continuously on improving operational efficiencies. We are also continuing to expand our distribution network practice and business volume. Our transactions make us believe that this is very well positioned to benefit from expected economic growth over the coming years.

Thank you for your attention and let us open now the floor for the questions.

Questions And Answers

Operator

Excuse me. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. My question is regarding the expense line. You gave us guidance for the full-year 2009 that administrative and personnel expenses would be up in the 6% to 11% range and I think nine months on nine months, you're up about 10%. However, the other operating expense line was up 30% quarter-on-quarter and 125% for the nine months this year versus last, to about BRL2.15 billion. How should we think of the recurring level of this line item going forward? Thanks.

A - Unidentified Speaker

Jason, the -- actually we have, in this quarter, the provisioning for economic plans and what is expected to happen on a conservative way would be instead of having a BRL387 million as we posted in this quarter and BRL416 million in the first half of the year, probably we should see in next quarter around -- up to maybe BRL90 million. Or maybe a little bit less.

These are events that should not be repeated next year because from next year on, we actually just have the color planned, which basically we believe that are not substantial amounts and would be basically cleared in a lower chamber as judge's lawsuits, nothing as relevant as we have -- as we had this year.

So probably you should consider, for this year, a level, which is basically non-recurring for next year. This would not be repeated. We don't have the guidance for 2010, so it's difficult to give a better guidance, but at least in terms of the other operating expenses and revenues, basically you -- we should consider next year not repeating in any way what we had as expenses this year, which was a hefty amount of money. Like BRL1 billion for the year.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much.

A - Unidentified Speaker

You're welcome, Jason.

Operator

Excuse me, our next question comes from Mr. Saul Martinez with JP Morgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. I have two questions on the Insurance and Pension and Certified Savings Plan business. If I look at the run rate earnings across your business segments over the first three quarters of the year, you've seen reductions across a number of the businesses, and including in the Life and the Pension and the Health business, even the Certificated Savings Plans business. And I know you mentioned the swine flu, the heavy rains really impacted the results this quarter, but I'm wondering how you're thinking about this business and whether there -- whether you think there could be any issues in terms of the pricing of this business being incorrect? Especially in the Health Insurance business, where your earnings run rate seems to have fallen off by quite a bit?

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

Saul, Samuel speaking. I was trying to hear you again.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes.

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

Saul, in terms of the results of Health, which is impacted, that the provision was we made in terms of swine flu, there isn't, basically, is because we look in that time, I would say to you, around July, August, a movement and this increased in terms of frequency in ambulatory and in the hospital attention it was a lot of movements.

In this case what we did in that time in September, in the Third Quarter, we make the provision a little bit more conservative. Because we -- for us, it would be worse than we produced and anticipated that in the First Quarter of the 90 -- in 2009.

This is the reason why we increased a little bit in terms of the 3.6 and in terms of claims, as a provision specifically for H1N1 flu. This was the reason why the results of Health was a little bit gone down. But according to our, respectively, October, because we finished October, and the claims relate to this improved, was a little bit lower than we produce and anticipated. The reason why I told you -- I tell you that our combined ratio for Health would be getting better in the last quarter of the year.

Because it was really our perspective at that time, was worse than the reality now.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And if I could ask, just follow-up, Samuel, if I look at the earnings for the group, it was over BRL700 million in the first half -- in the First Quarter and Second Quarter of last year. Since then, the earnings run rate has fallen considerably, at BRL607 million this quarter. It's been a range from BRL550 million to BRL650 million. How quickly -- do you think that you can get back to an earnings run rate that is comparable to what you saw in the first and Second Quarter of last year? Or should we think of this business as being -- or do you think that that sort of earnings level is not achievable?

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

I think it's -- I tried to explain to you, very interesting thinking, in terms of our business. As I mentioned to you, many times, I mentioned to everybody, always, that investment income for us is a part of our personnel costs, of the insurance. As you know so much about the business -- the insurance business, it is a very -- you consider that the investment income really is a part of our price. It's a part of our personnel results.

Q - Saul Martinez {BIO 5811266 <GO>}

Sure.

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

Then what happens relates to last year is the stock market would be better than the 2009, would be better now in the second semester of the year. If there is a why I told you, that will be -- if it continues in the same perspective over a -- the shares, the comp -- or the results from the equities, I would say to you, it would be a little bit the same as it was last year.

I would say, too, it would be better than the last Fourth Quarter in 2008. I would say, 2009 would be better than 2008 in terms of Fourth Quarter.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

In general, and I think too.

Q - Saul Martinez {BIO 5811266 <GO>}

But do you -- I mean, so you expect, on that front, you would expect, obviously, then interest rates to rise, your yields to improve. And you would also, I would assume, you would also expect your basic combined ratio to fall versus the levels you've had in the Third Quarter as well, correct?

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

I would say to you, not in terms of interest rates. I would say to you, the results from the stock market would be better than the 2009 in the last quarter of the year.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

In the last quarter of 2008. 2009 would be better.

A plus would be combined ratio in the last -- in 2008, last quarter, I would say to you, in 2009, would be similar of the 2008 and the last quarter.

And in other words, the results, the perspective of results of insurance group in the last quarter of 2009, would be better than the last quarter of 2008.

Q - Saul Martinez {BIO 5811266 <GO>}

And what about 2010? What are your preliminary thoughts there?

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

2010, I -- real -- I don't know the perspective now.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

Because we know -- we didn't finish now our budget for 2010.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Fair enough. Okay. Thanks a lot.

A - Unidentified Speaker

Let me use this, just finishing what Saul is asking, actually just to respond to the question of Jason. I didn't get so much the point, if it was other operating administrative expenses or other operating expenses and revenues. But if it is in terms of the guidance for other operating expenses, we have a guidance for expense, operation expense, that are personnel plus administrative expenses. We don't have a guidance just for the line of administrative expenses. But we are basically in line to our expectations of expenses, growth, for the year. That is adding the two lines, personnel and administrative. And if I didn't understand your question correctly, I just -- I'm just sorry. Thanks.

Operator

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

Q - Daniel Abut {BIO 1505546 <GO>}

Daniel Abut with Citi. Good morning.

A couple of questions related to revenues. If I look at your guidance for 2009, which you remind us in page 41, for net interest income, top line income, you have guided 18 to 22%, which seems to be coming in -- along nicely and this was a complicated year because you were expecting, and rightfully so, maybe little volume growth. And you also had the effect of low interest rates. But you did prepare for it and you took the positions in your treasury to compensate for that.

How should we think about the outlook for this line for 2010, even if you're not prepared yet to give official guidance because you haven't finalized the budget? If we take into account that you expect much more vigorous volume growth, loan growth, and that you said that you're expecting 200, 250 basis point hike in SELEC rate, starting in April, but you will have much lower treasury gains next year, should we expect overall a net interest income growth much lower than this year? How much lower? Help us elaborate on how should we think about this line for next year?

And second is on fee income, because it's coming this year, barely at the low end of the range you have guided, you said 6% to 10% and for the first nine months that you accumulated, we have a 5.5%, heading into next year, so we see a rebound, because of the impact of higher business and clients or it's something structural going on in pricing that we should prepare for another year of kind of low single-digit fee income growth at best?

A - Unidentified Speaker

Hi, Daniel. No, just to tell you that when we are giving the guidance of the page 43, we are not taking into consideration at all the treasury gains. Basically we had a very strong expansion of net interest income during the year and we don't have the guidance, again. But probably what is going to happen in 2010 will be more loan book growth, but probably less net interest income, which would be a little bit of the opposite of the net interest margin expansion we saw during the year. Probably we should see, although it's not guidance please. But we should see maybe a little bit lower net interest margin for next year.

And in terms of the fees, we were impacted by some BRL50 million, 5 0 million reals during the Third Quarter basically. Because not being allowed to be charging these renewal form fees that we were. Basically, when we gave the guidance, we made a revision by the middle of the year when we disclosed the June 2009 numbers.

And at that time, no one was talking about these fees not being -- existing anymore. So we continued to be focusing on the 6% to 10% fee income growth for the year. I know it will not be easy, but probably the last quarter should be a little bit better in terms of the economy of the last quarter, should probably be a little bit better.

On the top of that, when we had the guidance, actually, it was not so clear what would be happening in terms of the IPO of VisaNet. And it was a major success. And by having sold some 13% of our stake in VisaNet moving down from 39 to 26, you actually end up with a little bit less fees in the line which is the most important one, which are the card fees.

So all together, we continue to be focusing on that. And obviously, we wish to give the guidance for 2010, but we are finishing the numbers in order to present to you, I believe, in the beginning of next year when you're closing the 2009 numbers.

Q - Daniel Abut {BIO 1505546 <GO>}

Okay. Thank you.

A - Unidentified Speaker

You're welcome.

Operator

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

Q - Jorge Kuri {BIO 3937764 <GO>}

Hello, everyone. Good morning. I have a question on provision. If I look at 2006-2007 and 2008, provisions to average loans were 5%, pretty much 5% in every one of those years.

So two questions, should we think about 5% as a normalized level? And second, you are now heading to probably 6.5% in 2009. I guess that's the run rate for the year.

How fast can you go back to 5%, if that is indeed the normalized level? Is it something that we could see in 2010? Or does it take a couple of years to get there? Just help us understand a little bit about the movement in provisions to what is a normalized level. Thank you.

A - Unidentified Speaker

Hello, Jorge. Basically this metric, we like to present this metric of provisions for loans, which is in our presentation on the page number 11. If you look at the page number 11, you would see that usually in historical levels, our level of provisioning represents some 40% of the net interest income.

With the increase in delinquencies moving from 3.4% to roughly 5%, which was basically what we have already guided since April of this year, we have an increase in the provisioning level to a level close to 60% or a little bit more than 60%.

Probably we are going to see over -- in the beginning already, we are already beginning to see a little bit less provisioning needs in this quarter. Probably should improve a little bit more in the last quarter. But definitely, we should see coming closer to the 40% line, as slowly, but continuously more by the middle of next year on.

It takes some time. We saw a very sharp deterioration in asset quality, even more with some specific clients, for example, the SMEs which were very affected. The delinquency ratio doubled with this type of customer. We still have some companies that are beginning to improve in the margin, all the clients are improving. But still, we need to be cautious about what is going to happen over time.

But probably, Jorge, in response to your question, I believe that more from the middle of next year on up to the end of the year, we should see a level of provisions that we calculate as a percentage like we have on page number 11, which should be probably closer to the historical levels.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, that helps. And let me just clarify something about the way you measure it.

You look at provisions as a percentage of interest income. I'm assuming only the income interest from credit, right? It doesn't include interest income from securities there.

A - Unidentified Speaker

Exactly, this is the credit net interest income, just talking about the credit.

Q - Jorge Kuri {BIO 3937764 <GO>}

Right, thank you very much.

A - Unidentified Speaker

You're welcome.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, let me ask you, my question is related to expenses and fees also. If we are seeing expenses growing at a faster pace than fees, I think you look at your year-on-year growth, expenses are growing about 10%, while fees are growing 6%.

At the same time, over the last three-four years, you have made significant investments in technology. And when do you expect some of these investments to start paying off for you? When do you expect to see a reversal here, to see fees growing faster than expenses? Thank you.

A - Unidentified Speaker

Look, Mario, it's very difficult because it's not like a magical quarter that you just push the button. We're already benefiting today from these IT improvement program. That definitely we always recommend for the analyst to look at our site. There is a very good presentation of Maurice Amenos[ph] focusing on that.

It's true that fees have been growing more. Basically by growing our distribution network, and growing also investments in IT, fees were impacted since the beginning of 2008 by some different measures to restrict banks to charge some specific fees, which affect a checking account, credit card fees. That definitely we would believe are not going to be repeated going forward.

So we believe that most of the fee income growth we are going to experience will come from client base growth and from higher cross selling. And part of these IT improvement programs, depends -- is focused on increasing the cross selling ratio from some five products per customer, to closer to eight products per customer, definitely a big improvement.

What we are seeing is that, like in 2015 approximately, we should be running in a cost to income ratio at some 37% to 38%. Definitely not the year of 2010, but probably from -- the IT improvement program will be ending by the end of 2011. So probably from 2012 on, we should see a little bit more improvement in our cost to income ratio, moving closer to the 37% to 38% we have nowadays at 41.7%, so a slight improvement.

For next year probably, by the end of the year, we should reach around 41.5% cost to income ratio. So we already begin to improve our cost to income ratio. But definitely from the following years on, we should see more of improvement, both in terms of revenues and in terms of expense.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect, thank you.

A - Unidentified Speaker

Thank you, Mario.

Operator

Question comes from Ian Smith with Nevsky.

Q - Ian Smith {BIO 17539373 <GO>}

Hello, just wanted to confirm a couple of details. The first, in terms of the other OpEx with the civil contingency provision, am I right in assuming that you're saying BRL1 billion of expenses are being incurred this year, will not be incurred next year? And could you just explain the basis of why that might be.

Then just secondly, in terms of CE growth, just to get a better idea of how 2010 might look, can you give us a sense of what kind of client base growth you're looking at? And what kind of timeframe you're looking at on that cross sell ratio to get from 5 to 8?

A - Unidentified Speaker

Hello, Ian. Just to -- first question you asked about the civil contingencies, when we look at this year, approximately BRL1 billion, if we suppose that we had BRL416 million plus BRL387 million, it's already some BRL900 million plus the BRL90 million, around the BRL1billion.

Why are we expecting this not to be repeated next year? Because all these economic plans, they have a possibility to be questioned by customers in general during 20 years.

And from next year on, basically you will have the possibility of the color plan. The collar plan is a little bit different, because it was already classified as a constitutional plan. The others were not.

So basically, this gave a possibility for people to file lawsuits against the banks. In this case, it's already like there is a substitution or guarantee that the banks didn't make money with this. So basically the potential of people asking and having accepted in lawsuits some proceeds vis-a-vis the banks, are much more limited.

And this is the reason why I was answering the question of Jason that I believe was another one. But I was basically responding to the question that these actually will not be repeated going forward. And this would be ruled by lower chamber courts, which are much more agile and usually -- basically it's not classified as something that is constitutional.

So basically the potential is much lower on the products to be impacting the banking factor at all for next year on. The other plans, they will already be due for the 20 years of people filing lawsuits.

In terms of the client base expansion, we are targeting to grow next year around 1.2 million new customers. And what happens is that we have a lot of people that are moving into our operations, into Bradesco, because we are much more retail oriented and have a lower income. And basically, it's very difficult for them to buy more products, because they begin the relationship by opening an account, making a savings deposit, or making a loan.

So basically, over time if we look at middle income customers, and more and more Brazilians are getting middle income, half of the population nowadays is middle income. Middle income they have like eight-nine products each. So if I have five, I tend to go closer to eight to nine. But it will take time.

And it's a question, not only of cross selling of Bradesco systems, but also question of the economy growing by some 5%, the real wages, the unemployment rate moving down. And at the end, we should be reaching the goals that we have for the future.

Q - Ian Smith {BIO 17539373 <GO>}

Thanks, can I just follow-up by asking in terms of the customer growth, are there any particular regions of the country where there's a particular focus or certain regions? Or is it a pretty broad based effort in terms of where you'll be proportionally growing your customer base?

A - Unidentified Speaker

The growth that we are expecting for our client base would be in Brazil as a whole. It's difficult to precise, if it is just in one region.

Usually it's on the regions that have lower income. But basically, we are seeing a massive growth in our client base also in large cities like Sao Paulo, so definitely throughout Brazil.

Q - Ian Smith {BIO 17539373 <GO>}

Thank you very much.

A - Unidentified Speaker

Thank you, Ian.

Operator

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

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello, everyone, most of my questions have been answered. But I have two questions. The first one, and if you look at in terms of your -- the spectrum of your whole product portfolio, what are the areas that you think you are lagging behind? Or where do you see room for higher growth going forward?

And looking to the insurance segment, do you think, looking in 2010, do you think you might be able to grow maybe double digits next year? Or maybe a level closer to the growth you are seeing in the loan portfolio. And what are the areas within the insurance that you think would have the biggest growth potential? Thank you.

A - Unidentified Speaker

I will respond, basically we have been in our presentations talking about some products that we believe should be growing the most, like mortgage, the operation of payroll deductible loans, cards and insurance.

I would say overall, we see very huge potential to grow on all those lines, double digit definitely. And maybe I would be just asking somehow to focus on some product that he believes in insurance could be growing mostly.

A - Marcio Artur Laurelli {BIO 16321502 <GO>}

Marcio Artur Laurelli speaking, in terms of insurance, I would say to you that the line is related to the personal lines like for life and dental for instance. And I would say to you for instance that insurance that would be the small ticket like Seguros, that the people are talking about recently, would be the best lines which would be increased so much.

Because the insurance, as you know, in Brazil, seven years continuously increasing two digits. I think would be repeated in next year.

Q - Marcelo Telles {BIO 3560829 <GO>}

Excellent, just one follow-up question on Insurance. Looking at a more concrete metric, what is the percentage of your client base currently? I mean on the banking side, that has insurance with Bradesco?

A - Unidentified Speaker

(inaudible) -- in terms of the bank client penetration, as I understand your question, yes, would be increased so much in terms of P&C, because our penetration is not too effective. It is not too higher. I would like to try to make now in the end of this year, in the beginning of the next year, a very strong particularly to penetrate more in terms of P&C.

In terms of Life too, we have a very good penetration. I would say more than 95% is the same as the Pension Plans, the same as in Dental would be getting better, which is new as we have jointly to Odontoprev would be better to penetrating in our clients, like mainly in corporate clients.

I would say to you, it would be getting more penetrated in 2010. Would be our -- achieved before 2010 as -- has increased so much the penetration of insurances. And the client bases of the bank.

Q - Marcelo Telles {BIO 3560829 <GO>}

Excellent, thank you very much.

A - Unidentified Speaker

Thank you, maybe we could open the floor for the next one or two questions please?

Operator

Excuse me, ladies and gentlemen. (Operator Instructions)

A - Unidentified Speaker

Okay, so thank you for taking part in our call. And definitely we are always open to respond to your questions. Abreu and the whole senior management and our investor relations area is always more than happy to respond to your questions.

Thank you very much for taking part in the call. And see you. Bye.

Operator

That does conclude the Banco Bradesco S.A. conference for today. Thank you very much for part