

Q3 2007 Earnings Call

Company Participants

- Jean Philippe Leroy, Department Director
- Milton Vargas, EVP and Investor Relations Officer
- Samuel Monteiro de Santos, CFO

Other Participants

- Daniel Abut, Analyst
- Juan Partida, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco 2007 Third Quarter Results Conference Call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer; Mr. Milton Vargas, Executive Vice President and Investor Relations Officer; Mr. Domingos Figueriredo de Abreu; Managing Director; Mr. Samuel Monteiro de Santos Jr., Chief Financial Officer of Bradesco Seguros Insurance and Mr. Jean Philippe Leroy, Department Director.

In that address, you can also find a banner through which the presentation will be available for download. We inform that all participants will be only able to listen to the conference call during the company's presentation.

After the presentation, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management, and on information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend

on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Jean Philippe Leroy, Department Director. Mr. Leroy, you may proceed.

Jean Philippe Leroy

Thank you. Good morning. Good afternoon to all. Welcome to our Third Quarter earnings conference call. Let me now transfer the floor to Mr. Milton Vargas, Bradesco's CFO and Investor Relations Officer. Milton.

Milton Vargas {BIO 3347541 <GO>}

Good morning. Welcome to our conference call. This quarter was marked by strong turbulence in international market, leading to margin volatility and uncertainty regarding the impact of this subprime market guidance in United States, and indirectly in the rest of the world.

In this scenario, Brazil has lifted in a relatively comfortable way in event of the payments, an upgrade in its ratings by Moody's, which puts us just one notch below the investment grades, which we expect Brazil to reach next year by at least one of the three leading rating agencies.

According to our forecast, the Brazilian economy should grow by 4.9% in 2007, and by around 4.4% in 2008. We highlighted maintenance of the level of confidence by consumers and families, driven by the favorable conditions in the labor market with improvement in employment and salaries, in addition to the preservation of the stability of inflation.

We forecast inflation at 3.7% for this year, and something below 4% for 2008. Today's rate, the Selic should be maintained up to the end of this year, moving down to 10.25% at the end of 2008.

As for the exchange rate, we work with a scenario of relative stability. Our rate of R\$1.70, R\$75 is U.S. dollars, both for the end of 2007 and 2008. Despite the appreciation acre rate of the rial, expert attitude is, don't think to a remarkable effort by companies to boost efficiency and productivity.

We have found that a growing number of companies from various sectors are raising their investments, and their appetite for the risk has been climbing on a monthly basis. As per declared [ph], two GDP ratio; we forecast an evolution from the actual 33.1% to 38.1% in 2008.

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Delinquencies are in control and tenants are following the natural path of gradual and consistent strengthening due to the greater predictability of the economy. With the scenario, Bradesco's reaches in deferred nine months of 2007, a net income of over R\$5.8 billion, up 73.6% compared to the same period of 2006. Insurance, pension plan and premium bond contributed in the bottom-line with approximately R\$1.8 billion, representing 30.5% of Bradesco's result. The revenue reached R\$15.3 billion, expanding by 14.6% in the past 12 month, more than the growth of the market.

Our combined ratio of 85.8% improved by 6.4percentage point compared to the same period of 2006. Bradesco stockholder equity surpassed the R\$29.2 billion, growing by 34.2% over the last 12 months. The BIS ratio reached 14.2%, allowing Bradesco to expand in the future, its loan book by more than R\$78 billion.

Within the concept of continuing to improve the efficiency, our 12-month accumulated efficiency ratio reached around 41.8% at a reasonable improvement, or if compared to the 42.5% in the same period of 2006. Tax free contributions accounted for 88% of our adjusted net income, reaching R\$5.1 billion. The average returns on net reductions of the nine month period analyzed exceeded 32.6%.

On the operational front, Bradesco had an excellent performance. We highlighted a solid growth in the loan portfolio by 20.9% in the year, and by 26.5% in the last 12 months. This evolution should be compared to the 16.6% and 24.8% in the banking sector respectively. Advances include guarantees and receivables of credit cards. Our R\$140 billion portfolio grew by 20.5% in the year, and by 27% over the last 12 months.

Regarding asset quality in September AA-C rated operations represented 92.8% of ARPU compared to 92.1% in the banking sector. In loan, we can affirm that we grew more in volume in quality than overall margin. Regarding mortgages, we originated more than R\$2.13 billion in operations in 2007, assisting a 7.8% rise compared with the same period of 2006.

Our formal goal of origination of the R\$3 billion for the whole year of 2007 was the best as of October 22. As a demonstration of Bradesco's strength in September, we were the leading branch in banking mortgaging, with a 22.6% in market share, according to RBC [ph], the Brazilian Association of Mortgage and Seasoned [ph] Entities.

In our capital markets, our investment bank participated in six deals in 2007. We highlighted the operational agreement in asset management with Banco de Chile, which will enable your offering of the investment product between the two countries.

In the trade and financing area, we highlighted a solid volume of its financing through the exports and imports, which in the first nine months of the year reached \$10.5 million in export, and \$1.3 billion in import. The volume in export foreign exchange contract reached \$29.1 billion, accounting for a 20.5% market share.

Regarding imports, the transacted volume reached \$12.2 billion, leading to a market share of 15.8%. We will also highlight that we had concluded the study [ph] to expand for our

structure for servicing export and import to customers, adding six new foreign exchange platforms which will be located in place with the highest potential for generating new operations.

Until the end of the year, we intend to have 25 strategic points focused on this project. With the operational improvement in solid investment in training, we intend to provide even better service to meet the growing demand from our client.

Speaking of servicing, we are proud to inform that for 20 consecutive months, Bradesco is not included in the Brazilian Central Bank ranking of most complaints by customers. And in order to improve the quality of our client servicing infrastructure even further, we continue to make some investments in technology. We are replacing and expanding capacity of our hardware, software and communication network in a process which will be completed by the end of the year.

We have completed the construction of the new IT site, which will be occupied by computers, data storage -- data storage systems and hardware equipment throughout 2008. In February, we will begin processing their first financial transaction.

We would also like to highlight, one, the conclusion of the new high-speed branch communication network between the various buildings housing our business departments, two, the progress of the IT improvement project. And three, the investment in security devices for our internet, ATM, and call center users.

In line with the Bradesco tradition, I would now like to go over the some of the quarter's highlights in the corporate, social responsibility area. One, the selection of Bradesco for the second consecutive year to the Dow Jones Sustainability World Index of the New York Stock Exchange. As a result, after fulfilling their requirements of strict and very in-depth process of analysis, Bradesco managed to guarantee its position amongst a small group of some 300 companies in the world belong to this Index. And two, the launch of the Bradesco Volunteers Program developed, with the collaboration of representatives from many departments and affiliate companies.

Finally, I once again like to thank all our employees for their dedication and commitment to our goals. Without them, we certainly could not have posted these results. After Jean's presentation, we will be available to answer any further questions you may have. Thank you very much.

Jean Philippe Leroy

The idea of this 33 slide PowerPoint presentation is to maintain as much as we can the structure we have been using in the previous quarters in order to facilitate the comparison and therefore your analysis.

On slide number 3, we are basically seeing the main figures and items already mentioned by Milton in his speech.

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Let's move on to slide number four. The extraordinary events which affected our earnings in this quarter, as well in the other periods are disclosed here. In the Third Quarter, we fully amortized the R\$631 million goodwill relative to the acquisition of BMC. We activated R\$376 million of tax credit. We believe -- we built an additional provision for civil lawsuits relative to economic plan in the amount of R\$126 million. These lawsuits were originated in the previous quarter, but became knowledgeable to us just in this quarter.

The gain of R\$75 million, as disclosed in the press release, is reference to our disinvestment in the Bovespa Holding. The amount of R\$51 million refers to the favorable decision in the fiscal pending [ph] processes relative to the PIS tax. By saying all of this, Bradesco's net income reached R\$1.85 billion in the Third Quarter '07, vis-a-vis R\$1.8 billion posted in the previous quarter. It is worth to mention that all of the ratios and analysis included here in this presentation, in the press release, and in our MD&A are based in our net earnings adjusted by all of the previously mentioned non-recurring events.

Slide number five. In this slide we are disclosing the evolution of our quarterly net income, as well as recurring nine months period earnings of R\$5.3 billion in 2007 compared to the R\$4.7 billion in 2006, a strong evolution and performance. I would like to draw your attention to the slight improvement in the efficiency ratio which moved from 42.4% in September '06 to 41.8% in September '07, representing Bradesco's efforts to find the ideal infrastructure and an example of the importance of information technology investment. EPS calculated based in the last -- for 12 months period increased by 9%, standing at R\$3.45.

Slide number six. Bradesco's total assets reached R\$317.6 billion, a 30.6% growth on a year-over-year, and by 69.3% on a quarter-over-quarter analysis. This growth was mainly due to the R\$24 billion loan book jump, and to the R\$35 billion increase in marketable securities, including the guaranteeing assets of our technical reserves.

The adjusted return on average equity stood at 31.4% in the Third Quarter '07, and at 30% in the nine months period. Return on average assets reached 2.5% in a quarter, and also in the last nine months. Bradesco's current capitalization ratio of 14.2% allows us to increase our loan portfolio by some R\$78 billion (inaudible).

If we were to use the terms of the Article 9 of the Brazilian Central Bank's Circular number 3367, our capital adequacy ratio would have been of 16.9% with 12.4% just in Tier 1.

Slide number 7. Despite the volatility in the markets during the Third Quarter, Bradesco's unrealized gains stood at R\$4.2 billion. This figures do not consider the appreciation of Bradesco's remaining interest held in the Bovespa Holding in the amount of R\$722 million, elevating our unrealized gains to close to R\$5 billion. By the way, R\$178 million of these gains were already recognized in October.

We would like to remind everyone that the amount mentioned in this slide were calculated taking into consideration the stock price of the Bovespa Holding in the IPO. If

we were to consider the actual stock price, the amount of unrealized gains would be added by around R\$1 billion.

Slide number 8. The stabilization of the economy implies in a growth of a lending operation and financial services. And this is transparent in the slide number eight, which discloses the breakdown of Bradesco's net income. The growths in volume and in the number of customers have generated an increasing participation of fees in this breakdown. In the quarter, the participation of insurance, pension plans and premium bonds represented 30% of the net income.

Slide number 9. Here you can see a summary of our income statement, showing the main variations in our results, which we will analyze in more details over the coming slides.

Slide number 10. The nine months net interest margin presented an evolution of 10% vis-a-vis an average Selic reduction from 15.6% to 12.1%. In the quarter, there was a slight decline of 2.2% due to the reduction in treasury gains and securities income. On the other hand, risk adjusted assets, the grey box, grew by 2.6%. Net interest income grew by R\$311 million based on higher volumes in the quarter, which more than offsetting the R\$183 million impact of the reduction in spreads.

Slide number 11. Here we present the margin stripping out treasury gain and the effect of marked-to-market over longer period of time, making it easier to show the consistency of the net interest income growth. Even though interest rate have been steadily moving down.

In percentage terms, in the blue line, we cannot serve the downwards trend, which we believe is normal as we are growing assets after based on higher demand, especially of reports. Although to facilitate the analysis of your net interest margin, we are excluding reports and non-remunerated assets, the permanent assets. We will find in the first line in grade, a very stable behavior which we believe is adequate.

Slide number 12. In the breakdown of the net interest margin, you can notice that loan operations are assuming a greater participation in the margin, quarter-after-quarter. Between September '06 and '07, it moved from almost 60% to 67%, and stood at 68% in the Third Quarter '07.

Slide number 13. This chart gives us summary of our performance in loans, including in the blue line, the evolution of the gross margin calculated based on revenues in loans deducted by the cost of opportunity of the Selic. We can clearly observe that the increase of the loan book has been compensating the reduction in interest rate as previously mentioned. In the red line, we see the evolution of provisioning and discounts, net of recovery. The net margin which means the second line, has been growing consistently presenting an evolution of 18.4% in the accumulated 2007 numbers, these are basic year of 2006.

Slide number 14. Bradesco's loan portfolio increased by 7.1% in the quarter; higher than the 6.8% growth presented by the Brazilian financial system as a whole, totaling R\$140

billion. In line with our estimate, this growth was boosted by small and medium-sized businesses, plus 10.3% and individual plus 9.1%, segments which we have wider margin. Our year-over-year evolution of 27% in the loan portfolio is in line with our guidance provided to the market.

Slide number 15 and 16. Here we show a breakdown of our main loan operations divided between individuals and corporate. Regarding corporate, we would like to draw your attention in particular to the growth in leasing and mortgage of 19.4% and 14.2% respectively in the Third Quarter '07 and of 50% and 87.1% over the last 12 months.

Agricultural loans, which is by definition a seasonal product, recorded substantial growth during this quarter both in the corporate and individual segments. Relative to individuals payroll deductible loans and mortgage grew more than the total portfolio, 24.9% and 13.3% in the Third Quarter '07 and 41.7% and 40.1% over the last 12 months respectively.

Although in this quarter, the demand for individual loans was higher than for corporate; over the last 12 months, the evolution is very similar with 26.1% growth for company and 28.5% growth for individuals.

Slide number 17. In this graph, we demonstrate our asset quality evolution and the adequacy of our provisioning policy. Bradesco has excess of provisions of R\$1.1 billion, if one compares the first and second line. However, if we analyze the third curve which corresponds to the proportion of loans overdue by more than 14 days classified between the E and H ratings, and the last lines which represent the effective level of losses more than one year overdue and written off, we can conclude that losses tend to represent the volume of effective use classified between the E and H ratings one year before.

This makes us assume that in one year from now, our effective losses will stand close to 4.3%. And if this is the case, then our effective excess of provision are accounted at R\$2.4 billion.

Slide number 18. On this slide we can see the delinquencies of more than 90 days in the individual segment increased up to the first half of 2007 and fell slightly in the Third Quarter of '07. It is worth noting that delinquencies related to small and middle size businesses has been falling consistently down, since the First Quarter of '07 reaching one of their lowest level in the Third Quarter '07, which is the lowest level at all over the last couple of years.

Bradesco is very dedicated to monitor delinquencies through several specialized areas as the credit, recovery and risk management department.

Slide number 19. In relation to the Payroll Deductible Loans, we would like to inform that after the approval by the Brazilian Central Bank of these acquisitions, we began to fully consolidate BMCs operation in this quarter. We believe that BMCs' expertise and the possibility to use the 7,000 specialized agents will be a strong competitive advantage regarding this kind of products. Currently Bradesco is focusing on generating its own

payroll deductible loan portfolio. This is the reason why there is a slight decline in the acquired portfolio over the last 12 months.

Slide number 20. There is no doubt that the acquisition of BMC is an important step in increasing our payroll deductible loan portfolio. This graph confirms our bet. After Bradesco acquired BMC, its monthly origination of operations more than doubled in a short period of time. It is also worth to highlight the change in the mix of the portfolio a set of other agreements are growing more than the agreement with the Brazilian Social Security Retirement Program, the INSF, therefore reducing it's dependence, vis-a-vis, is retiring.

We would also like to inform that the government's decision to suspend payroll deductible loans to federal civil servants for 90 days will not affect BMC, as BMC has never operated with this type of public servants. The reduction in the origination in September was expected as most of the retirees received their 13th salary in this quarter, and therefore reduced their demand for loans.

Slide number 21. This slide shows our performance in mortgage, improving by a better economy, and the improvement in full closure law. In terms of origination, one can see the higher volume of operations of 77% with builders. It is a natural process as after the construction, we will be financing the individuals. As you can see, the number of financed property almost doubled compared to the same period of last year.

In September, 92% of Bradesco's R\$3 billion target of origination, for the whole year had been reached, a 50% year-over-year growth. On October 22, Bradesco surpassed the formal goal. In 2008, Bradesco is planning to grant R\$4 billion in mortgage. Bradesco is very interested in the mortgage industry. And in September '07, we have launched a website dedicated to faster mortgage, providing information to help home buyers and intended to strengthening partnership with builders, developers and real-estate companies.

Slide number 22. We continue to focus growth in fees, and based on that our intension is to increase our account holder's base by more than \$2.5 million in 2007. As we believe, that this is the best way to increase customer loyalty. We also are planning to open 150 new branches per year up to 2010.

Finally, although the credit card business has already recorded substantial growth, we believe there is normal potential ahead, based on the good perspective of the American express deal, and the success in the insurance of product labor co-branded cards.

Slide 23; we are here disclosing the behavior of our expenses. Even with the expansion of salaries as we finalized the yearly negotiation of wage increase, personal expenses sell. The affect of the collective bargaining agreement added R\$60 million to our Third Quarter '07 expenses, but our personnel cost slightly decreased by 0.5%, and as we reduced the provision for severance by R\$27million and in profit sharing by R\$19 million. In addition, it is important to mention that the ratio comparing operating expenses and total assets continues to fall.

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Slide number 24. In retail bank fees depend a lot on investments in infrastructure, and in the opening of more distribution, which affects administrative and personnel cost. This graph shows that cost control and revenue expansion are constant concerns of Bradesco in its drive for improving its performance. The coverage ratio is standing at 80%, a strong improvement vis-a-vis the 68% ratio as of September, '05. Our coverage ratio has grown continuously for more than five years in a row and we expect this growth to continue over the coming quarters.

Slide 25; in this slide, we are presenting our funding sources. Demand and savings deposits increased by 27.6%, and 18.9%, year-on-year respectively. With the decline in interest rates and the maintenance of the tax burden, we expect to see important inflows in the core -- in these core deposits, especially demand and savings deposits. Bradesco is a leading private bank in these types of funding and should have a competitive advantage, as those fundings are going to grow. On the top of that, we should benefit even more than the market with the trend of lower reserve requirements in the long run, which should happen steadily over the coming years, as it already is the reality in more developed economies.

In asset management, investments in equities recorded a growth of 23.9% in the quarter and of 146.4% over the last 12 months. Total funds, under management increased by 3.9% in the quarter, and by 19.5% over the last 12 months, closing the period with a 14% market share.

Slide 26. To facilitate the standing of Bradesco's insurance operations, we are here disclosing a summarized income statement. The Third Quarter was affected by volatility in equities and increase of the IGP-M index, which provide [ph] part of the liabilities. Although these effects impacted the quarter, if we strip out the profit from the sale of our participation held in Arcelor in the Second Quarter of '07, the net income remained flat vis-a-vis the previous quarter. In the next slide, we will show the main numbers and ratios of our insurance operation.

Slide 27. Total insurance premiums and revenues increased by 7.8% in the quarter-over-quarter analysis with pension plans and life insurance accounting for 54.4% of total premium. Please notice that this segment has been steadily increasing its share on the total, as it contributed with 51.6% as of September, 2006. Bradesco's share regarding premiums stood at 25.2%. On the other hand, in reference to pension plans and VGBL revenues, VGBL is a kind of 401(k) product.

Bradesco hold a 37.7% market share insuring a total of more than 12.7 million lives. Premiums in auto, property and casualty recorded a strong growth of 23.4% during the quarter, vis-a-vis the 6.5% growth in the market. Thanks to improvement in processes implemented by Bradesco Seguros, as the adoption of the profile, for example, and the company focus on this type of products. ROE in the quarter and in the year-to-date numbers stood at 33%.

Slide number 28 and 29. Financial assets and guaranteeing assets of technical reserve totaled R\$64.7 billion, representing a 42% market share. It is worth remembering that 76%

of these assets correspond to the pension plan and VGBL investment portfolios. Technical reserves have also recorded consistent growth of 4.6% in the quarter-over-quarter and of 21% in the year-over-year analysis.

Bradesco Seguros market share regarding technical reserves stands at 36.1%. We would draw your attention to the volume of technical reserve for health segment, slightly above R\$3 billion of which R\$1.2 billion have been constituted builds in the last 12 months.

Slide 30; this slide shows that personnel and administrative expenses remain stable over the previous quarter and showed an operating improvement if compared to a longer period of 12 month.

Slide 31; this index shows the re-operating efficiency of insurance group in the claims control and the correct pricing of premiums, the underwriting policy. We point out the improvement of this indicator in the quarter and also in the year-to-date period.

Slide 32; this slide shows our economic areas forecast for 2007 and 2008 regarding GDP, base rate, inflation and the FX rate. We expect the Selic rate of 10.25% in the quarter at the end of 2008. We emphasize that the greatest impact of the Selic reduction has already been absorbed into our results. I refer to for instant reduction from 18% in December, 2005 of the Selic to the current 11% in the quarter. From now on the reductions should be lower and the impact on our results would correspondingly smaller.

Slide number 33. We ratify the growth forecast for Bradesco 2007 informed in the previous quarters. The projections for 2008 will be provided in the beginning of next year.

Slide 34; finally, we would like to invite all of you for our second Annual Bradesco Day held on the New York Stock Exchange on November 15th. During this luncheon, we are going to have presentations of Mr. Marcio Cypriano our CEO, Mr. Milton Vargas our CFO and Investor Relations Officer and Mr. Luiz Carlos Trabuco Cappi, Executive Vice President who is in charge for our insurance activity. After that Bradesco's management team would be open for questions in the Q&A session. Thank you, all for your attention and let us now move to the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question-and-answer Session.

(Operator Instructions)

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

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A - Jean Philippe Leroy

Mario you can ask your question please.

Q - Mario Pierry {BIO 1505554 <GO>}

Sorry, as I -- I had the phone on mute, sorry about that. I have two questions; the first one is related to your health insurance reserves. As you mentioned it's already above R\$3 billion. Should we expect provisions that you're making to ramp by the end of this year or at what level of reserve would you feel comfortable with? And second question is more related to the recent merger, Santander and Banco Real in Brazil. How do you see that impacting the operating environment for the Banks? Thanks.

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

Gentlemen, here is Samuel Monteiro speaking from Bradesco Seguros. About your questions related to the technical provisions, whereas this is technical provision for health, underwriting [ph] for you -- according to our calculations by -- made by Aquarius would be end -- in this year, the complete provision related to difference between the premiums, or the price approved by the government and the price would be -- was mandatory related to the inflation of the medical (inaudible).

This would be in the end of this year is completely covered and it will feel completely comfortable with this.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So just to be clear then, it implies that you wouldn't need to make any more provisions around next year?

A - Milton Vargas {BIO 3347541 <GO>}

About despite of the regional.

Q - Mario Pierry {BIO 1505554 <GO>}

Great. Thank you.

A - Milton Vargas {BIO 3347541 <GO>}

In terms of your question Santander Banespa was and is a strong competitor, Banco ABN Real was and is a strong competitor. Together they will be and continue to be very strong competitors. We believe that we have actually a good potential of expansion in our operations. We have been investing a lot over the last years in terms of CRM, in terms of systems to be fostering more and more operations with our existing client base.

So at the end of the day although those two banks merge, we believe that Bradesco continues to be and will always be a strong competitor in Brazil, knowing very well the market and the developing more and more operations with its client base.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Just let me follow-up. With the new size of Santander does it put any pressure on Bradesco to grow and look for an acquisition or do you feel comfortable with your current market share of about 13% of bank assets in Brazil?

A - Jean Philippe Leroy

In terms of banking assets, we might have approximation of 13%. But in terms of the CPMF collections, we have close to 20% market share. So we believe that we already have a very strong side, and we believe that most of the efforts will be to start the operations growing organically.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thanks a lot.

A - Jean Philippe Leroy

You are welcome, Mike.

Operator

Our next question comes from Juan Partida from JP Morgan, please go ahead.

Q - Juan Partida {BIO 4768925 <GO>}

Hi. Good morning, I have two questions. The first one is, if you could help us calculate the actual growth in the payroll and overall consumer credit, if we adjust for the E&C merger this quarter. And the second question is, what do you think would be sustainable level of combined ratio for the insurance company in 2008? Now that you won't have these provisions? Thank you.

A - Jean Philippe Leroy

You would like to know about the combined ratio, the trend for 2008.

Q - Juan Partida {BIO 4768925 <GO>}

Yes. If the 84 that you are showing in your presentation adjusted for extraordinary health insurance expense is sustainable. Is that something that we should be looking forward to seeing in '08?

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

Samuel Monteiro speaking. About the combine ratio, just a moment please, okay. About the combining ratio, if you look the line amount for these years, it's for a book [ph] line insurance business, which includes everything; health, E&C, life. It will have 85.8 in the end of the September. This combined ratio is affected by the supervisions made by health. This provision may not repeat in the next year. I know this and in this case I would think that you would maintain a sensible, the 85.80 would be repeating next year.

Q - Juan Partida {BIO 4768925 <GO>}

Very good, thank you.

A - Jean Philippe Leroy

The question is relative to payroll deductible loans. Basically in the Second Quarter and in the Third Quarter, BMC was included in the books but on different ways. It is difficult for us to strip out the effect, because of that we were in a pilot project you can see on the slide number 20, that after Bradesco began to be integrated and BMC integrated with Bradesco in the payroll deductible loans, the origination of operations already doubled. And we believe that there is potential growth in the range of some 50% per year in this type of product.

This product is more focused on retirees and public servants but, in the future it might also grow in other types of niche, for example, the product employees as well. A lot of potential, therefore the reason why we decided to acquire BMC because of its expertise and as Milton told about the 7,000 agents that are key for reaching the customers.

Q - Juan Partida {BIO 4768925 <GO>}

Thanks very much.

Operator

Thank you. Our next question comes from Alex Cancereni [ph] from Merrill Lynch. Please go ahead.

Q - Unidentified Participant

Hello. Good morning. I have actually two questions on loan growth. First, with respect to the credit as a percentage of GDP. I would like to know if your figure for 2008 includes any impact coming from the credit report and reform, meaning in (inaudible) positive and two, what's your expectation for loan portfolio growth in 2008? Thank you.

A - Jean Philippe Leroy

In terms of the loan to GDP ratio, we should be moving from the 33%, 34% to 38% as of next year. And these does not include a order positive impact, for example, the creation of the positive credit bureau. So definitively the potential growth is even higher than that.

As Milton said in his speech, we are not opening the guidance for 2008, but that we should be opening in the beginning of next year after we close the budget. But you can at least have assumed unofficially a 20% to 25% longer growth for next year.

Q - Unidentified Participant

Alright. Thank you very much.

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Operator

Thank you. Our next question comes from Daniel Abut from Citi. Please go ahead.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning. Jean just on your regular guidance for '07 or what remains of '07, I noted that you are giving the same range that you gave the last couple of quarters on fee income and operating expenses. If the fee income is 18 to 23 or operating expenses 12 to 16, yet if I look at the slides on pages 22 and 23, it is clear that for the nine months of the year, we already have nine month in. You are at the very low end of the range which of course [ph] is 12% growth year-on-year, and in fee income when it goes to the high end at 22%. Any reason why the Fourth Quarter should make the number for more in the middle or in the low end of the range as opposed to being at the high end for fees and at the low end for operating expenses. Well why after nine months you are so comfortable moving guidance to something more realistic consistent to what we are seeing in the nine months.

A - Jean Philippe Leroy

Look Daniel, when we basically prepare the guidance for 2007, it was rough at the beginning of 2007 and what we felt comfortable to change last quarter was the growth in the loan book expectation and loan portfolio for corporate. Because of corporate and SMEs in particular growing more, we decided to increase more the loan portfolio.

Every quarter we talk to the Planning and Control Department in order to fine tune the guidance for the coming quarter and the rest of the year. And naturally we felt that we should be basically keeping this type of guidance, although there is nothing particular that we see, neither in terms of the fee income growth, nor in terms of the operational expenses which made us decide to change.

We basically have a guidance which we believe is very trustful, and we decided to just to keep it. But there is no particular explanation or positive or negative expectation for the last quarter which normally is the best quarter of every year, which made us decide to change our guidance for the year of 2007.

Q - Daniel Abut {BIO 1505546 <GO>}

Okay Jean. But just to make you understand for what you know now. It does not mean that would make the Fourth Quarter bit too different on fee income trend and operating expense trend from what we've seen already in the first nine months.

A - Jean Philippe Leroy

No, nothing that drives our attention. In terms of fees, we are basically growing every quarter, and in terms of expenses we are doing the best we can to rationalize our cost base. So nothing new for the last quarter.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you.

A - Jean Philippe Leroy

You are welcome.

Operator

Thank you. Our next question comes from Saul Martinez from Bear Stearns. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning gentlemen. a couple of questions. First to follow up on the health insurance business, in the past you have indicated that you felt comfortable with your provisioning levels and then had to take up premium deficiency reserves, again, because of the actuaries. Is there any risk that tiling [ph] has to the actuarial consultant when they look at your books at year-end, are going to disagree with you and may continue to build a reserves for your individual health insurance business?

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

I don't think so. I don't think the actuaries would be -- find new reasons to make additional provisions, I don't think so.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. How much can the health insurance business contribute to earnings in the '08, individual and corporate?

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

Corporate represents about 70 -- 75% or 76% of the portfolio.

Q - Saul Martinez {BIO 5811266 <GO>}

I am sorry, 5% or 6%

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

77 -- 76% is the corporate and...

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

24% is individual.

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Q - Saul Martinez {BIO 5811266 <GO>}

Got it, but if you're not -- if you are no longer taking premium, building premium deficiency reserves, how much can the health insurance business generate in earnings? Because it's my understanding that it has not been contributing to earnings at Bradesco Seguros?

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

Today, I would say in our members, in 2007, is around -- its close to 40,000 -- 40 million each.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

Okay.

Q - Saul Martinez {BIO 5811266 <GO>}

I am sorry I missed. If you...

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

The result of the corporate -- when you look only the corporate business....

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

The results is R\$40 million.

Q - Saul Martinez {BIO 5811266 <GO>}

R\$ 40 million for the -- R\$ 40 million quarterly?

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

No, per month.

A - Jean Philippe Leroy

Per month.

Q - Saul Martinez {BIO 5811266 <GO>}

R\$ 40 million per month, okay. So does that mean in -- if you are no longer posting losses in the individual business. Does that mean the health insurance business as a whole can

add the earnings by R\$500 million, R\$600 million in 2008?

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

Yes.

A - Jean Philippe Leroy

Exactly.

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

Exactly.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Got it. Secondly, any update on plans type, any plans type for VisaNet?

A - Jean Philippe Leroy

Actually we are one of the shareholders of VisaNet and the shareholders are having discussions about having or not having this deal. But if we have something that we believe could be relevant to the market, obviously we are going to disclose that to each and everyone.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, got it. And just one final question on your BIS ratio. Why wouldn't you choose the option available to you under the Circular 3367 that would have given you a 17% BIS ratio and do you expect to choose that option in the future?

A - Jean Philippe Leroy

Actually it's more question of confidence [ph], we have the flexibility. Let's say that we have a 14.2% BIS ratio, which actually in an apple-to-apple basis compared with the previous quarter would be 16.9%.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes.

A - Jean Philippe Leroy

At any time we can write a letter to the Central Bank and we have the possibility to raise that to 16.9%. So because of wanting to keep the flexibility to choose whether being calculated at 14%, but being allowed to be calculated at 16%. We basically are preferring to leave it this way.

Q - Saul Martinez {BIO 5811266 <GO>}

So if we look at your capital strength, really, the more relevant number in your capital flexibility is the more relevant number 17%?

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A - Jean Philippe Leroy

Exactly, this would be fair comparison with the other periods.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thanks a lot.

A - Jean Philippe Leroy

You are welcome.

Operator

(Operator Instructions)

A - Jean Philippe Leroy

Let me maybe respond to question -- one question that we received through the internet from Mr. Alexander Kailua [ph] from Plus Capital. The question would be, in scenario Brazilian investment grade and economics stabilization, what is the level of BIS II that Bradesco can reach in the medium and long-term. Internationally, this level is around 4% in Tier 1 and 8% adding Tier 1 and Tier 2. Does Bradesco consider it's possible to reach those level, therefore liberating excess capital its shareholders.

So basically the response is that, we have in Brazil a minimum ratio of 11% and for the Tier 2 its 50% of what you have in Tier 1. We are working for long period of time with people dedicated from risk management department in order to analyze the Basel II implication, although some of the implications are still pending from the size of the legislature. But in general term, we believe -- we don't believe that we would, as question is maybe proposing, that we should have an 8% Basel ratio through the Basel II calculation. We are right now analyzing as we have been doing for long period of time and we feel comfortable with the level of capital.

Looking at the scenario, arguably looking at the calculations, there is a possibility of having a excess of capital, but we have -- we are planning on some issues, some information from the legislature that will be making us calculate more in-depth the real excess of capital that we might have. Maybe some other question please?

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Yes. Let me ask you a question with regards to your cost structure. As you mentioned, you plan on opening a 150 branches per year through 2010. Can you first tell us the expenses associated with this branch expansion? Where do you plan on opening these branches, are you going to be focusing on the southeast of Brazil? And third, does this mean or is this in anyway an anticipation of the bank might losing the big contract of the postal

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office. Is that why you're doing this or is it just because of you see the strong growth in Brazil, when you feel the need to increase your distribution network?

A - Jean Philippe Leroy

Mario, we basically have the average cost for opening a branch of some R\$7,000. So you can basically on average multiply that by 150. We are extremely well attended in Brazil, because we have more than 50 -- 550, 600 branches and mini-branches. And we should be opening the branches actually in more larger cities. Cities that we see have more potential for the return of these investments. We continue to be fostering into benefits from the agreement of the postal service, nothing changed. And actually this is kind of an additional network, because Postal Bank is much more focused on the lower income classes and the branches that we are opening are more in regions that we believe have potential for us to have the return.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. But does it mean like are you focusing Sao Paulo and Rio or do you plan on opening some more branches in Northeast?

A - Jean Philippe Leroy

Basically, Rio, Sao Paulo and the largest and wealthiest cities of Brazil. So not only Sao Paul and Rio, but obviously Porto Alegre, and Belo Horizonte in Minas Gerais state and other places that we believe have the potential for maximization of the return of the shareholders. Obviously, in the assumption that Brazil in on a very good trend in terms of economy and people are making more money and employment rate is moving down and the companies are also developing more and more their businesses.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Also if I can follow up, you talked about R\$700,000 per branch, what is the breakeven of the branch. How long does it takes for you to breakeven?

A - Jean Philippe Leroy

The breakeven would be around seven months and the return on investments -- the payback would be up around two years. Hello.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you very much.

A - Jean Philippe Leroy

You are welcome.

Operator

Thank you. Our next question comes from Eshwar Kollar [ph] from (inaudible) Capital. Please go ahead.

Q - Unidentified Participant

Hello. Good morning gentlemen. I just wanted to ask you a little bit about your projections on the mortgage loans in 2008, you said it's increasing about 33%. I wanted to get an understanding of what the portfolio mix would be between individuals and builders into 2008, what your thoughts were there? Then understand little bit about the profitability dynamics between loans made to builders and loans made to individuals.

A - Jean Philippe Leroy

Okay. Basically we are in the phase -- very positive phases of mortgage development in Brazil, and because of that we see a lot of new buildings, a lot of construction, and if you look at the presentation that we show, you can see that there is a clear contemplation in loans for builders, because in the new originations 77.7% as you can see on slide 21 please, 77.7% would be directed to builders and just 22.3% to individuals.

We are in the phase of a very strong growth in the number of building. This is the reason why most of the origination is directed for the constructor, for the builder. But overtime, we believe that this ratio will be more going into the direction of the 50-50 split as we see in the portfolio mix that we have here on slide 21. It's very difficult to precise exactly the percentages because Brazil never passed through such a positive environment for mortgage with very good legislation, interest rates moving down, and the expansion of the tenure of the operations to give an idea. We are offering 25 years of fixed rate for our customers and 12.5% a year. So we definitively believe that this is a major plus and that in the future we will be more able to response more precise to this question because we never pass through such a positive scenario for mortgage growth in Brazil.

Q - Unidentified Participant

Sorry, if I may just follow up, your loans to builder are basically project financing loans and working capital loans or --?

A - Jean Philippe Leroy

Yes. We are financing the construction of the building, and we basically grant the money to the builders depending on the agenda of the construction of the building. So for example, when we look at the origination of R\$1.2 billion, in the quarter it doesn't mean that the loan book grew on the same way. We originated the operation, hence after time with the agenda of the building being shown to us, we begin to finance more and more the project, the building itself.

Q - Unidentified Participant

And one last follow-up. Are you seeing -- what is the average ticket size of your mortgage loan to individuals, and are you seeing a trend shift in anyway? Hello?

A - Jean Philippe Leroy

Just a second please. In general terms, the average value is around R\$110,000 [ph] for their home, and we are financing actually 80%, we have a down payment of approximately 20% for off the building. So the people are coming with 20%, and 80%

would be financed. And the tenure is close to 15 years, but it's moving up, as we have a lot of inflow of operations closer to 25 years. But still most of it is closer to 15 years.

Q - Unidentified Participant

And do you see the average size, the original versus -- do you see the average size of R\$110,000 shifting in any directions, either up or down?

A - Jean Philippe Leroy

Actually it's moving relatively flat. We see -- because most of the demand comes from most of the customers that have relatively speaking the same type of wealth, but we can finance them up to a certain degree. So the tenure is expanding, plus the average cost of the apartment or the house is not changing so much right now.

Q - Unidentified Participant

Thank you very much.

A - Jean Philippe Leroy

You're welcome.

Operator

Thank you. Our next question comes from Saul Martinez from Bear Sterns. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. I just have a follow-up to something you indicated earlier Jean. You said the impact of declining Selic should become, should lessen overtime. And my question is, does that mean that we should think of -- we should think that net interest income growth should be closer to your average interest turning asset growth, which I would accept to be closer to 15% to 20%. Because this would imply that net interest income growth is going to speed up from what you've been -- what at least, you're indicating 2007 net interest income growth should be 4% to 10%. So the question really is; does this imply that net interest income growth -- we should think of net interest income growth as closure to what you expect your interest earning assets growth to be at in the coming years?

A - Jean Philippe Leroy

Yes. I believe in general terms, yes. But obviously, when you look at the net interest income evolution, as we have a more and more stable and strong economy, the trend for treasury gain and volatility they decline in the future. The trend, the interest part more relative to loan is growing, and actually we have been looking at some reports and some people talk about the net interest income behavior and actually what we try to do in the presentation is always to show including and stripping out the treasury gains and the impact of the mark-to-market. As you can see on the slide number 11, so people having a better understanding of what happens, obviously in the Third Quarter there was more

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volatility in the market and these on one way on the other affected the treasury gains. But in general terms what we see is that the trends -- if you can please look at the slide number 11, is that the trends are grey, being kind of stable over the last three quarters, even though the volatility was quite strong in the Third Quarter. So yes, you are correct about your question, and actually we're working with net interest margin for the whole bank over the next three years being relatively close 7.5% for the bank as a whole, including treasury gains as well.

Q - Saul Martinez {BIO 5811266 <GO>}

So but that would imply that if we are looking at interest earning asset growth, just to be clear of, I don't 15% to 20% and loan growth obviously higher than that. Does that mean that the non-treasury component of net interest income should be growing at something closer to 15% to 20% in the coming years?

A - Jean Philippe Leroy

No, actually what we are saying is that treasury portion and the marked-to-market should be relatively more stable as the volatility is declining and should be declining as we continue to believe about Brazil reaching the investment grade as of next year. This definitely really should be a major positive, and as more volatility decline, at least in our understanding obviously, we don't know what is going to happen with other variables like the international markets. But what Brazil is concerned and Bradesco is concerned -- in general terms we are expecting net interest income to grow more and more in line of the risk weighted asset then the treasury portion.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And what would you think risk weighted assets could grow in the next -- on a normalized basis in the coming years?

A - Jean Philippe Leroy

We are working for loan book growth of three to four times the GDP. These would be the evolution in the long-run for the growth in loans. I don't have precise number for the risk weighted assets, but for the loan, three to four times the GDP.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it, great. Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Excuse me.

(Operator Instructions)

Excuse me, since there are no further questions, I would like to invite Mr. Jean Philippe Leroy to proceed with his statement. Please go ahead.

A - Jean Philippe Leroy

Okay. Basically, I would like just to read the last question which also came from the internet from Mr. Jesse [ph], given your increase in individual loan delinquencies over two years 3% to 6% and decrease in corporate loan delinquencies, what are your goals for the spread between the two? As individual loans have increased 28.8% year-over-year, 9.1% quarter-over-quarter. Whereas your increase in corporate loans, 20.8% to 2.1%?

Looking at the slide number 18, actually the growth was not of 3% to 6%, but more from 4.1% to 6.1%, this would be for the individuals, the top line in blue. Even though this growth in -- that we have been seeing in delinquencies, we are continuing to grant loans to this type of customer, as you can see on slide number 13, with a strong growth. And actually just a second -- but, what you can see is that when we look at the slide number 13 this we believe is one of the most important slides to analyze how our strategy for loan book growth is. If it is correct or not. But we see that basically we have been growing more and more exposure to SMEs and to individuals; and which normally has a higher risk. But at the end of the day, the black lines in the middle show that our loan book growth, even though, being in some parts more directed to clients with the higher risk than large corporates, for example, that are using more capital markets. We are earning more money.

So we believe that the best way for you to question and to follow if our strategy for loan book growth is correct, is by looking at the slide number 13 quarter-after-quarter and asking us questions about that.

So in general terms we are growing to -- continue to grow loan book to individuals and SMEs, but the spread is higher and it more than compensates the higher risk.

I would definitely like to thank each and everyone for being or joining this conference call. And once again invite everyone for our Bradesco Day on the New York Stock Exchange on November, the 15th. Thank you very much and hope to see you in New York. Bye.

Operator

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

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