

# Q3 2008 Earnings Call

## Company Participants

- Jean Leroy, Department Director
- Milton Vargas, EVP, IR Officer

## Other Participants

- Jason Mollin, Analyst
- Mario Pierry, Analyst
- Rafael Camargo, Analyst
- Saul Martinez, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Third Quarter 2008 Earnings Results Conference Call. This call will be conducted by Mr. Marcio Artur Laurelli Cypriano, Chief Executive Officer; Mr. Milton Vargas, Executive Vice President, Investor Relations Officer; Mr. Samuel Monteiro dos Santos, Jr., Chief Financial Officer of Bradesco Seguros Insurance; Mr. Jean Philippe Leroy, Department Director.

This call is being broadcasted simultaneously through the Internet on the website [www.bradesco.com.br/IR](http://www.bradesco.com.br/IR). In that address you can also find a banner through which the presentation will be available for download. We inform that all participants will only be able to listen to the conference call during the Company's presentation. After the presentation there will 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 guarantee 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 Leroy, Department Director. Mr. Leroy, you may proceed.

**Jean Leroy** {BIO 17084785 <GO>}

Thank you. Good morning, everyone. Welcome to our conference call. Let me now move the floor to Mr. Milton Vargas, Bradesco's CFO, for his opening remarks. And after that, I will be conducting the PowerPoint presentation. Milton?

**Milton Vargas** {BIO 3347541 <GO>}

FINAL

Bloomberg Transcript

Good morning, everyone.

Bradesco recorded a net income of more than BRL 6 billion in the first nine months of 2008 and BRL 1.91 billion in the Third Quarter. Although the world's economies (inaudible) of the world, I would particularly like to highlight the effort of the Brazilian authorities to mitigate a potential contagion in our country. Thanks to the measures conducted by the Brazilian Central Bank, banks now have, one, extra resource for foreign trade, two, reserve requirements were reduced, providing the economy a significant increase in liquidity, and three, the portion of the loan portfolio is now much weighted.

In Bradesco's case, the effects of these measures will be felt over the coming period. We participate in the auction of credit lines for foreign trade, ensuring sufficient volume to meet the short-term demand. We have more than BRL 6 billion in reserve requirements released for operations. And finally, we have the opportunity to acquire BRL 6 billion of loan portfolios from small and middle sized banks.

In terms of GDP, the prospect is for 2008 remains at around 5% and close to 3% for next year. The decline in the outlook of GDP for 2009 was expected, but Brazil's growth should still be well above the estimated figures for the developed economies.

Before turning the floor over to Jean, I would just like to highlight some important numbers and drivers. We reached of the market of 20 million account to holders, a result of both the dedication of our staff and the usage of (PRM2s) we delivered to our branch managers. In the balance sheet, assets grew by more than 33% over the last 12 months with loans growing by 41%.

On the liabilities side, deposits increased by 60% in the field and by 13% just in the Third Quarter. Regarding revenues, over the last 12 months, we were able to expand our net interest income by growing the loan portfolio and increasing fees, mainly in cards, consortium, and asset management. As for insurance and private pension plans and saving bonds, we have increased premiums by 10.7% since September, 2007, mainly in the life, pension plans, autos, and health insurance segments.

Personnel expenses rose because of the increment of more than 3,600 employees due to our distribution network expansion and wage increase. The growth in administrative expenses was due to the expansion of activities, higher business volume, and solid investments in information technology, particularly in the IT improvement program. Over all, we emphasize our permanent concern in cost control and the struggle for higher efficiency.

Over the last 12 months, we have extended our distribution network, having more than 7,500 owned and third-party customer service points. We opened 168 new branches in the period, reaching a total of 3,235 branches, allowing us to increase and forward our market share from 16.8% in September, 2007, to 17.4% in September, 2008. The efficiency ratio, calculated over the last 12 months, improved from 41.8% in September, 2007, to 41.6% last September. In addition, in the same period, our insurance group also improved its combined ratio from 85.5 to 84.4.

Grupo Bradesco de Seguros e Previdencia requires a net income of BRL 2.98 billion after September, 2008, representing 36% of Bradesco's net income. And last but not least, I would like to emphasize that Bradesco does not operate with targets for derivatives or any other leveraged derivatives.

Finally, I would like to emphasize that despite the dimensions of the global crisis, we remain optimistic about the future. We intend to invest in the expansion of our distribution network in IT and in training of our staff. The Brazilian bank sector is robust and prepared to meet the demands and challenges of the market. On top of that, banks are well capitalized and adopting strict accounting standards and the best corporate governance practices.

Brazil is enjoying its best ever economic fundamentals. The unemployment rate is at its lowest level over the last 16 years, with more than 2 million (residual) jobs generated over the last 12 months. Moreover, the net of salary has increased and the inflation is pointing out to the target set by the Brazilian Central Bank. I will now give the floor to Jean and I will be at your disposal during the question and answer session. Thank you very much.

## **Jean Leroy** {BIO 17084785 <GO>}

Let's move to slide number two, please. On slide two, you can see Bradesco's main performance indicators as previously highlighted by Milton.

Slide number three, Bradesco's net income in the first nine months of 2008 surpassed the mark of BRL 6 billion. Net of non-recurring events, accumulated net income stood at BRL 5.8 billion, an increase of around 9% in the period.

We posted a net income of BRL 1.91 billion in the Third Quarter, a slight reduction on the quarter over quarter basis, impacted mainly by lower gains in financial margin of non-interest income. BRL 314 million net of taxes impacting this performance. This was partially offset by the reversal of provision BRL 123 million net of taxes, thanks to successful outcomes in tax lawsuits. Please note that all the comparative analysis and ratios in this presentation, in the press release, and in the report on economic and financial analysis consider net income adjusted by non-recurring events.

Slide number four. In the slides, we show that Bradesco's adjusted net income over the past quarters which has presented consisted performance despite substantial investments in IT and the expansion of our distribution network, the efficiency ratio improved from 41.8 in September '07 to 41.6 in September '08 due to Bradesco's persistence in cost control. In the Third Quarter alone, Bradesco added around 500 customer service outlets, of which 318 advanced service branches.

A marginal drop shown in the net income in the quarter is due to mark to market effect of owned positions and the collective bargaining agreement with our employees.

Slide number five. Bradesco's total assets reached BRL 423 billion in this quarter, increasing by 4.8% in the quarter and by 33% over the last 12 months. The quarterly growth was primarily due to the increase in the loan portfolio. As for the adjusted net income, the annualized return on average equity stood at 25.4% and the annualized return on average assets at 2%. The capital to equity ratio calculated in line with the new Basel rules, also called Basel II, in the standard model reach 15.6%. This ratio gives us a capital margin of BRL 13.2 billion.

Slide number six. Unrealized gains by Bradesco and its subsidiaries totaled BRL 2.012 billion in September '08. We should point out that the reduction in the quarter was mainly due to the mark to market effect of securities experienced in a period of very high volatility. Anyway, this does not mean lower expectation for future profits since most of these assets are sovereign Brazilian bonds that guarantee technical provisions, whose liabilities we are using a 4.3% per annum assumption.

As the market capitalization falls, the spread, the actual interest of these securities increases at the same ratio and taking into account that we will carry these assets, there is no effect on future results. It is also worth remembering that such figures do not include the market capitalization of stakes in companies that are not listed on the stock exchange that Bradesco owns such as (Seraza) and VisaNet.

Slide number seven shows the break down of Bradesco's net income, which is in line with previous periods. The quarterly reduction in the share of the insurance segments was basically due to lower non-interest bearing results, the lower sales of shares of equities, and the effect of the mark to market. I would also like to emphasize the fact that we maintained the relative participation of fees

even after the realignment of individual fees in view of the increase in the client space and volumes.

Slide eight gives us a summary of our income statement, showing the main variations.

Slide nine, adjusted financial margin grew by 16% in the period as you can see. The increase of interest bearing operations, basically the loans, was the main driver of this growth, offsetting the margin impact caused by reduced spreads in the quarter and also in the nine month period. The significant drop in non-interest operations, 475 million, occurred in the Third Quarter and is due to mark to market effect in loan derivatives, basically credit default swaps of sovereign Brazilian bonds issued abroad of BRL (150) million, lower gains in the sales of equities, and mark to market effect held in the insurance group, BRL 185 million, and last but not least, mark to market of other derivatives used as market risk hedges of loan operations in the country, BRL 140 million.

It is worth it to highlight that our risk is on Brazilian sovereign securities issued abroad with 95% of the maturity -- I'm talking about the CDF -- with 95% of the maturity over the next two years. We do not feel comfortable with the effect of the mark to market effect but we are sure that the process of mark to market should reverse over time. This is the reason why we should keep those securities up to their maturity, up to the end. We have no doubts of the capacity of the statement of the Brazilian government as those securities that are maturing are irrelevant vis-a-vis the Brazilian reserves, just as a matter of example.

On slide ten, we show the nominal growth of 20% of the adjusted net interest income when compared to the nine months period of 2007. The increase in loans and funding operations was fundamental in raising the margin by BRL 216 million in the quarter.

Slide 11 gives a breakdown of the adjusted net interest income where you can see that the share of loan operations is increasing and reached 69% of the total vis-a-vis 66% in September '07.

Slide 12, on this slide you can see our interest bearing and non-interest bearing results since 2005. The highlight was a lower share from non-interest operations even in nominal terms when compared to the previous quarters as we already mention in the explanation of slide number nine.

Moving on now to slide 13, which gives a summary of loan operations. In the first line in blue we can show the gross margin composed by the loan interest income net of the cost of opportunity, basically the CDIC. In the redline, the provisions for delinquencies, adding the discounts and taking out the recoveries of the period and in the black line, adjusting the mean of the previous lines, we call it the net margin for loans which recorded a 20% growth when compared to 2007, proving the good performance of our loan operations strategy.

Slide 14, Bradesco's total loan portfolio reached BRL 197 billion, a consistent growth of 8.6% in the quarter and an increase of 40.8% over the last 12 months, outpacing the markets, which grew by 34% over the same period. It is worth mentioning the largest growth of loans in the corporate segment, both in terms of working capital operations and also investment which consider basically those large corporations Bradesco as the ideal partner for their growth prospects.

Slide 15 and 16, we basically have a breakdown of the loan portfolio, credit lines for corporates and individuals.

On slide 17, we show the consumer finance operation which, reached BRL 56.2 billion in the quarter, an increase of 28.3% over the last 12 months and a growth of 5.5% just on a quarter over quarter basis. Please note that the segments of Banco financing, 72% of the total and payroll deductible loans, 12%, represent 84% of the total consumer finance operations. And considering their guarantees and characteristics, they offer the very adequate level of credit risk.

Slide 18, just moving on to vehicles. You can see basically the breakdown of the portfolio for cars and vehicles in general. The solid growth of leasing operations is due to the IOF, which is basically a financial operations tax that we have exemption. We, I say, the clients have exemptions on the IOF, when to use the leasing portfolios. This is the reason why most of them are moving on to those credit lines. It's less expensive, (if you want).

On slide number 19 we can verify the coverage ratio of the expected losses. BRL 1.2 billion would be the additional provisions to debt required by the Brazilian Central Bank's criteria to basically the difference between the two first lines. 5.7% minus 4.9% would be the BRL 1.2 billion. The BRL 2.8 billion we consider as effectively the additional level of provision that we have because we are comparing the level of provisions vis-a-vis the expectations of losses going forward, that you see a very strong correlation between the two last lines. So basically the expectation is to continue to move down closer to 4% and compared with 5.7, the excess of 2.8 billion.

Slide 20, total delinquency ratio, loans overdue by more than 90 days remained stable in the quarter, attaining solid granting scores and loan monitoring procedures, also deserves a very important highlight. The drop of the delinquency individual segment, showing a reversal trend to what we saw between June and March. Our expectation is for these indexes to remain stable over the next quarters, taking into consideration that income and employment are key for these to be accompanied-- to be verified in the individual segment.

Slide 21, looking at mortgages. Bradesco's mortgage origination reached BRL 4.8 billion over the first nine months of this year, a 74% increase vis-à-vis September of 2007. We do have a 24% market share in origination in mortgage. Bradesco financed 38,000, almost 39,000 properties, around 20% of the total number of homes financed in the country. We believe the market will remain strong even with the expected slowdown of the economy for the coming year and there will be no shortage of funds since there is the savings liabilities to be completed with.

Slide 22, fee income moved up by 6.2% on a year over year basis and a 1.6% on a quarter over quarter analysis. Higher income from credit cards, asset management, consortium, and custody basically due to the growth in volumes were key to offset the declining fees we noted and experienced in loan operations and checking accounts arriving from the regulatory changes.

Slide 23, in relation to personnel expenses, a 6.8% increase in structural expense in the quarter was mainly due to the collective bargaining agreement effects, which had an impact of BRL 62 million. If we exclude these effects, the structural expenses moved up just by 2.5% in the quarter and by 8.9% in the 12 month analysis, mainly due to the expansion of our distribution network. We basically opened 168 new full-sized branches over these last 12 months. We also opened 772 advanced service branches, which implies in the additional hiring of 3,634 employees over the last 12 months.

The network expansion, as well as the investments in technology, mainly the (inaudible) improvement program and the business expansion are also reflected in the rise of the administrative expenses. This expansion is in line with our projections, but actions are still being implemented to improve our operating efficiency by means of reviewing internal processes along with the final phase of the IT improvement project which should be handing over the next couple of years.

On slide 24, we are showing the coverage ratio, basically comparing fees and operational expenses, adding personnel and administrative expenses and we see a slight decline recently in this coverage ratio, mainly due to the impact of the expansion of our distribution on one hand and on the other hand, the effect of the regulatory measures which impacted fees this year. We count on the increase in both volumes and client base to reverse this decline in trends for the coverage ratio. We expect, going forward, to increase the coverage back again.

Slide 25 presents our funding growth, highlighting demands in savings deposits and CDs. The strong expansion in timed deposits was due to a stronger loan demand in this quarter. The growth in assets in the management was effected by the decline in the equities given the performance of the Bovespa, which declined by 23.8% in this very same period.

On slide 26, we opened for the first time a slide talking about comparison between loans and the funding. We have been having a lot of demand about that, the loan to deposit ratio, but we believe that this way is much better for you to understand in the more appropriate way what we consider as the real loan-to-deposit ratio. Pay attention to the fact that for loans held in the country, our needs for foreign capital is off only 6% of the total portfolio or 12.7% if loans held abroad were also to be included. We are overcoming in a smooth matter the transitory difficulties in raising foreign funds from the market, from the banks, which includes the participation in the external lines in the auctions that we also are participating. That basically will be helping to increase the external funding.

On slide 27, we are making a summary of the different changes promoted by the Central Bank of Brazil, taking into account funds released and other items that will be better beneficial to improved liquidity in the market. We have higher liquidity due to the release of BRL 6.3 billion in reserve requirements, as you can see. We have also BRL 6 billion limit for the acquisition of loan portfolios from other financial institutions, using reserve requirement funds. Up to date, up to now, Bradesco already acquired BRL 1.5 billion in terms of portfolios intends to use this limit if we see good opportunities of business. And also a higher requirement for agricultural loans, BRL 1 billion, which will be easily complied over the next 30 days.

On slide 28, as already mentioned, Bradesco does not carry out leveraged derivative transactions known as target forward operations. Our operations with traditional derivatives are held just with clients seeking protection from foreign exchange variations. On October 23 of this year, if Bradesco had to show what this would be impacting, Bradesco had receivables of BRL 973 million of basically 206 clients, the largest volume of which totaled BRL 142 million with one single company and payables of BRL 655 million to 110 clients, the largest of which would be 109. Receivables are within limits previously attributed to each borrower. Therefore, this does not mean additional credit risks. This is already included in the risk profile in the risk of each and every company using this operation. Usually, they are basically exporters who are basically the pre-pay or the advanced payments in other currencies, in foreign currencies and have a longer type of commitment without any foreign exchange exposure. So Bradesco, repairing its position that, carries out derivatives only to hedge ourselves against foreign exchange variations in which of our investments in branches and subsidiaries that we have abroad. Basically, we have hedges to our own positions of \$5 billion of equity and investments that we have abroad.

On slide 29, in order to provide a better understanding of our insurance operations, insurance, private pension plans, and savings bonds, we are presenting a summary or our insurance group income statements. Despite the improvement in its main performance indicators, such as the claims ratio, which fell from 73.1 to 72.4 and the sales ratio dropping from 10.7 to 10.3, the Third Quarter net income recorded a slight decline due to the reduction in the income from equity funds and mark to market caused by, obviously, these very high market volatility that we are experiencing.

In the first nine months, the net income of Grupo Bradesco de Seguros e Previdencia increased by 18.3% reaching BRL 2 billion, almost BRL 2.1 billion with an annualized return on average equity of 31% and represented 37.1% of the net income of Brazil's entire insurance market. This is as of July, 2008. The increase was due to higher sales. The 22.5% increase in the client base, the reduction in the claims ratio, and as a result, improved combined ratio, as well as the adjustment of technical provisions in individual health insurance segment which was concluded by the end of 2007.

Slide 30, written premiums and revenues of private pension plans and savings bonds reached BRL 16.9 billion in the nine month period and 10.7% increased vis-a-vis the same period of last year. It

represents 23.7% of the entire insurance market as of July. As a result, Bradesco maintains its leadership in the property and life insurance segments as well as in private pension plans.

Slides 31 and 32, owned financing assets and technical provisions guaranteed reached BRL 71 billion, equivalent to 35.3% of the market as of, again, July, 2008. It is worth mentioning that 80% of these assets correspond to pension plans and VGBL investment portfolios. Total assets grew by 10.4% on a year over year comparison. Technical provisions reached BRL 63 billion or 34.9% of the insurance market, again, as of July '08.

Slide 33, we present two efficiency ratios of the insurance segment; obviously, the lower the ratio, the better. The combined ratio has been improving consistently, indicating better operational efficiency of the insurance group regarding claims and writing policy.

Slide 34, we decided to include in this slide some highlights that attest to the strengths of our balance sheet. Funds raised and under management surpassed BRL 570 billion. Funding exceeded loan operations which allowed us also to lowered costs. Delinquency ratio, as already mentioned, remained at a very comfortable level. Bradesco's leverage is extremely low, mainly if compared to international banks just for having an idea. Loans under the Brazilian Central Bank's calculation methodology, BRL 160 billion, would be lower than five times our shareholders equity of BRL 34 billion.

On page 35, we basically are maintaining our 2008 guidance estimate as we conclude our budget plan for 2009, which is still in progress, is still underway. We will disclose our guidance for that year, 2009.

On slide 36, basically we are summarizing the forecast for '08 and '09 of GDP, interest rates, inflation, and the FX rate.

We have on slide 37 and 38, on slide 37, the three next events that we are doing with investors in Brazil. So each and every one is obviously invited and on page 38, we are disclosing the save the date of Bradesco's Investor Day which will be held on the New York Stock Exchange Euronext in New York City on November 25. It's a lunch, so please, each and every one wanting to participate, feel free to participate in the event.

Concluding, many difficulties have been faced in the course of the first nine months of this year. Uncertainties caused by international financial market's turmoil effecting assets' value. Increased inflation and higher interest rates impacted on administrative and funding costs. Individual fee adjustments, including the elimination of the loan processing fee and advanced loan settlement fee, increasing the financial operation tax, the IOF, on loans for individuals, change in federal deductible loan rules, increase in the social contribution on net income from 9% to 15%. So bottom line, given all of this, and considering that we are involved in several ongoing structural and expansion projects we mentioned in this presentation, we understand and believe that our results were extremely strong.

Now, I would like to open the floor to your questions. Thank you.

## Questions And Answers

### Operator

Excuse me. (Operator Instructions) Our first question comes from Mr. Jason Mollin with Goldman Sachs.

**Q - Jason Mollin** {BIO 1888181 <GO>}

Hi. This is Jason Mollin. My question is related to risk in the portfolio. Thank you for the disclosure on your clients and Bradesco's exposure to these derivative products. Can you help us size the problem in the system? Is Bradesco concerned about corporates that have experienced losses that perhaps Bradesco didn't write and what that would mean from a credit risk perspective?

And secondly, on the consumer side of the book, if you could talk a little bit about where you think unemployment is going to go next year and your asset quality numbers today look very good, but with an economic slowdown, you did suggest that you're going to try to maintain these figures. But if unemployment ticks up, what do you think that means for asset quality and Bradesco's loan book to individuals?

**A - Jean Leroy {BIO 17084785 <GO>}**

Hi, Jason. Obviously, we have been reading in the newspaper a lot of articles and a lot of numbers talking about maybe hundreds of companies that could be involved in the process of using derivatives, the leveraged derivatives, as we read in the newspaper. Obviously, taking into that consideration, Bradesco always analyzes what could be the implication on its portfolio and we have been growing a lot of loans to companies over the last period. Obviously, the concern is even higher.

Based on that, we have the structure called Bradesco Corporate, focused on the large corporations, basically 1,500 companies and also Bradesco Empresas, focusing on the middle sized companies, has conducted a survey asking their clients if they were using this type of derivatives and using that to measure on a consolidated basis what could be the implication for Bradesco in terms of needs of future provisioning. And we were quite optimistic that we did impact, the number -- first, the number of companies was extremely low. And second, that the impact would not be relevant on Bradesco's numbers. So at the end of the day, obviously, risk is a concern every day, but we believe the surveys we conducted made us go through future periods with not so much volatility in provisioning or impact in our profitability levels.

In terms of the unemployment, we have a very good number. We have the lowest unemployment rate over the last 16 years and just over the last 12 months, as I mentioned. Before, two million jobs were created. The Minister of Work, of Labor in Brazil is expecting job creation in 2009 of additionally another one million people and obviously it's not only a question of quality, of number of employees, but also the quality of employment. We've been seeing more and more companies hiring people officially, which means those employees they have the FGTS which is a fund that they have and even if in the case of some people being fired, laid off, you have a penalty on the 40% FGTS account which makes basically the expectation for our asset quality for individuals also to be positive over the coming year. Obviously, we are going to continue to monitor what is going to happen. We have the 3% GDP growth expectation for Brazil. We're in the process of concluding our budget planning for 2009. But up to now we feel comfortable that Brazil should be passing through this crisis in much better shape than a lot of other economies and also our strategy has been extremely positive and correct in terms of our expansion in loans.

**Q - Jason Mollin {BIO 1888181 <GO>}**

Are you seeing, just in the month of October, are you seeing some deterioration in asset quality? Did companies opt or individuals opt not to pay, given the volatility in the market? Have you seen some of those clients come back? Or are people actually holding their cash at this point? Companies and individuals?

**A - Jean Leroy {BIO 17084785 <GO>}**

If you look at slide number 20, you'll see the performance of our delinquency ratio has been quite stable. In individuals it even improved. We didn't see anything changing dramatically in October. And this is the reason why. We are in this call trying to tell to the investment analysts that our expectations for asset quality will be relatively stable over the coming periods.



**Q - Jason Mollin** {BIO 1888181 <GO>}

Thank you, Jean.

**A - Jean Leroy** {BIO 17084785 <GO>}

You're welcome, Jason.

## Operator

Our next question comes from Mr. Saul Martinez with JPMorgan.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Hi. Good morning, everybody. I actually want to follow-up on Jason's question specifically on corporate credit quality. Regardless of what happens with -- obviously, there's direct and indirect exposure to corporates who have used these derivative products but more broadly speaking, when I look at page 20, delinquency rates are at 0.3% for large corporates. They've been that way for over a year. I guess my question to you, Jean, we've had a very good economic environment in Brazil. These delinquency rates look awfully low. The question is, is this as good as it's going to get? If, obviously, if the economy slows further then what's embedded in your forecast of 3% GDP growth, funding conditions have certainly tightened the cost of funding has increased for corporates. Do you see a risk that delinquency rates could increase meaningfully for large corporates? "Meaningfully" could mean even going to 1% to 2% over the next 12 months.

Hello?

**A - Jean Leroy** {BIO 17084785 <GO>}

Sorry I was just--

**Q - Saul Martinez** {BIO 5811266 <GO>}

No problem.

**A - Jean Leroy** {BIO 17084785 <GO>}

Just some ideas here. We are pretty comfortable about the sustainability of the companies in the perspective in continuity of investments and no one is stopping there, the operations. You have obviously some adjustments, some companies have more inventories, maybe they give vacation to some employees. But overall, the picture continues to be quite positive.

If you also analyze Bradesco's exposure, we try to be as diversified as we can. The number, the 50 largest borrowers, they have 20% of the loan book. The largest have 0.9%. We also try not to be so concentrate in any particular segment. And we -- even using a stress model, obviously, when we conducted this survey with our clients, we are always keen to understand how many of the companies could be having impact and how much this could be affecting Bradesco. But we feel quite comfortable, the level of delinquency has been very good because of the quality of our scoring process in terms of individuals, in terms of companies. We are always following the operations. We have a group of people looking at loans. Our credit director, I believe, has more than 30 years working in credit, so he knows very well all the companies. We don't believe that with more stress that the level of percentage of delinquency ratios for large companies should change so much. Maybe some changes you can see in SMEs. You saw a slight increase because a lot of that is statistical. So if you grow more in large companies or less or you grow more in SMEs or less, these impact a little bit the ratio. But if we take out this process of statistical effect, we believe that the fundamentals of most of the companies are extremely good. The fundamentals of the Brazilian economy are extremely healthy and we believe that the trends for asset quality should not deteriorate so much going forward.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Thanks, Jean. That's helpful. And just one quick follow-up on your other operating income and other operating expenses. Your other operating expenses, you've highlighted in previous calls, really has increased pretty meaningfully this year versus last year. Other operating income, I think benefited this quarter from a reversal of provisions. If I net those two numbers, the 544 and the 1445, I get something close to 900 million. In net, other operating expenses, it's lower than what it was in the first half. But still pretty high. How should we think about that number and those going forward? Because it obviously does have a pretty meaningful impact in terms of our forecast and the earnings power we think you can generate going forward.

**A - Jean Leroy** {BIO 17084785 <GO>}

Basically we had the reversal of these provisions that we disclosed in our different information, press release, and audits. So if you're -- even though it is totally a recurring number, but if you adjust that other operating expenses and revenues, you have roughly a maintenance of the level of the net level of other operating revenues and other operating expenses. So we believe that these lines should be roughly even over time. Just to explain a little bit more, what is this reversal about? We have the positive decision from lawsuits we had because there was a CPMS charge from the leasing Company, from Bradesco Leasing, and we were questioning CPMS on this type of operation and we won. So there is no chance of having that being reversed any time. We decided to basically reverse what we were building in terms of provisions. So we still have a huge amount of; BRL 7.1 billion of fiscal provisions in our liabilities. We had drawn these provisions, we had expensed these provisions in leasing and we were questioning, so when we won, we reversed them. It's totally recurring, but if you add these 185, you come back to numbers that are roughly close to the previous quarter. We had BRL 1.1 billion in the Second Quarter, BRL 900 million negative in the Third Quarter, adding back the 185, you are roughly in the same level as the previous quarter.

**Q - Saul Martinez** {BIO 5811266 <GO>}

So we should think of this as somewhere kind of in the neighborhood of BRL 1 billion to BRL 1.1 billion or so, would be your best guess?

**A - Jean Leroy** {BIO 17084785 <GO>}

Yes. Your told the correct word. Best guess. I don't know --

**Q - Saul Martinez** {BIO 5811266 <GO>}

No. I know it's volatile.

**A - Jean Leroy** {BIO 17084785 <GO>}

; guidance, but a best guess would be --

**Q - Saul Martinez** {BIO 5811266 <GO>}

Yes. Okay. Got it. Thanks a lot, Jean.

**A - Jean Leroy** {BIO 17084785 <GO>}

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, everybody. I have two questions. The first one is on page nine you show that your margin on just the interest income and excluding interest expenses, that your margins fell about 110 basis points quarter over quarter. I would imagine some of this drop is related to a change in your loan mix. But could you comment about what impact the funding costs have on leading to a lower margin quarter on quarter and what kind of rates are you paying on your time deposits now and how they compare to the beginning of the year?

Then my second question is related to the acquired portfolios. You mentioned that you have bought about BRL 1 billion worth of loans from other banks, that you could buy as much as BRL 6 billion in total. Just trying to get a sense, what type of loans are you targeting. Are you targeting SME loans? Payroll loans? What kind of prices are you paying for these loans? Thank you.

**A - Jean Leroy {BIO 17084785 <GO>}**

Okay, Mario. Responding to your first question, obviously, you had a decline in the net interest margin on the quarter over quarter basis, but this is basically because of the non-interest part, because of the effect of the mark to market, we basically explained. And in the interest part, we were able to continue to expand the volumes and counter-balancing the reduction in spread. The cost of the funding is relatively the same. It didn't change. We are paying close to 103%, 103.5% of the civic or institutional funding. You saw a very important increase in the time deposits, so definitely Bradesco, I believe, is benefiting from this volatility because we are getting more funding from the market.

Perspectives going forward, I would say in general terms for the interest part is a continuity of expansion in the loan book, making able us to counterbalance this spread reduction. It's a little bit tricky to understand this part because you remember when interest rate, when the civic was moving down, you had an impact on the spread because you were reducing the rate for the customers and now we basically have a spread the same -- sorry. The civic is the same. But we are moving more into corporates, where the spread is lower. So this is a different type of impact. But we are able to continue to expand the volume. So over time, I believe, the trend will be maybe to expand the net interest margin. If you look at page ten, maybe we would be able to grow more the margin.

In terms of the portfolios that we acquired, just to give you an idea, we were analyzing almost BRL 11 billion of loan books with basically 20 different banks. We analyzed already BRL 3.4 billion. We are right now analyzing BRL 7.3 billion. From all these credit lines that we were analyzing, BRL 2.8 billion we didn't want. We basically are analyzing operations that should be adding some BRL 3.4 billion -- close to BRL 3 billion of operations to Bradesco. We already gave BRL 1.5 billion and we should be with different institutions, different banks, adding another BRL 1.4 billion. So you see, analyzing BRL 11 billion of portfolios and doing BRL 3 billion of operations. We are very selective in analyzing the operations. We really want to bring good operations and the portfolios that we are analyzing, they are in all the different types of loans, but we are focusing more in payroll deductible loans and in autos, where the risk is also much lower.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay. Just let me follow-up then with a question on the margin. What are your expectations for loan growth, then, for next year? I think you'd talked about in the past about 20% loan growth next year. Should we assume that you will continue to grow much faster in your corporate portfolio rather than your consumer? And the margins might stay stable even though your net interest income could increase because your loan portfolio is growing? But would your margin stay stable?

**A - Jean Leroy {BIO 17084785 <GO>}**

Mario, again, we are in the process of concluding our budget planning for 2009. So we're not giving guidance for 2009 that we should be expanding by 20%. We are giving like a best case, a best guess, if you want. In this guess, probably, if Brazil grows to 3% GDP which is what you see in our presentation, there is an expectation from the economic team that the loans to banks should

be granting 16%, 17% more loans. As usual, Bradesco rose more than the market. We should be growing a little bit more than that. But again, we are in the process of revising this, so we cannot even dig more inside and tell you from this 20%, X percent should be to corporate, Y percent should be to individuals. We don't feel comfortable enough to be giving a guidance for 2009 although we know that we are almost in November and people are just extremely interested to know what is going to happen for next year. But we are at the end of the process. As soon as we have these disclosed, definitely, we should be disclosing that. We are also going to give a guidance for the net interest income. We don't give a guidance for the margin, but we always give for the net interest income. So all in all, companies up to now what we are seeing, should be growing 15% to 16% based on the 3% GDP growth and Bradesco should be growing a little bit more than that, maybe closer to 20%. But as we conclude the budget planning, based also on the revisions of the GDP and other items that the Chief Economist of Bradesco is doing and providing to our planning department, we will be extremely happy to give the guidance to everyone.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Then finally, Jean, just to go back where you said on the acquired portfolios you're looking at, if you could just give us a sense of what price are you paying? I would assume you're not paying face value for these loans. Just to give us an idea of what kind of pricing are you seeing on the loans that you're buying?

**A - Jean Leroy** {BIO 17084785 <GO>}

Mario, we're not disclosing that information.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Alright, then, thanks.

**A - Jean Leroy** {BIO 17084785 <GO>}

You're welcome.

**Operator**

Excuse me. Our next question comes from Mr. Rafael Camargo of Credit Suisse.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Hello. Hi. My question is regarding the insurance business. Even that the loan growth is expected to decelerate in 2009, I'd like to know if you expect the insurance business to increase its relevance, its share in total earnings of the group next year? And what would be the main segment inside insurance Company to highlight for 2009? Thanks.

Samuel Monteiro dos Santos, Jr.: Good morning, guys. I'm Samuel Monteiro. To respond to your question, I would say to you, I cannot project nothing for next year until now. But I assume that the insurance business in Bradesco would be very strong. The business is very important. I think it will be able to maintain our share in the market. And maintain our share in terms of presentation in the profit of the bank-- how to be and reduce everything to project for next year's end and now it will be working our budget for 2009.

Hello? Rafael?

Sorry. I didn't understand the question. Sorry.

**A - Jean Leroy** {BIO 17084785 <GO>}

Didn't understand the answer? Basically what Samuel was saying that he's also working on the budget planning for 2009. So based on that, he's not able to give you a precise guidance, not in terms of the premium gross and not even in terms -- and much less in terms of risk factors that we should be growing more.

**Q - Rafael Camargo** {BIO 20030281 <GO>}

Alright. Thanks.

**A - Jean Leroy** {BIO 17084785 <GO>}

You're welcome.

**Operator**

Excuse me. (Operator Instructions)

**A - Jean Leroy** {BIO 17084785 <GO>}

Okay. So basically, we are going to be available for any additional questions you might have. And please, don't forget about the Bradesco day event on November 25th, where you will have access to the senior managers of Bradesco, Marcio Cypriano and other top executives will be there, totally open to disclose information and clear any doubts you might have. Thank you very much and talk to you any time soon. Thank you.

**Operator**

This concludes Banco Bradesco's conference for today. Thank you very much for your participation. Have a good day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*