

Q1 2008 Earnings Call

Company Participants

- Jean Philippe Leroy, Department Director
- Milton Vargas, EVP

Other Participants

- Alejandro Bulmusia, Analyst
- Daniella Avelland, Analyst
- Ian Smith, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Oscar Streat, Analyst
- Roberto Attuch, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First 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 and Investor Relations Officer, Mr. Domingos Figueiredo de Abreu, Managing Director, Mr. Samuel Monteiro dos Santos Junior, 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 only be able to listen to the conference call during the Company's presentation. After the presentation, there will be a question and answer session.

(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 relates 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 differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference to Mr. Jean Leroy, Department Director. Mr. Leroy, you may proceed.

Jean Philippe Leroy

Thank you. Good morning. Welcome to Bradesco's First Quarter 2008 earnings conference call. Let me now transfer the floor to Mr. Milton Vargas for his opening remarks.

Milton Vargas {BIO 3347541 <GO>}

Good morning, everyone. Welcome to our conference call. The First Quarter of 2008 was marked by strong international turbulence in the markets, derived by the subprime crisis. International players had to recognize it -- had losses in the amount of \$240 billion. In our opinion, defects of this turmoil will take some more time to be dissipate, especially in United States.

But we believe that the balancing sheet of global banks will begin to show some improvement in the second half of this year. It's important to note that the timing and interventions of the Fed and the U.S. Treasury has mitigated substantial risk, as well as further and more stability problems in major financial institutions.

In addition, China and other emerging markets, which are growing at a much faster pace than the developed economies are smoothing the impact [ph] of the banking crisis on the global economy.

In this context, Brazil is experiencing a strong demand for its export products, especially commodities, which already accounts for more than 60% of our exports. We can also assure that the foreign crisis has had very little impact on the Brazilian economy, which continues to show financial strong vitality. Price investments in family consumption are growing strongly, and more consistently than in the past.

All in the all, we expect that the GDP growth of around 4.8% this year, vis-a-vis 5.4% in 2007. The exchange rate should stay close to R1.75 per dollar at the yearend, which we believe is compatible with an expected trading surplus of around \$27 billion. Although the concerns of the Central Bank with inflation are correct, we believe that its intervention will be essentially indifferent from the ones in 2004 and 2005. Therefore, we continue to expect annual inflation lower than 5%.

The base rate, the Selic, is likely to increase further before end of the year standing at 13.00%, although thorough research is to be conducted with companies that should be a

real impact on their will to continue to invest. We believe corporate loans will continue to expand with low delinquencies. While growth in the volumes of individual loans should slow down marginally.

The creation of the new jobs remain strong, being an additional guarantees against future delinquencies. According to our estimates, this year, total credit in Brazil should increase by 22%, vis-a-vis at least 28% in 2007. Relative to this scenario, Bradesco records a net income of more than R\$2.1 billion in the First Quarter, a 23.3% jump in our year-over-year analysis.

Stockholders' equity exceeded R\$32.9 billion, a 26.4% year-over-year growth. The efficiency ratio accumulate over 12 months also improved, reaching 41.7%, vis-a-vis 42.1% in March 2007. In our analysis, the return of stockholder average reached 32.0% in this quarter.

On the operational front, insurance, pension plans and savings bonds contributed with R\$746 million, ranging 35% of Bradesco's net income. Premiums reached R\$5.4 billion equivalent to a market share of 24.1% according to the last available data. Our combined ratio of 83.9% reflected our performance comparable to the best insurance companies in the world.

Bradesco's loan portfolio grew by 37% over the last 12 months and by 59% in the First Quarter, higher than the market as a whole according to the recent data. If we include sureties, guarantees and credit card receivables, the loan portfolio surpasses R\$169 billion, 5% higher than in the last quarter, and 38.5% than the last 12 months.

This strong growth was backed by better assets quality as "AA" to "C" rate operations represented 93.4% of our book, vis-a-vis 92.2% in March of 2007. We are continuing to foster our credit card operation, turning this more competitive commercially in this profitability.

Summarizing, we are proceeding in three ways. One, to the mix of products for high and low income individuals and corporate users with the combination of the three leading backs, Visa, American Express, and MasterCard. Two, by consolidating the division for checking and no-checking account holders. And three, by integrating Bradesco's cards area resulting synergies in revenues extends into better practice.

These profits will be boosted by the creation of the new Bradesco through this year through subsidiaries [ph], fully dedicated to managing this business. In moderate, we would like [ph] to highlight our quarterly origination of R\$1.5 billion in operation, a massive 126.3% jump, vis-a-vis the First Quarter of 2007. Just in the first three months of 2008, we provide financing for more than 13,000 [ph] homes, representing a 27.8% market share.

We continue to foster operation efforts agriculture [ph] and we have recently launched a specific website, which contains -- is addressed to the needs of this sector. Our investment bank also did a very good job. In the First Quarter, we reached the leadership

in Latin America for financial advising in M&A lower than \$500 million. We also led in operation of fixed income.

Overall, our investment bank was ranked as the Best Financial Advisor with R\$2 billion in deals. The Best Investor [ph] with R\$2.8 billion in operations, and we closed 2007 bank first in projects financed, (inaudible) brokerage, Bradesco acquired Agora Corretora, the leader of the Brazilian sales segment with 29,000 active clients.

In asset management, we surpassed R\$183 billion under management. In March, Bradesco was elected the best manager in equities, foreign exchanges, and loan charge funds by consistent investment magazines. Speaking to meeting investor growing interest in equities, we launched two funds focused on companies listed in the Bradesco Corporate Governance Index.

Increased financing in foreign exchange operation, it is worth to mention our market share of 21.1% in exports and 15.2% in imports. Together with this performance, Bradesco financing just in this quarter, Latin exporters in a volume of \$4.1 billion and imported in a volume of \$560 million.

Over the last 12 months, export and import financing jumped by 53.2% and 52.7%, respectively. Regarding IT, we are in the final stage of upgrading our hardware, software and data communication network with the most modern technology. This massive operational, but the massive operation will benefit range in customer service points as well as our more than 36 million customers.

In the early hours of Sunday, April 20, we integrated all the kind service systems, which accounts for 60% of Bradesco processing operation to our new information technology site. Risk management is considered a top priority for Bradesco due to the gradual increasing complexity of the financial markets.

We undertook a remarkable step with the consolidation with the structure of governor, which accounts now with four elected co-managers and four statutory co-managers, in addition to an independent structure focusing exclusively on risk management and internal compliance activities.

The risk management process comprehend are due to (inaudible) which involve education, analysis and mitigation of risk, properly controlling and monitoring by the Board sent regularly to the senior management.

The compliance with the Basel II requirement is in a development stage and we believe that we should not have any problems within to the Brazilian Central Bank agenda deadlines. In terms of sustainability and in line with Bradesco's Bank of the Planet campaign, we would like to have some initiative in the First Quarter.

Have one, the creation of two specific funds that will generate revenues for the Amazonas Sustentavel Fundacao, a foundation Bradesco is co-funded, which is focused to preserve

the rain forest in the state of Amazon. Two, through the partnership Bradesco has with the Fundacao SOS Mata Atlantica, a forest seedling production center was in operating in the center of Piracicaba in the interior of the state of Sao Paulo.

And three, the subject [ph] of the Bradesco volunteer program portal, which became the biggest corporate volunteer Internet network in Brazil. And four, the release of our 2007 Sustainability Report, which contains the annual summary of Bradesco's initiatives and activities in corporate social responsibility, complying with the third version of the Global Reporting Initiative.

All in all, and in our understanding, Bradesco did a good job in the First Quarter of this year, given the cyclicity, and therefore the strong the volatility in the markets. We remain optimistic regarding 2008 and the prospects for Brazil as a whole. In fact, Brazil deserves to receive the long awaiting investment grade status up to the end of this year. As a result of this scenario, we are strongly investing in the expansion of our distribution, IT and expense planning [ph]. We believe that all these process will benefit our future results.

In 2008, we expect to our extend our second accounts basis by further 1.7 million clients, and we will step up integration of our various segments in associate company. In this context, we have taken and are still taking important measures to integrate our databases with our front office operations.

Nevertheless, competition in the banking sector is becoming tougher year after year, implying pressure on this playing field. Bradesco benefits some important competitive advantages in this operations in client space. We aim to maximize all of this, and in this context, we would like to have a very important sector the quality and the dedication of our employees.

This way [ph] Bradesco could reach and surpass its challenges goals. As a result, we had a much lower turnover of staff than the market, not being at surprised at the fact that Bradesco is usually considered as one of the best companies to work for.

We could summarize things [ph]. With our [ph] strategic approach taking into account an expected growth in the Brazilian economy over the coming years, we think really demand of bank and insurance products to other translating to a very attractive domestic market. Bradesco leadership and quality of service are key to making us benefit of this process. This is the reason why, and not forgetting about the quality of the present results, we had focused on effective actions to boost future earnings and increase our market share.

Thank you for your attention, and after Jean's presentation, we will be available to answer any further questions you may have.

Jean Philippe Leroy

Slide number one. Initially and before commending our performance, it is worth to mention that there would be two important changes in the fiscal and corporate installation, which could impact the coming periods.

On the fiscal side, the increase of financial institutions of the social contribution moving from 9% to 15%, still pending on the provisional measure no. 413 by the Congress, could impact the banking sector from May on.

The impact on the measures introduced by the Law number 11638, which changes the accounting principles in Brazil putting them more in line with the IFRS depends also on the complimentary rules to be issued by the Brazil Central Bank and by the CBM, which is equivalent to the Brazilian SEC, which are likely to be approved in the next coming months.

Moving to slide number two, as one can see, we are including this slide, Bradesco's main drivers as previously highlighted by Milton in his remark. Slide number three, Bradesco reported a R\$2.1 billion net income a 23.3% evolution, vis-a-vis the same period of 2007, equivalent to approximately \$1.2 billion. An undercurrent events that affected the net income in this quarter as well as in the comparative EBIT are listed here as one can see.

In the First Quarter of 2008 as already disclosed to the markets, we recorded a gain of R\$352 million derived from the partial sale of our stake in Visa Internationals and amortized the mediservice [ph] goodwill in the amount of R\$53 million. As of yesterday, our remaining stake at Visa International was worth R\$464 million. As a result, our adjusted net income surpassed R\$1.9 billion in the first three months of 2008.

We would like to inform that other operating expenses increased in this quarter, because of approximately R\$86 million expenses, which are not expected to be repeated going forward. These expenses are composed by one, R\$56 million provisioned for fees we use to charge customers when and if they pre-paid their loans and, two, R\$30 million provisioned for labor. Therefore, the recurring net results of operating revenues and expenses could be ranging around R\$900 million.

Please note that all the comparatives analysis and ratios used in this presentation, in the press release and in the fact book take into consideration the net income adjusted by non-recurring events. This is the way we will be now on analyzing Bradesco's performance.

Slide number four. We can see in this slide the evolution of EPS, the cost-to-income ratio and net income on a quarterly basis. The annual EPS evolved by 10.6% over the last 12 months, closing at R\$2.41. Efficiency improved as our cost-to-income ratio moved from 42.1% by the end of March 2007 to the actual 41.7%.

We believe the efficiency ratio will remain stable over the next two to three years due to the expansion in distribution, client space and IT investment focused on the replacement and renewal of Bradesco's whole IT architecture. After that, we are confident that the efficiency ratio will improve even further.

Slide number five. Bradesco reached total assets of R\$355.5 billion, 26.1% higher than in March 2007. The variation was mainly due to the R\$38 billion jump in the loan portfolio and the R\$17 billion increase in income bank investments.

Considering the adjusted net income, analyze reached on average stockholders equity stood at 28.7%, while the return on average asset stood at 2.2%, standing at 13.9% -- sorry, standing at 13.9% the capital at equity ratio is almost 300 basis points higher than the minimum requirement by the Brazilian Central Bank, which is 11%.

In a simulation with the figures of March 2008 should be adopt the terms of the Central Bank (inaudible) number 3,367 relative of hedges of investment abroad, which could not be included in the BIS ratio calculation, Bradesco's ratio would be standing at 16.7%, 12.6% of which is tier one.

In this case, it would allow Bradesco to increase it's loan book by approximately R\$130 billion. By the way, simulations under the expected Basell II rules to be implemented in the second half of 2008 give us confidence of Bradesco's operating leverage.

Slide number six. Bradesco's unrealized gains reached R\$4.1 billion in March 2008. The quarterly decline is basically driven by the higher volatility, which affected the mark to market of available for sale and held to maturity securities, as well as the stocks Bradesco still holds at BM&F and Bovespa.

Once again, it is important that these figures do not include our participation in not publicly traded companies such as Heraza [ph] and VisaNet.

Slide number seven. On this slide, we present Bradesco's net income breakdown. In the quarter, the relative participation of insurance increased strongly, thanks to the reduced claims and better sales ratios and the return of technical provisions for individual health insurance plans to normal levels. The higher decrease on services was due to the impact in changes in individuals' checking accounts fees, which were expected and incorporated in our guidance since disclosing our Fourth Quarter 2007 earnings.

Slide number eight. This slide lists a summary of our income statement showing the main variation in the results. I would like to draw your attention to the quality variation in the insurance operations due to factors already mentioned.

Slide number nine. The strong increase of 38.5% of loans over the last 12 months was fundamental to boost the next interest income. The year-over-year adjusted net interest income evolved by 20.5%, all by more than R\$1 billion nominal terms. We highlight the interest-bearing assets, which increased in volume offsetting the impact of lower spreads.

We would like to add that the non-interest income line of the last quarter of 2007 was one of the highest of the last three years. On the top of that, it was impacted by R\$56 million of recoveries of loans, which happen every year in the last quarter. This quarters is more in line with Bradesco's fiscal average.

Slide number ten. On this slide, we present the nominal evolution of net interest margins and net interest income, only of the interest-bearing assets. As one can see, we experience a 20.4% year-over-year evolution in the net interest income, despite a decline

in the base rate depicted in the blue line. In our understanding, it is key to verifying this performance in order to better predict the trends for the coming quarters. The information included in this slide do not take into consideration neither trading gains and potential of these investments gained, nor the affect of mark to market.

Slide number 11. This slide gives a breakdown of the adjusted net interest income. As you can see, loan operations have been increasing their relative participation quarter after quarter. The drop in participation in the margin of funding and insurance in the period was due to the reduction in the average base rate, which moved from 12.8% to 11.3%.

Slide number 12. This slide gives the summary of the financial margin gains in loans. The blue line depicts the performance of the gross gains deducted by the cost of opportunity the Selic. The red line shows the evolution of the allowance for loans losses, net of recovery.

As one can see, from the behavior of the blue line, the increased volume of loans has been key to offset the impact of lower interest rates. As the line in the middle, is concerned the net margin has been recording consistent nominal growth, climbing by 17.4%, comparing the First Quarters of 2007 and 2008.

Slide number 13. Bradesco's total loan portfolio, including sureties, and guarantees and receivables of credit cards, stood at R\$169 billion by end of March, 5% higher than in the Fourth Quarter of 2007, and 38.5% higher than in March of last year. When we analyze the loan portfolio's breakdown by segment, we noticed the balanced growth between all the business segments, SMEs, individuals, and large corporates.

Slide number 14 and 15. In these slides, one can see the breakdown of the main credit lines for companies and individuals. Beginning with the corporate segment, we would like to highlight the growth of the falling credit line, leasing, working capital and mortgage. It is worth noticing the sound performance of sureties and guarantees, especially in the large corporate segment, which recorded a 58% year-over-year growth.

As for individuals, the credit line of leasing mainly focused on new cars, agriculture, based on the growth in this sector, and mortgage expanded the most. It is worth to mention that if exclude sureties and guarantees, the individual loan portfolio already represents 23% of the total book.

Slide number 16. This slide shows the level of provisioning coverage, vis-a-vis the level of expected loses. As one can see, we have a R\$1.2 billion excessive provision based on the requirements of the Brazilian Central Bank, represented by the difference between the lines in red and grey. And if one compares our total provisions to the expected losses for the next 12 months, depicted in the line in grey -- in green, Bradesco's actual excess of provision stands at a very comfortable level of R\$2.6 billion.

Slide number 17. As we have already mentioned in our fact book, the compilations by tier of the more than 90 days past have been improved. Up to last quarter, we were using the right criteria of the Brazilian Central Bank for past due operations, which obliged for the

more than 36 month operation to double count the period for the mean of the establishment of rating criteria of past due operations.

This means that long-term operations were included in the 90 days past due ratios only after 180 days. It is important to emphasize that this improvement in calculation did not change the need of provision.

After this comment, and after adjusting through the previous periods, we can observe that the more than 90 days delinquency ratio for individuals is standing flat at 6.4%. The delinquency ratio for SMEs has been declining, and is now standing at one of its lowest levels over the last two years. Finally, we expect a slight improvement in delinquency in 2008 for all the same.

Slide number 18. Regarding payroll deductible loans, we can see that Bradesco's own origination grew by 78.1% over the last 12 months, and by 6.3%, vis-a-vis the previous quarter. The acquisition of BMC, and integration of payroll deductible loans with Bradesco's branch net worth, should enhance the origination even more. Our estimates point out to a close to 100% increase in this portfolio during the year of 2008.

Slide number 19. This slide [ph] how to finance credit cards and payroll deductible loans. The expected perspective for mortgage are also very positive for the coming years. Last year, Bradesco originated R\$4 billion in mortgage financing, the acquisition of approximately 30,000 properties, representing a 22% market share.

For 2008, our target of origination stands at R\$5.3 billion, and we have no doubt to meet this goal, because we already originated more than R\$1.5 billion in the First Quarter, financing more than 13,000 properties, representing a 27% market share allowing Bradesco to maintain its leadership amongst private banks.

Slide number 20. As one can see fees increased by 9.5% on a year-over-year basis, driven by asset management, cost and loan operation fees. The slight decline in the quarter was mainly due to the restructuring of fees to individuals, smaller number of capital market deals, and higher number of credit and debit card transactions, which seasonally happen at the end of very year.

Slide number 21. In comparison with the previous quarter, we can see a reduction in the expenses, mainly due to seasonal reasons. In the year-over-year comparison, the structural personal expenses grew by 10.9% due to, one) the annual negotiation for wage increase, two) the incorporation of BMC, and three) the expansion in distribution.

The increase in administrative expenses is derived by -- one, organic growth; two, increase in volumes of transactions; three, readjustment in price of procurement contract; and four, more investments in IT. It is worth to highlight that we still continue to be focused on cost control and on maximizing operational efficiency despite an increase in CapEx and enhancements in quality.

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Bloomberg Transcript

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Slide number 22. The coverage ratio obtained by comparing fees and operating expenses got slightly worse due to the process of restructuring of fees on individuals we already mentioned before. Considering that the coverage ratio is accommodated in 12 months, its improvement tends to be felt only after this period. However, we count on the growth in volume of operations and client base to try to improve the coverage ratio.

Slide number 23. In this slide, one can see the evolution of our funding. With an outstanding performance in demand and savings deposits, which climbed by 29% and 21%, respectively, over the last 12 months. The decline in demand deposits in the quarter was already expected because of the effect of the end of the CTM [ph] effect, which artificially increased the demand deposits by the end of 2007.

The strong expansion in timed deposits is explained by the needs of funding for loan book growth and the consequence of the legal measure, which statutory requirements up to 25% on the funding derived by leaving company. In the asset management segment, equities were the best performers growing by 10% in the quarter and by 163% over the last 12 months.

Slide number 24. In order to provide a better understanding of our insurance, pension plan and savings bond operations, we are presenting a summary of our insurance group income statement on this slide.

In the quarter, net income from these operations grew by 28% or by 41% over the last 12 months, reaching R\$746 million, compared to R\$529 million in the First Quarter of 2007, with annualized return on equity of around 38%. Based on February 2008 data, this bottom line represented a 45% market share.

The significant increase in net income in the quarter is explained by -- one, the improvement of the claims ratio and, consequently, of the combined ratio as well as by, two, the conclusion of the process of building individual health insurance provisions.

Slide number 25. Revenues from insurance premiums, pension plans and savings bonds totaled R\$5.4 billion in the First Quarter of 2008, a 11.8% year-over-year growth, equivalent to a 24% market share as of February 2008 available data. As a result, Bradesco remains leader in the pension plan, property and life insurance segments.

Slide number 26 and 27. Guaranteeing assets of technical reserves reached R\$68 billion, equivalent to a 33.6% market share. It is worth remembering that 79% of these assets correspond to the pension plan and VGBL investment portfolios. Total assets grew by 18% year-over-year. Technical provisions totaled R\$59.7% billion or a 35.1% market share as of February 2008.

We would like to draw your attention to the volume of technical provision in the health segment, which amounted to around R\$8.3 billion, R\$1.4 billion of which built over the last five quarters.

By the way, as for Bradesco's health provision, I would also like to point out that if we maintain current market condition, especially regarding the level of playing and the capacity of premiums being readjusted in line with the increase in the medical inflation, that we believe our health provisions to be appropriate to the needs we identified in our assumptions.

Slide number 28. As you can see on this slide, personnel and administrative expenses remain virtually flat. Slide 29, the combined ratio measures the real operation of efficiency of the insurance group regarding claims control and if the underwriting is correct. We would like to highlight improvement in this ratio over the last 12 months.

Slide number 30. We maintain Bradesco's guidance for 2008 and I would particularly like to draw your attention to the loan portfolio's guidance, which is broken down by segments and products. I would also like to point out that the expected increase in operational expenses that you can see on this slide is derived by Bradesco's plans to expand distribution.

Slide number 31. We are here inviting each and everyone for Bradesco's investor day in London, which will take place next month. Slide number 32. Here you can see our economic forecast for 2008 and 2009, regarding GDP, base rate, inflation and Fx rate. The highlight here is the interest rates outlook, which is expected to reach 13% up to the end of this year.

In conclusion. First, I would like to emphasize the words said by our CFO, Mr. Milton, concerning the efforts Bradesco is undertaking to maximize recurring net income along with a strategy of expansion and distribution and client base. We are proceeding strong investments in human resources and IT, which will benefit our future results.

And two, last but not least, although we faced high volatility in the international financial system in this quarter, which generated high uncertainty, Bradesco's senior management considers that the results we presented yesterday are very good and characterized by very high quality. Thank you for your attention. And let us move to the question and answer session. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. Quick question. Your guidance for net interest income for 2008 of growth of 16% to 20%, is that different from what you had in the previous quarter? I'm sorry, I don't have the previous presentation in handy, but I'm assuming that with the

expectation of higher interest rates that number should be more positive for you. Was that number revised up? And what's your view about the likelihood of upward earnings revision on that number given that the Central Bank now is on a hiking mode? Thank you.

A - Jean Philippe Leroy

Hello, Jorge. Actually, the guidance is the very same we presented last quarter. Obviously, the First Quarter's not always the best measure, because it's in theory a weaker quarter than the other ones. And we are going to continue to verify if there is a need in the future for changing the guidance. But up to now, we maintain positive and about this guidance we are providing here. But it's exactly the same guidance.

Q - Jorge Kuri {BIO 3937764 <GO>}

So and -- if I may, just a follow-up. Was the guidance in the previous quarter already contemplating that the Central Bank was going to hike interest rates? Or this is a new event and this number potentially has some upside potential as a result of that?

A - Jean Philippe Leroy

Actually, it was not contemplating the increase in the interest rates, because when we disclosed the numbers, it was on January 28th. And if you remember, when we gave the forecast -- the outlook for the economy, it was a little bit different. In general terms, what happens is that we feel comfortable with this guidance, but sometimes, depending on what happens, for example, interest rates moving up, you could continue to be in the same range, but being closer to the upper range than to the lower range. But up to now, we continue to believe in this guidance.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Great. Thank you, Jean. Thanks a lot.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. My question is related to the, let's say, the sensitivity of Bradesco's balance sheet to interest rates. And without looking forward, but actually looking at where we stand at the end -- where we stood at the end of the First Quarter 2008, can you help us understand the, let's say, the asset sensitivity, or the net sensitivity of Bradesco to 100 basis point increase in interest rates if we look at where we are today all else equal. Are your assets -- how fast are your assets repricing than your liabilities? And therefore, rising interest rate environment, assuming all else equal would actually produce higher earnings for Bradesco or not?

A - Jean Philippe Leroy

Hi, Jason. Actually, maintaining everything equal, supposing that there is no change in the longer growth, theoretically speaking, we would say that Bradesco have a free fund and working capital in the amount of approximately R\$35 billion. By saying that, actually, for every 1% increase or decline in the rate, you have an impact of gross of tax is approximately R\$350 million. After taxes, going down to around R\$200 million. So theoretically speaking, if everything is equal, the sensitivity analysis is around this range.

Q - Jason Mollin {BIO 1888181 <GO>}

I mean, but should we also consider -- I mean that's what's free today and I understand that. Or that's the impact now. But should we think about -- how do we think about the assets repricing going forward? Right. We have assets repricing and liabilities repricing going forward. And you've been growing -- you've been growing longer duration assets -- payroll loans, mortgages, auto loans. Can you help us understand. Is this, I mean, theoretically, Bradesco should be less asset sensitive today than it was two years ago. Is there a way to quantify that? I mean, how -- what's the average duration of the loan book today versus what it was a year or two ago, for example?

A - Milton Vargas {BIO 3347541 <GO>}

Look, you have in effect in the footnotes of Bradesco, we disclose exactly the detainer of assets and liabilities. And actually, as you can see, they are roughly similar in terms of previous. We always are analyzing what is going on in the market. If we reprice. If the interest rates we charge are correct. But I would say, over the last one or two years, there was no huge increase in the average spanner of the loan book. Actually, although some price lines like mortgage are growing very fast, this still represents a very small participation, vis-a-vis the overall book of Bradesco.

So in theoretically speaking, although the treasury is always analyzing what is going on in the market and has been doing actually a very good job if you analyze the performance of the non-interest income part of the net interest income, you can see that actually, we are analyzing what is going in the market. Nothing is changing dramatically over the last maybe one or two years. The pan is expanding, but naturally, and you have in the footnotes, we disclose assets and liabilities. So in general terms, we are always looking, but it's difficult to give a precise answer for that question.

Q - Jason Mollin {BIO 1888181 <GO>}

That's been helpful. Thank you very much.

A - Milton Vargas {BIO 3347541 <GO>}

You're welcome.

Operator

Our next question comes from Mr. Saul Martinez with Bear Stearns.

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Q - Saul Martinez {BIO 5811266 <GO>}

Hello. Good morning. If I strip out the health insurance earnings, where you obviously benefited from the absence of additional provisions, your earnings were down 3% quarter-over-quarter. They were only up 5% year-over-year. Your recurring earnings when I stripped that out. I know you mentioned that you thought it was a good quarter given the market volatility, but is this number a bit disappointing to you given the balance sheet growth that you had over the last year? And should we expect a more meaningful up tick in recurring earnings growth in the coming quarters?

Samuel Monteiro dos Santos Junior Saul?

Yes.

Samuel Monteiro dos Santos Junior Samuel speaking. Saul, the way to do the health, we are earning a lot of things in other line of business relates to the health. Not only in the line of the health, really. So there are a lot of cost or so between, for instance on in dental, in the life, most of the business relates to the health, relates to the patient plans and life also.

No. I understand. My question really wasn't related to the performance of the insurance business, which would -- which even normalizing for health seemed strong this quarter. My question was really about the other businesses. In other words, if you made \$117 million in earnings this quarter in the health insurance business. You had virtually nothing in previous quarters. If I strip that out or normalize your consolidating recurring earnings this quarter and subtract out the health insurance earnings from that number, your earnings this quarter -- recurring earnings for Bradesco as a whole fell 3%. They were only up 5% year-over-year. And I was just wondering how you viewed that kind of growth?

Samuel Monteiro dos Santos Junior Saul, I would like to mention to you that the effect of the reserve of insurance, our insurance business are related to a lot of the assets relate to technical provisions writing.

Okay.

Samuel Monteiro dos Santos Junior As you know, six months and the basically, six month, and the equities -- market equities. And in the last quarter, what happened, you know the performance of the submarket would be very good. And we took an opportunity to realize some gains in that time. But I can't points to you, I can project for any sure, the same performance of the stock market. No. That fact that our reserves are represents a very important amount that represents in the equities.

That's our have returns, you can see in the slide 25. After tax, we decide to post 8. I think that this is the highest in the mark.

No. And I understand though the results in the insurance business were strong. My question is really for Milton and Jean. And it seems that given the very good earnings in

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the insurance business, it seems to me that the R\$1.9 billion of recurring earnings for Bradesco as whole seem a little bit disappointing. If I strip out -- like I said, if strip out health insurance earnings this quarter from total earnings for all of Bradesco, not just the insurance business, the earnings -- the recurring earnings only grew 5% year-over-year. And I kind of wanted to get a better sense for how the Company feels about that number and if it's really happy with the kind of earnings that they generated this quarter? Does that make sense?

A - Jean Philippe Leroy

Actually, we, in the presentation, and Milton file this at the end of his opening remarks, it was stated about the quality of the earnings and we are happy to disclose these numbers even in a period with much higher volatility, changes in legislation and every year higher and growing competition. So at the end of the day, you can consider that this Bradesco management is happy with current things that we have been posting in the quarter.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Just one clarification, Jean, sorry to take up so much time. You said, the operating expense line was adversely impacted by -- was it R\$86 million in expenses that were not recurring?

A - Jean Philippe Leroy

Actually, yes, R\$86 million. Actually, recurring, but should not be repeated going forward.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Got it. Okay. Thanks a lot.

Operator

Our next question comes from Mr. Oscar Streata [ph] with Banco Real [ph].

Q - Oscar Streata

Yes, hello. I have a question referring to the 2008 perspective on page 30 on the breakdown of the . Seems to me that the prospective for 2008 are very similar as to last year. I was just wondering, when I compare this projections for 2008 with quarterly growth rates, what's pretty interesting to see is that some of these products are actually at much lower growth rates. At the same time, cosignaro [ph] payroll loans, which is expected to grow 90% to 110% grew 3.4% First Quarter and 49% at last 12 the month, so that suggest a very big jump of the rest of the year. At the same time, leaving, which is a non-recurred year grew 59% of last quarter. How do you see this as the portfolio mix developing, because it seems to be a big variation between products?

A - Milton Vargas {BIO 3347541 <GO>}

Oscar, I would say and we recommend always the analyst to confirm the 12 months EBIT, although you might be using the numbers of the quarter and projecting them for the year.

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Obviously, it's very difficult to analyze numbers that's usually the First Quarter is the weakest in terms of economy. You live in Brazil, so, I believe so, so, actually you know that the economy is so steady as it is in maybe in other countries quarter-after-quarter. But at the end of the day, when you look at the numbers that we have, for example, in terms of the net interest income, net interest income that we are projecting in the range of 16% to 20% is close to the one that we disclosed over the last 12 months. So again, you might not agree, but we strongly recommend people to analyze the 12-month numbers much more than just taking a quarter and projecting annually for the year.

Q - Oscar Streata

But still, payroll loans was 49% and the projected for 2008 are 90% to 110%. That is a very big -- that's almost double the current month rate. Whereas, I understand the markets are growth rate is reducing. So does that imply some surging?

A - Milton Vargas {BIO 3347541 <GO>}

Look, the line, we are not hearing 100%. You could repeat. 49% would be what?

Q - Oscar Streata

49% is the 12-month growth rate for the payroll loans, consignaros. That's a very -- that's a rate significantly below the guidance for 2008.

A - Milton Vargas {BIO 3347541 <GO>}

Look, in the slides that we are disclosing this operation, on slide number 18, now I was not hearing very well, but 49% takes into account the whole portfolio. But as you can see, we have been very dedicated to expand the operations of BMC [ph] and Bradesco together. And what we are giving up guidance is actually much more taking into account that the relative participation of the product portfolio should be moving down. And that contribute the most important part of the growth will be the loan origination of Bradesco. So this is the reason why you should look more in 78%.

Q - Oscar Streata

Thank you very much.

Operator

Our next question comes from Mr. Victor Galliano with HSBC Bank.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. My main question has been asked already. But just one question if I may on asset quality and also what we've seen in terms of the trend in the quarter in terms of write-offs, charge-offs of loans. As I can see on a year-on-year basis, and if you look back over the last four quarters, this number seems to have gone up quite a lot. I mean, on a year-on-year basis, it's gone up about 35%. I mean, do you expect it going forward to stay at these

sorts of levels? So shall we say, a higher plane of charge-off. Or is this -- are there any kind of one-off items included in here?

A - Jean Philippe Leroy

No. It's actually, the recurring number. But I would say that the best thing would be for you to try to analyze the slide number 16, where we are basically the evolution and obviously that sometimes, you should be looking at percentages. And sometimes, it could be better to look at the evolution in numbers and the volume. You see the number growing very strongly, but we have a long book of more than R\$160 billion and the balance of provisions that's close to R\$8 billion.

But I would say, recurring numbers, where the best thing would be to look at the numbers that we are showing on the slide number 16. As you can see, the losses during 360 days compared with one year before are now standing close to 4.7%. And the understanding that we have is that this number should be moving down, closer to the green line that you see. So moving from the four and a half something percent, closer to 4%. So in one from year now, the level of losses should be closer to 4% than the 4.7%, 4.6%, 4.5% we are showing now.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thanks, Jean.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Mr. Roberto Attuch with Credit Suisse.

Q - Roberto Attuch

Hi. Good afternoon, everyone. My question is just about interest rates. It's from what level on interest rates and our rising interest rates are starting to affect loan demand and delinquencies, especially. I think what's concerns us now is the inflationary rates, and that's what all the banks are saying. If rates raise 2 to 100 basis from now. And a loan demand and delinquencies do get changed. So according to your (inaudible), what is the level from when it starts to affect loan demand and again in builds?

A - Milton Vargas {BIO 3347541 <GO>}

Roberto, basically, what we are seeing is an economy growing very strongly in Brazil and affecting very positively individuals and companies. And there is a very huge pent up demand that we see for individuals in the terms of buying cars, in terms of buying houses, and white goods and others. When we look at the companies, the level of leverage of the companies is also very low. When you compare Brazil's level with levels of comparable economies. So there is no specific percentage that we believe is going to affect. We

believe that at the end of the day, the economy is growing close to 5% basically is something that would not affect the desire for growth.

There are two additional information that are important to pass to you would be that at point that do those, if is there is a sentiment that you can buy, because installment fits inside of your salary, you feel confident about your job that your job is not on the line. And we see the unemployment rate moving down and the level of wages moving up in Brazil, this affects positively individuals.

And on the side of the companies, we have done researches from our chief economist team, Otavodigavos [ph], which analyzes 1,600 companies and what happened is there is a change in the interest rate growing like 300 basis points. And what we see in this -- through this researches is that the companies should not be effecting their expectations of investments.

So these two are the pillars of growth in loans over the coming years and we basically also have a very strong distribution. We have a huge client base, more than 36.6 million customers, that we should be benefiting obviously more than anyone else.

Q - Roberto Attuch

Okay. That's great. Thanks very much.

A - Milton Vargas {BIO 3347541 <GO>}

You're welcome.

Operator

Our next question comes from Ms. Daniella Avelland [ph] with Credit Suisse.

Q - Daniella Avelland

Hi. You mentioned that your fees were lower because of decreasing transactions in the capital markets. And I was wondering if your seeing some pick up now? And what is your outlook for 2008? And if that will affect your fee income? Thank you very much.

A - Jean Philippe Leroy

We saw a First Quarter, which was obviously much weaker than the last quarter of last year, but we are beginning to see a number of deals coming to the market. And obviously, the leadership that Milton mentioned in the beginning of the conference call will be key for Bradesco to grow on the top of that. The customers that are making IPOs, they usually are now are more of higher quality, because of investors flights to quality prospects. So we are seeing right now an increase in the number of deals. Obviously, not so high that what it was last year, but giving us good perspectives for the year of 2008.

Q - Daniella Avelland

Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Mr. Alejandro Bulmusia [ph] with CAF.

Q - Alejandro Bulmusia

Hi, hello. We have a question regarding your BIS ratio. The BIS ratio has declined from 15.7% a year ago to 13.9% at the end of the quarter. And you are projecting further declines on that ratio too, I think. So we would appreciate it if you could let us know what your strategy is for managing the equity of the bank?

A - Jean Philippe Leroy

Hi, Alejandro. I would say in general terms, as you can slide number five, although there was a decline in the BIS ratio, we are not using the instruments that the Central Bank of Brazil would be allowing to strip out of the calculation the hedge positions on the CapEx investments we have abroad -- on the equity we have abroad, which actually would be helping us to raise converting 13.9% to 16.7%. We are not using this cost that we could use. It doesn't mean that we will. We feel that the 13.9% BIS ratio that we have is much higher than the 11% minimum ratio we have in Brazil. We also have a space to issue more tier two.

So you can issue up to 50% of what you have in tier one. So we could be using this way to boost even more the BIS ratio. But forgetting about that, 13.9% gives us the possibility to expand a longer pipe R\$80 billion. And we are expecting a long book that you see a growing, as you can see on slide number 30, in the range of 20% to 25%. We have kept going up, everything being equal, to continue to expand our loan book for the next coming years without any problem. So the strategy should be roughly to use maybe the instrument of tier two, but we definitely believe that the 13.9% BIS ratio is enough for Bradesco.

Q - Alejandro Bulmusia

Okay. Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes from Mr. Ian Smith with Nestea Capital [ph].

Q - Ian Smith {BIO 17539373 <GO>}

Hi. Good morning. I just wanted to back onto to fees, just very quickly, one of the other reasons why you explained fees were done was a readjustment. And with the new regulations becoming effective, I think it's coming up now the 30th of April, do you feel that that readjustment is absolutely complete and we won't see further readjustments through the year?

A - Milton Vargas {BIO 3347541 <GO>}

Hi, Ian. Good afternoon. Actually, these changes that are going to begin to affect banks from May on, actually are not so easy for us to anticipate the movements during the year. For the guidance sake, we are using a fee income expectation of gross between 5% to 10%. From the calculations that we have up to now that already we have to certify over the coming quarters, because we adjust calculations, we might have fees growing closer to 5% than growing closer to 10%.

We are still looking at that and in June, obviously, if we see that we could be or we should be changing the guidance, obviously, we are going to do that. As last year, you had to remember that when we saw that the guidance could be -- should be changed, we also changed that. But we are always looking at ways to compensate fees and we are still analyzing and will be analyzing very deeply what is going to occur from May on.

Q - Ian Smith {BIO 17539373 <GO>}

Thank you. If you don't mind, kind I just ask a slightly different additional question. It's relating to this sort of the sensitivity of your assets to a rate increase, particularly your securities portfolio. An apology if this is already in the notes, but what proportion of the securities are variable rates? And how quickly do you think the securities portfolio will reprice in line with a rate increase? But on top of that, how do sensitive do you think your securities portfolio are to the mark to market hit from rate increases at the same time?

A - Jean Philippe Leroy

Just a second. Can you hear me? I don't have the precise information of the percentage, but I can guarantee that the bulk of the securities portfolio is invested in variable rates in cities. So if there is an increase in the interest rates, obviously, you could have a positive impact from related in the income statement.

Q - Ian Smith {BIO 17539373 <GO>}

Thank you very much.

A - Jean Philippe Leroy

You're welcome.

Operator

Our next question comes Mr. Victor Galliano with HSBC.

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Q - Victor Galliano {BIO 1517713 <GO>}

Yes. Just a follow-up here on operating expenses. And what I wanted to focus on, was really, you talked about investment in IT. I mean, can you give us some idea of that -- those total operating expenses of R\$3.55 billion. I mean, what percent of that is investment in IT? And can we expect that to tail off going forward into the year or has it yet to -- are you going to account for that pretty evenly over the course of the year?

A - Jean Philippe Leroy

We invest roughly speaking a billion dollars a year in IT and infrastructure. The IT improvement program, which is underway, still has approximately R\$700 million of expenses that we should be undertaking over the next two to three years.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. So you will have a count -- R\$700 million over the next two to three years, including this year?

A - Jean Philippe Leroy

Exactly.

Q - Victor Galliano {BIO 1517713 <GO>}

Thanks.

A - Jean Philippe Leroy

You're welcome.

Thank you. I would say, because of the time, we have to end the conference call. It was a pleasure to have so many people attending. Obviously, the investor relations area is open for any further questions. Mr. Milton Vargas, Domingos Figueiredo de Abreu are all open to any particular needs that you have. Thank you very much for attending the First Quarter (inaudible) results and see you. Bye.

Operator

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

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