Q1 2009 Earnings Call

Company Participants

- Jean Philippe Leroy, Department Director
- Milton Vargas, EVP and IR Officer
- Samuel Monteiro, CFO, Bradesco Seguros Insurance

Other Participants

- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Jorge Kuri, 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 2009 Earnings Results Conference Call.

This call will be conducted by Mr. Milton Vargas, Executive Vice President and Investor Relations Officer, Mr. Domingos Figueiredo de Abreu, Managing Director, Mr. Marco Antonio Rossi, CEO of Bradesco de Seguros, Mr. Samuel Monteiro dos Santos Junior, Executive Vice President and Chief Financial Officer of Bradesco de Seguros Insurance and Mr. Jean Philippe Leroy, Department Director.

This call is being broadcasted simultaneously through the Internet and the website, www.bradesco.com.br/ir. At that address, you can also find the 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. At that time, further instructions will be given.

(Operator Instructions)

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

Forward-looking statements are not guarantees of performance, involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not support the literatures.

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'll turn the conference over to Mr. Milton Vargas, Executive Vice President and Investor Relations Officer. Please go ahead, sir.

Milton Vargas {BIO 3347541 <GO>}

Good morning. Welcome to our conference call. As expected, the economic slowdown continuing in the First Quarter impacting the credit market and impacting the liquidity. Despite this uncertain scenario, Bradesco posted a net income of BRL1.723 billion. (20%) higher than the reported net income of the Fourth Quarter of last year, equivalent to a return on our average equity of 21%.

As we will see later in this presentation, Bradesco's balance sheet is structured and the improved risk prospects for financial investments, along with good performance of our treasury operations and Insurance group, plus the improvement in efficiency ratio were key factors in overcoming this period of obvious difficulties.

It is also worth noting that we improved our methodology for calculating allowances for loan losses, provisioning BRL177 million for credit card operations, related to cash, an installment purchase.

This effect can be treated as a non-recurring provision, (inaudible; background noise) and further adjustments, we will only occur in line with any changes in the calculation-basis. In the quarter, an amount of BRL793 million was invested in infrastructure, technology and communications. Based on our operation of 60 full-sized branches and 151 advanced service branches. We intend to open around 90 new branches in 2009.

On April 30, our market capitalization stood at BRL76 billion and our preferred shares in ADRs recorded year-to-date, appreciation of 20% and 28% respectively. Our strategy is focused on domestic earnings growth in order to take advantage of the potential of the Brazilian market, which we view as very attractive.

I will now turn the floor to Jean Philippe and I will be available for further details in the question-and-answer session. Thank you.

Jean Philippe Leroy

Good morning. Good afternoon. The slide three shows the main economic and financial indicators that impact our assets and liabilities. In comparison with the First Quarter, the most significant variations were in the San Paulo Stock Exchange and FX rate indexes and the reduced number of working days.

Slide number four, in regard to the First Quarter's '09 net income, the main highlights were, one, the constitution of civil provisions for economic plans totaling BRL175 million. Two, the constitution of allowance for loan losses from credit card operations of BRL177 million as previously mentioned by Milton, plus, the BRL68 million of excess of provisions.

These events were partially offset by gains from treasury operations and a little bit higher than the historical average. The net income of BRL1,723,000,000 represents an annualized return on average shareholders' equity of 21%. Slide number five

On slide five, I would like to call your attention to the improvement in our cost-to-income ratio, which reached 41.5%. We are dedicated to improve this ratio even further.

Slide number six. Bradesco's assets reached BRL482 billion, 6.1% higher vis-a-vis the previous quarter and the shareholders' equity stood at BRL35 billion. The capital-adequacy-ratio remains at a sound level of 16% in March 2009, indicating plenty of room for growth without depending on new rights issues.

Slide number seven, the unrealized gains that you see in the slide amounted to BRL1.293 billion in the First Quarter of '09, showing a positive reversal of the mark-to-market effect of long-term fixed income securities. Emphasizing the footnote, where we are reminding all that the participations in Visanet, Serasa, the potential goodwill in real estate owned by Bradesco plus the impact of the increase in social contributions, which creates tax credits are not included.

Slide number eight, in this slide, we show a breakdown of Bradesco's net income. The reduced participation of loans was due to two factors. One, the lack of loan book growth. And two, the increase in delinquencies in the First Quarter. The growth in securities was fueled by higher gains from treasury operations, including the reversal of the mark-to-market effects of credit default swaps of the Brazil sovereign debt. We expect loans and insurance to return to their respective historical relative participation of 26% and 33% from next year on.

Slide number nine, we present in the slide a summary of the income statement, showing the main variations, which we will be focusing with more details over the next coming slides.

Slide number ten, our net interest income grew by 14.8% in the quarter and by 26.6% year-on-year. Basically due to volume growth of interest earning operations and higher non-interest earning from treasury gains, including the recovering of the mark-to-market effect of the CDF and the portfolio index to CPI, consumer price index.

Next we show the historical behavior of the results of interest earnings in gray and non-interest earnings in red. It is worth noting that although the non-interest portion is relatively insignificant in comparison to the total, it unquestionably represents an important and stable part of our results.

Slide 12, regarding the interest earning results, the slide shows the proportion in relation to the average asset, reaching an annualized ratio of 7.2%. We believe we will be maintaining the net interest margin over the coming quarters.

Slide number 13, we show here the breakdown of the net interest income from interest earning operations. It is worth noting, one, the decline in funding due to the higher costs regarding CDI, the Interbank deposit certificate rate. And two, the decline of the SELIC itself.

Slide number 14, to complete our net interest income analysis, on this slide we show a summary of our loan operations. The gray portion refers to the gross margin and it's basically the difference between the interest that we charge, interest rates that are charged from the customers, and the variation of the SELIC, the Brazilian base rates. The red portion shows the evolution of allowances for loan losses, adding discounts and deducting the recoveries, which represents 56% of the gross margin in the quarter, confirming our expectations of an upturn in delinquencies use, reflecting in the increase in interest rates from September 2008 on. Reminding, the footnote, where we are showing that the excess of provisions that we have been building over the last quarters were not included here.

Slide number 15, on this slide, we show the evolution of allowances for loan losses and the -- their breakdown, highlighting the increase in expenses and write-offs. As previously mentioned, the increase in allowances for loan losses was directly due to companies' and individuals' temporary loss of capacity to honor all their commitments, given the impact of the economic slowdown triggered by the global crisis. We would like to highlight the lower levels of recoveries in the quarter-over-quarter, net.

Bradesco's expanded loan portfolio closed the First Quarter at BRL214 billion, 26.5% higher on a year-over-year analysis and stable over the previous quarter, due to the crisis-driven reduction in client demand. I would just like to point out that the new borrowers accounted for loans of BRL23 billion over the last 12 months. Certain signs of economic recovery should lead to a likely rally in the coming quarters. Since the peak of the crisis in September '08, our credit supply has been operating normally. Thanks to our operational limits, high liquidity and objective to serving our clients.

Slide 17 gives, actually, a breakdown of our individual loan portfolios. As you can see, the biggest year-on-year increase came from leasing, which has been replacing steadily, but continuously, direct financing, mortgages and rural growth -- rural loans, agricultural loans. The quarterly decline in credit card operations was due to the normal seasonal upturn at year-end. The reduction in mortgages reflected the credit security accreditation, which is accounted on another line.

Slide number 18, we show the break down of our consumer finance operation which reached BRL58 billion in the First Quarter. As you can see the financing of goods is being replaced by private label credit cost financing operation. In the same way payroll deductible loans are gaining a bigger share of personal loans. We believe the recent tax breaks may lead to an increase in consumption in financing news. Note also, that payroll deductible loans and auto financing alread accounts for two-thirds of total Consumer Finance portfolio. Although the interest rates are lower in these operations, delilinquency is also much lower than in other portfolios, for example credit card and personal loan, thanks to the collateral that we would have.

Slide number 19,corporate loans moved up by 31.2% over the last 12 months and remained flat in the quarter for the reasons already mentioned before.

Slide number 20, on this slide, we show the leverage of coverage of our provisions related to our expected losses. The first curve represents total provisions divided by the loan portfolio, while the second one corresponds to provisions required by the Brazilian Central Bank. Note that we have an excess of provisions of BRL1.7 billion, the difference between the first two lines.

The pro-forma curve representing the percentage of effective losses, the charge-offs, is highly correlated with the green curve, which represents the level of non-performing loans. Based on these historical trends, we can safely say that we have a very solid provisioning cushion in the range of BRL3.1 billion, allowing us to comfortably overcome any eventually difficulties.

It is important to mention that the BRL2.9 billion of provisions that were built in the quarter were not using the extra provisions that we already have and that we even increased even further by BRL68 million.

The total delinquency ratio regarding the loans' average use by more than 90 days, which has remained stable recently, moved up by 4.3% in the quarter, for the reasons commented on the slide 15. We expect a slight increase in the ratio in the next two quarters, leveling off at the end of the year.

Slide 22, in this slide we show the delinquency trends between 61 and 90 days. It is easy to see the upward trends of these ratios since December 2008, the slow down of this growth and even stabilization, in fact in upper levels as of February 2009.

This trends up to date and signs of improvement of economic activity in Brazil makes us confident that the worst in terms of asset fund deterioration has already been past. Notwithstanding, as already mentioned, delinquency ratios for loans overdue by more than 90 days will also continue to deteriorate until the Third Quarter of 2009 but should be reaching a top 4.9%.

Slide number 23, concerning funding, the decline in demand and savings deposits was due to the normal seasonal upturn in the First Quarter. That is because liquidity remained high in order to meet our client's needs. Equities were a highlight in the industry moving up by almost 15% in the quarter reflecting the stock exchange market recovery.

The decrease reported in the Third Quarter, in the quarter of third-party managed funds was due to a change in investment policy of part of our clients who opted for more conservative funds, in turn, reflecting in the upturn of our fixed income portfolios this by higher demand for time deposits over the last 12 months.

Slide 24, fee income remains flat compared to the first and Fourth Quarter of 2008. The regulatory changes generated losses from fee adjustments and in the elimination of companies like fees in individuals which were offset by the growth in the client base and the increase in volume.

Slide 25, as you can see on this slide personnel expenses reported a decline in the First Quarter of '09 versus the previous quarter. The structural component was affected by the greater concentration of vacation in the First Quarter and the non-structural expenses by lower management and employee's profit sharing.

We highlight that during this quarter we've opened 16 full-size branches and 151 advanced services branches.

Slide 26, the reduction in administrative expenses over the First Quarter was due to reduced expenses in advertising, BRL101 million, and outsourcing services, BRL61 million. The increase over the First Quarter 2008 was due to the expansion of the distribution network and higher volume as well as investments in the IT improvement project designed to optimize the technological platform including the replacement of the architecture of system.

Slide 27, the coverage ratio comparing fee income and personnel and administrative costs has been falling basically due to flat fee income generation as a result of the regulatory measures in early 2008 and continued investment in expansion of our structure. However, we believe the downward trend will be reversed in the coming quarters thanks to the increase in volume and client base.

Slide 28, as you can see on this slide the net income from the insurance group decreased by 18% with versus the Fourth Quarter of 2008 due to higher financial income, improved efficiency thanks to cost savings, and lower claims ratio in the health and auto and property and casualty insurance segments.

Compared to the First Quarter of 2008 the reduction in the net income of nearly 13% was caused by lower gain from the sale of equities and the increase in the social contribution which affected the taxable income as the social contribution moved up from nine to 15%.

Up to generally 2009, the net income from the insurance grew from Bradesco's insurance company accounted for 36.8% of the Brazilian insurance market.

Slide 29, revenues from insurance premiums, private pension plans, and savings bonds reached BRL5.5 billion accounting for 23.8% of the Brazilian industry. The 11.1% reduction in the quarter was essentially due to the seasonal year and growth in the private pension plan sale. These results maintained us as the leader in private pension plan and the property and life insurance segment.

Slide 30 and 31. On slide 30 we present our own financial assets and technical provision guarantees which amounted to BRL73 billion equivalent to 34.6% of the industry in January. Technical provisions reached BRL67 billion or 33.4% of the total industry as of January again.

In slide number 31 we show a breakdown of the technical provisions per business line. Slide 32, we show here the historic evolution of the combined ratio which reflects the operating efficiency of the Bradesco Insurance Group.

Slide 33, in response to requests from the markets we are here showing in this slide our tax credits in relation to the shareholders equity. We would like to point out here that the increase in our tax credits were basically due to credits derived from temporary additions, mainly in view of increasing provisions of credit.

I would like to call your attention to our low volume for other tax credit that derives from tax losses, goodwill amortization, and others. Due to their characteristics they're offset is slightly difficult and longer. Concluding this slide, the realization of those fiscal credits will not be taking more than three years for Bradesco.

On slide 34, we are showing the macroeconomic outlook for 2009 and 2010 in terms of GDP, interest rate, inflation, and FX rate. This is basically the scenario for our economic team. Note that we expect zero GDP growth for this year.

On slide 35 we are currently revising our guidance with possible disclosure going forward if we decide to change it.

In terms of loans, as you saw we grew by 9% over the last six months, the loan grew but we have to confirm the growths over the next months to definitely project better the expectation for growths in 2009.

In conclusion, as we expected this is a year of major challenges for the financial sector. Increase in delinquencies and the modest growth of credit impact negatively the net income and therefore jeopardizing profitability.

Despite this scenario, we believe we had a good performance in this quarter taking into account the structure of our balance sheet with its high level of provisions for losses, for loan losses, taxes, (inaudible), and labor contingencies.

As we previously pointed out, we expect growth in the volumes and in our client base in the coming quarters leading to increased loans and fees. Dues offsetting expected delinquencies increase until September in the same way we intend to continue our operational efficiency ratio. Thank you very much and I would like now to open the floor for your questions.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. Our first question comes from Daniel Abut with Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, Jean. A quick question. Understanding that your guidance release provision at the end, in page 36 of your presentation, would you share at least some preliminary thought of the way you are thinking of seeing them because it appears to me that what you showed me in the First Quarter only 1% year-on-year due primarily by the still lingering impact of the new regulation makes a 7% to 11% (inaudible) very questionable?

So would you comment on what extent we can see better performance in fees and what's going to drive it in the later part of the year or if this is one of the lines that should suffer some significant downward release?

And on the other hand, though you showed negative income growth of 27% year-over-year in the First Quarter, which would make the 18% to 22% guidance a little shy, to what extent we saw in the First Quarter because of the trading and treasury gain should be considered one off or the 18% to 22% guidance may start to look a little different?

A - Jean Philippe Leroy

Okay. In terms of the guidance again, this is the guidance that we are showing to the market. We are concluding our analysis to see if we are going to change the guidance.

In terms of fees, up to now I would say we are relatively optimistic about the possibility of maintaining this level of fees.

In terms of the net interest income, I would say you also have to consider that the non-interest parts, the trading gains, the effect of the mark-to-market in the First Quarter, I would say we're out of the curve. So I believe that we feel also kind of secure that the net interest income should be maintained roughly in the levels that we are showing in the slide number 35.

Again Daniel, I wish I could be giving you the guidance but again, we have to conclude some different analysis to see if we are going to change the guidance or not. The fact is that we have been seeing, over the last month or so, very good news in terms of the GDP, in terms of the economic level. Most of the economies that we are projecting a negative GDP trend for this year they are beginning to go to the positive scenario of more than zero percent or around zero percent.

Again, when we will have the new guidance, if we change, we will be more than happy to disclose it.

Q - Daniel Abut {BIO 1505546 <GO>}

But considering looking at the income side, if you look at the different lines that are disclosed in page 34, which are the different subcategories of the income, do you think we can see most of the rebound in the latter part of the year and are you going to be able to give the 7% to 11% guidance?

A - Jean Philippe Leroy

Actually, in most of the lines, in car, in loan operations, in asset management, basically as we expecting growth in volumes and a growth of client base it is expected that the volumes should be helping the lines to be going higher.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Jean.

A - Jean Philippe Leroy

You're welcome.

Operator

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

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have two questions. The first one, is it fair to say the given that you revised your GDP estimate downward from 1.5 to zero you're preliminary thoughts on your business guidance is to revise it downward? Or actually you were thinking of potentially revising it upward? That's the first question.

The second question is on asset quality. According to the presentation here you're total NPL ended up at 4.3% this quarter, up from 3.6% in the previous quarter. That's a pretty significant jump for one quarter essentially if you look at the long-term trend series. It's the most important sequential jump we've seen in many years. Can you just walk us through more or less what you see during the quarter that drove that increase in NPLs?

And you also mentioned that you think NPLs will continue to rise and will stabilize in the Third Quarter, if I understood correctly, at 4.9%. So why are you seeing that you're assuming a much lower deterioration in asset quality? I would have thought that given the big jump in the First Quarter then the next couple of quarters are also going to be tough and yet you're basically expecting it to change very modestly from 4.3% to 4.9%. So if you can give us more color on asset quality that would be great. Thank you.

A - Jean Philippe Leroy

Hi, Jorge. I would say when we have, we disclosed our guidance on February 2, when we disclosed our 2008 numbers, at that time it is true we were expecting 1.5% GDP growth. Now we are thinking above zero. So I would say the trend would be that all the numbers of revenues should be coming closer to the lower end and these definitely are in the perspective of everyone. But again, we are beginning to see some signs and the month of April was quite good. We have to feel a little bit more comfortable to provide a new guidance if we decide so. But I would say coming closer to the lower end to respond to your question.

In terms of the asset quality, we decided in this quarter to include a new slide, which was the slide number 22, because we have been already providing information about the more than 90 days past due and we wanted to give a flavor of the shorter term delinquency.

What we tried to explain during the presentation, was that based on this uptake in the delinquency ratio of 61 days to 90 days, let's say, in December, and that we see the numbers that are much more flat since January, they stabilized, we believe that we have a prospective of the asset quality to be going up again.

We are not saying it's not going to go up, we believe it's going to go closer to 4.8%, 4.9%, up to August or September of this year. But it is important to tell you different things that make us comfortable about that. I would say, first, we're about this slide 22. The trend of the 61, 90 days helps you to build the trends for a longer period of time.

Second, when we make loans to individuals, individuals is where we have most of the risks. Actually, after six months, you have a full provision of the operation, and six months after that, you have the write off. So I would say you began to capture in September 2008 a deterioration of the economic scenario, you had the unemployment rate beginning to move up since the end of last year. So you began to capture in individuals already most of the asset quality deterioration.

We have a lot of information that are proprietary information, you know that Bradesco is responsible for 20% market share of the sales of the companies that are passing through banking systems, as we were a 20% market share company of the (CPMF Bank). So we capture a lot in our (assistance) the Company's behavior, who is selling to whom, if there are delinquencies, if you have problems ahead and where. So I would say we have a lot of information that we can capture.

We have seen that the employment should be relatively stable. We also see that the trends are positive for the mass of salaries, the real wages should be moving up. And we see already that even though some companies are suffering, you have a process of MNAs, you have a process of companies deleveraging, so actually at the end for individuals and for companies and also taking into consideration that we are in a pre-election year, next year we have elections in Brazil, so investments in the program of the government of acceleration of growth should also impact more the economy.

So the expectation is that this 4.3% ratio should be going to 4.8%, 4.9% up to August, and that it should begin to move down. Our chief economists have the expectation that loans from the banking sector in this year should grow by 12% from all the banks. And usually, Bradesco grows a little bit more than the market. So I would say the trends are positive for the second half of the year.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks a lot.

A - Jean Philippe Leroy

You're welcome.

Operator

Ladies and gentlemen. our next question comes from Mr. Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi Jean, how are you?

A - Jean Philippe Leroy

Fine, and you?

Q - Saul Martinez {BIO 5811266 <GO>}

I'm good, thanks. Couple of questions for you. One on your effective tax rate, I think you have about BRL900 million plus of tax credits that you can continue to use to offset the increase in the social contribution rate. When do those get exhausted, and by 2 -- what do you expect for the social contribution rate in 2000 -- in your effective tax rate in 2010?

I think Itau today in their release indicated that they actually believe that the courts will find the social contribution rate increase from last year unconstitutional. Are you guys of the same opinion or should -- or are you guys thinking that your effective tax rate will actually indeed increase in 2010 by 6percentage points?

A - Jean Philippe Leroy

Look, we have a stock of BRL926 million that we can activate. It's a very large amount of money which basically should be neutralizing all the effects of the social contribution this year. We actually are questioning with law suit this social contribution. It's difficult to know what is going to happen. If we lose, it goes to 15%, but at least we are questioning that.

And for the effective tax rate of this year, I would say it tends to be a little bit higher than 2008 because of the interest on capital which is tax deductible should be helping less to reduce the effective tax rate as the (TGLC), the long term interest rate, is moving down in Brazil.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, so you think it's uncertain in terms of how this is going to play it in terms of the increase in the social contribution rate at this point?

A - Jean Philippe Leroy

Yes. It's difficult nowadays to precise a little bit better.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Then just secondly on asset -- a couple of questions on asset quality. First your excess reserve or BRL1.7 billion, are you comfortable with that level or what would need to happen for you guys to reverse some of those excess reserves or are you more in the mindset that you would be more comfortable bumping that excess reserve up at this point?

A - Jean Philippe Leroy

Referring to the provisioning level, maybe we could look at slide number 20. And I would say, much more than the excessive provision of BRL1.7 billion, we prefer to look at the expectations of future losses, vis-a-vis the level of total provision. And if this is the case, our excessive provision would be of BRL3.1 billion approximately.

We feel very comfortable. We basically said that during the presentation and we are very comfortable with the level of provisions based on our portfolios and our expectations on future losses. That is the reason why we are not using the excess and we are building provisions on a quarterly basis.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And just one final question, the 60 to 90 day color was very helpful. Have you seen any -- do you guys have any idea of where 0 to 15 or 15 to 60 day delinquency rates have headed? Are they trending at a similar rate to what you've seen for 60 to 90 day?

And the reason I ask that is obviously we do get color from the Central Bank data and 15 to 90 day past due loans have been a very good forward-looking indicator for NPLs and they've actually still been increasing for individual loans. So I'm curious if in your book if you look at shorter time horizons whether you're seeing a similar trend to what you're seeing -- you know, the stability you're seeing in the 60 to 90 day past due loans.

A - Jean Philippe Leroy

We have our own analysis of shorter periods of time. The trend is relatively similar to the trend of 61 to 90 days, although sometimes you could have some variations because you could have an operation being paid and this affects the ratio. So we prefer to show 61 to 90 days as we believe it's more stable and that projects the 90 days plus past due loan expectations.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. All right. Great. Thanks a lot, Jean.

A - Jean Philippe Leroy

Sorry?

Q - Saul Martinez {BIO 5811266 <GO>}

Thank you.

A - Jean Philippe Leroy

You're welcome.

Operator

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

Q - Victor Galliano {BIO 1517713 <GO>}

Hi, Jean. Yes, just on the insurance businesses then, and you saw -- we saw in the quarter that you hit an ROE of 31%, obviously a good combined ratio. How sustainable do you think this is going forward? Is there any risk here that in any major business line that we see an increase in competition or price war in the near term, is there anything from what you see in April that tells you that situation is changing or do the returns in that business look quite stable at least from the business loans point of view?

A - Samuel Monteiro {BIO 18677825 <GO>}

This is Samuel speaking. In your question about the sustainable ROE of 31%, my answer is very easy to understand and that is, if you consider that the social contribution which increased 6 points when making comparison between the First Quarter of 2009 and the First Quarter of 2008, our ROE would be the same as the First Quarter or 2008. The big difference between social contribution in 2009 and 2008 could explain you -- could justify you that the ROE would be the same as in the past year.

The combined ratio, I would say to you is absolutely sustainable, that the tax rate of -- sorry, the financial rates in our investments drop down as you know, and the (compensation being our stakeholders), which reduce -- will reduce the cost of the claims, because don't forget you and everybody put in our mind that (inaudible).

They put the cost of interest in their costs, and Bradesco has a huge portfolio but in health we have it close of 44 million of people, 4 million insured in cars, 1.5 million, you know. It's a very, very huge portfolio to make impression with our stakeholders to reduce price of the costs, which would directly reduce our claim ratio.

Determining a possible price war, in our view, there(is a price war for us. We make a very interesting movement in 2007 when the bank finished this RIM season, which show us what kind of insurance, policy of insurance the clients of the bank have. And (inaudible) our talks was in that time, start in that time our talks with the big clients. Of course, for the bank's clients, we have the best price. We know the client, we know what they doing, what the kind of insurance they wish the same as -- in terms of dental.

What happened in dental? Dental was the insurance goal of Bradesco. The split operation, the health in terms of dental, put a specific company needs focus on dental, what happened? We increased 50% of our income in terms of dental. Why? Because we have the best price for our clients as everyone, you know. And the behavior of the market would be -- in Bradesco's view, there isn't for us a war price or price war.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Carlos Macedo with Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Hi. Good afternoon, Jean. Good afternoon, gentlemen. I have a question going back to the guidance. If you can give us some color on the expense guidance, you have (19.4%) growth in expenses. I was wondering if that still holds, that you're still planning to open the same amount of branches that you were at the beginning of the year. If not, where else can you say -- where else can you cut back, given that now we expect a year with much less growth?

A - Jean Philippe Leroy

Hi, Carlos. I'm having to comment a guidance which theoretically does not exist, because we didn't change the guidance. But I would say in general terms, costs relatively -- we are doing everything we can in order to keep the cost lower and I would say we have some initiative. For example, we should be opening 100 -- approximately 90 to 100 branches. And before we had a budget of opening almost 170, 180.

So you have, I would say, some initiative that we are going to deploy in banking and in insurance, and we are also going to try to renegotiate the same way Samuel was talking about renegotiating the cost with each and everyone. The bank will be doing the same. And also, as we have good expectations for the inflation of this year, we could have less pressure on the handling of negotiation of wages, and this definitely is a positive for us.

So I would say, we have to keep with the guidance, and -- but you have to keep in mind that definitely the focus on cost reduction is one of the most important ones and we are interest in that even more.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Jean.

A - Jean Philippe Leroy

You're welcome.

Operator

(Operator Instructions) Excuse me, ladies and gentlemen. since there are no further questions, I would like to invite Mr. Milton Vargas for his closing statements. Please go ahead, sir.

A - Jean Philippe Leroy

This is Jean. I just wanted to thank the participation of each and everyone and to basically open further questions to be director to the Investor Relations department in order to be responded. Thank you very much, bye.

Operator

This concludes the Banco Bradesco conference for today. Thank you very much for your participation and have a good night.