# Q2 2012 Earnings Call

## Company Participants

- Luiz Carlos Angelotti, Managing Director, IRO
- Paulo Faustino da Costa, Market Relations Director

## Other Participants

- Boris Molina, Analyst
- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Marcello Telles, Analyst
- Marcelo Henriques, Analyst
- Mario Pierry, Analyst
- Philip Finch, Analyst
- Regina Sanchez, 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 Half 2012 Earnings Results Conference Call. This call is being broadcast simultaneously through the internet on the website www.bradesco.com.br/ir. In that address you can also find a banner to which the presentation will be available for download.

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

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

Forward-looking statements are not guarantees of performance. They involve risks, 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 the general economic conditions, industry conditions and other operating factors that 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. Paulo Faustino da Costa, Market Relations Department Director.

## Paulo Faustino da Costa {BIO 6436050 <GO>}

Good morning, everyone. And thank you all for participating in our Second Quarter conference call. We are here to provide you with all the information you may need about our numbers. It is in line with our goal of always increasing transparency of information disclosed to the market.

We have here today Mr. Julio De Siqueira Carvalho De Araujo, Executive Vice President, Mr. Marc Antonio Rossi, Chief Executive Officer of Brazil Seguro Group and Bradesco Executive Vice President, Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer, Mr. Moacir Nachbar, Junior, Deputy Officer.

I will now turn to our Executive Managing Director and Investor Relations Officer, Mr. Angelotti, who will lead our conference call. After his presentation, we'll be open to answer your questions. Mr. Angelotti, please go ahead.

## Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. First of all, I would like to thank you all for taking part in this conference call.

Slides two and three show our main period highlights. On slide two, I would particularly like to mention our first half adjusted net income which totaled BRL5.7 billion, BRL2.7 billion more than the same period last year. I also wish to draw your attention to our adjusted net interest income which grew by 15.4% over the first half of last year. And our total assets, which came to BRL830 billion, 5.2% up in the quarter and 20.5% more than in June 2011.

On slide three, it is especially worth noting our assets under management which ended the quarter at BRL1.131 trillion, a 21% increase over June 2011. And our efficiency ratio which fell by strong 30 basis points in the last 12 months, closing the first half at 42.4%.

On slide four, we show the reconciliation between our books net income and adjusted net income in the respective periods. This quarter, as in the previous three months, there was only one non-recurring item, the provisions for civil contingencies which total BRL57 million growth. Adjusting for this event, our book net income increased from BRL2.833 billion, generating an annualized return of 20.9% in the quarter.

Also, in this slide, you can see that our return on average equity came to around 20% in both the book and adjusted net income (concepts).

Slide five shows our historical results our quarterly net income. Income growth in the Second Quarter and in the first half of the year was mainly due to the higher net income -- the higher interest net income, the higher fee income. And the increased revenues from our insurance group. This upturn was partially impacted by higher provision for loan loss.

It is particular worth noting that our earnings per share for the last 12 months increased by 5.3% from BRL2.826 to BRL2.95.

Slide six shows our efficiency ratio. The improvement in the Second Quarter in efficiency ratio over the last 12 months was due to the investments in our organic growth strategy. It should start producing effects with the maturation of this set investments and our continuous efforts to control expenses, including the actions taken by our efficiency committee.

The events that most contributed to this improvement where the upturn in net interest income and fee income, thanks to the higher volume of business, the growth of our client base that around 5 million new clients considering the financial and the insurance business. And the 1.6 million new checking accounts.

On slide seven I would particularly like to draw your attention to the increasing of our shareholders equity positively impacted by BRL4.1 billion in gains from certain insurance group securities which used to be booked as held to maturity and are now classified as available for sale. And the difference between the market value and the booked value is taken directly to shareholders equity net of tax.

It is also worth mentioning our exceptionally (held Basel) ratio which closed at quarter at 17%, leading to a big increase in our capitalization margin. The upturn in this ratio was due to the addition of BRL7.9 billion in subordinate financial bills ratified by the Central Bank in (dispute) in addition to the gains from the securities I have just mentioned.

As we have already seen, total assets came to BRL830 billion, BRL141 billion or 20.5% more than June 2011. Returning on average as the total 1.4% while the adjusted return on average equity stood at 20.6%.

Slide eight shows the relative share of our main operations in net income. The quarterly and the six month highlight was the increase in the relative share of securities, mainly due to higher trading gains. It is also worth noting the upturn in the relative share of our insurance group in the six months comparison to 31% of our net income, thanks to the excellent performance of the segment.

The reduction in the share of loans was partially due to a higher than the delinquency (inaudible) together with narrower spread.

Moving on to slide nine, unrealized gains total substantial BRL21.5 billion, basically due to the appreciation of the fixed income securities and some of our investments, especially Cielo's shares as well as unrealized gains from loan and leasing operations. It is important to emphasize that these figures do not include the potential goodwill from our own purchases in the total amount of BRL3 billion.

On slide 10 we show that interest earning portion increased by 2.9% in the quarter, largely due to the upturn in average business volume. And the non interest earning portion recorded higher trading gains in the quarter.

Looking at slide 11, as I have just mentioned, the interest earning portion of net interest income increased by 2.9% in the quarter, thanks to the higher volume of the new business while the annualized net interest margin is slightly due to 7.5%, although, this was in line with our expectations.

The main factors behind the 10 basis points decline in annualized margin were the narrower insurance and (floating) margins partially offset by higher margins from securities including the effects of (inaudible) of our fixed loan portfolio.

Slide 12 gives a mix now of the interest earning portion of net interest income. Securities recorded most growth in the quarter, including gains from the management of our fixed commercial portfolio. The reductions in the (inaudible) and the insurance line were caused by the decline in the interest rates, lower returns from IPCA indexed securities in our consumer pricing index.

The 15.7% depreciation of the Ibovespa index in that period in the comparison between the first half of 2012 with the same period last year, the highlight was 14.3% increase in the spread margin, mainly due to the upturn in the business volume.

On slide 13 we can see that the gross spread margin, the gray area, increased by 2.5% this quarter sustained by a higher business volume. But partially offset by the decrease in the average spread. The red area shows the provision for loan loss, which increased partially due to the specific adjustments of the provision levels in line with expectations of loss from operations with a few corporate clients.

It is important to emphasize that these adjustments do not indicate any negative provision strength as they consisted of a particular situation. In the annual comparison, the net margin remains virtually stretched due to higher delinquencies despite the increase in business volume.

Slide 14. Our extended loan portfolio totaled BRL365 billion in June 2012, 4% up in the quarter. And 14.1% increase when compared with June 2011. These increases were mainly due to higher loans to large corporates which moved up by 7% in the quarter. And 15.9% in the annual comparison. In the annual comparison the highlights were mortgage loans, exporting financing and capital market related operations which (spreads) is basically comprising debentures and promissory notes.

Individual loans resume grow, mainly due to the measures to stimulate consumption.

Moving on to slide 15, this quarter our total delinquency ratio for loans overdue by more than 90 days remains stable in the individual as well as micro, small and medium enterprise segments. (inaudible) by 10 basis points increase in the overall ratio over the previous quarter was impacted on a one-off basis by the increases in delinquency of the large corporate segment, as I mentioned before.

This change in the large corporate segment does not indicate any negative trend in the delinquency as there were only a few particular issues. We believe this ratio will show a slight decrease in the coming quarter, given the effects of the Selic days rate cuts and the expectations of higher economic activity in the months ahead.

Slide 16 shows our delinquency ratio for loans overdue by between 61 and 90 days. And as you can see, it has remained relatively stable, indicating that the delinquency is really under control.

Slide 17. Despite the upturn in the delinquency in the recent quarters, you can see on this slide that we have maintained comfortable provisioning levels. In fact, our provisions exceeded Central Bank requirements by BRL4 billion. Assuming the maintenance of the 12 months gross and net loss ratios, as from June 2011, we had booked provision in excess of BRL7.8 billion in relation to expected gross loss in the next 12 months the dotted part of the blue line.

Or even BRL11.2 billion in relation to losses net of recovery, the dotted part of the purple line also for the next twelve months.

Slide 18 shows the coverage ratio of the allowance for loan losses. In relation to credit overdue more than 90 and 60 days, which remains at comfortable levels and among the highest for Brazilian banks. For credit overdue more than 60 days, the coverage ratio is 144%. And for credit overdue by more than 90 days, it is 177%.

Slide 19. The Second Quarter fee income total BRL4.281 billion, 4% up on the previous quarter. In the first half, fee income increased by 15.7% year-on-year mainly due to the extensions of our customer service portfolio, the net addition of 1.6 million new account holders and the expansion of our service network, resulting from our organic growth investments. Highlights were higher revenue strong, cards, checking accounts, (as per) management and underwriting operations.

Let's move now to slide 20. Operating expenses increased by 3.3% of the previous quarter. The period upturn in personnel expenses was mostly due to the restructural portion which was impacted by higher expense to the reductive concentration of vacations. The non structural portion was impacted by higher extensions with provisions for legal claims, profit sharing and training.

The half yearly comparison, the increase in these expenses was mainly due to the impact of the 2011 collective bargaining agreement and the net addition of 6,200 employees to the workforce. It's always worth emphasizing that the extension of our workforce is concentrated in our sales force due to both organic growth and improved segmentation.

On slide 21 we can see that administrative expense recorded a very slight 1.2% upturn in the quarter, reflecting the results of our intense efforts to control and streamline our administrative expenses. The increase over the same period last year was (inaudible) with the extension of the service network and the consequent extension of business volume.

Slide 22 shows revenues from our insurance pension plan and capitalization bond activities which increased by 22.8% in the Second Quarter led by life insurance and pension plans. And capitalization bonds, which grew by (34.5%) and 17.9%, respectively.

In the annual comparison, the increase came to 20.1% with all segments reporting double digit growth. Second quarter net income reported a slight decrease, mainly due to the lower financial results in the period. First half net income increased 14.4% year-on-year, mainly due to higher revenues, the reduced claims ratio and the improved financial position.

Slide 23 shows some of the main figures from our insurance activities. The combined ratio came to 85% in the Second Quarter, 60 basis points down on the quarter before, essentially due to the reduction in the claims ratio and the (period) upturn in revenues.

Financial assets totaled BRL128 billion, 21% up year-on-year, while technical provisions came to BRL112 billion, BRL98 billion of which relates to life insurance and patient plan products.

Moving onto slide 24. As for our 2012 guidance, we have made a few adjustments considering the behavior of our few portfolios in the first half and also the second half economic growth forecast. We revised our loan portfolio and vehicle and credit card products growth estimates. And now we are revising the estimates for our Rio State Financing origination, which should register a similar volume to it that of 2011 for fee income and insurance premiums thanks to excellent performance during that period.

And we are maintaining our initial estimates for the net interest income and operating expenses.

To sum up, we believe we had a quarter of healthy results. As you have seen, our results and ratios remain sustainable irrespective of domestic and international economic challenges we have had to face. Delinquency is under control and tends to show a gradual decrease for the coming quarter. We have also maintained strict control over loan granting and loan portfolio (quality) maturing.

In this context it is worth noting that in the last 12 months new borrowers have accounted for around 70% of portfolio growth and 95% of these new operations have good quality ratings from AA to C, underlining this, the (inaudible) of consistency of our credit evaluation process guarantees and instruments.

While still on the subject of loans, we are maintaining our forecast in a more rapid recovery this half. Although, at a somewhat slower pace than we expected at the beginning of the year.

We have had recorded consistent revenue growth from the expansion of our operations, expansion of our customer bases and the maturation of our organic growth investments. Our operating expense having been leveling off thanks to the continuous monitoring of expenses and the scale gains from our consistent investments.

Once again, I would like to emphasize the positive effect of this performance in our efficiency ratios. We believe the Brazilian economy will respond to the stimulus measures and by this, we will, therefore, continue with its track record for organic growth, leveraging its banking and insurance activities in a responsible manner and contributing to the democratization of spreads and sustainable development.

Thank you very much for your attention. And we are now able to answer any questions you may have.

# Questions And Answers

## Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Our first question from Ms. Regina Sanchez with Itau BBA.

## Q - Regina Sanchez {BIO 16404038 <GO>}

Hello, everybody. I have two questions. The first is regarding the significant increase in the book value of Bradesco that we know was related to a reclassification of securities from the held to maturity portfolio available for sale. It impact the equity value in the amount of BRL4 billion. What I would like to know is that -- what was the motivation, was a regulation change or maybe regarding IFRS adoption in the insurance business that both of the securities were related to insurance business?

And more important, now that it's booked as available for sale, are there any real intentions to sell the securities, or only eventually in the future? And what are their average maturity to get an idea of how long this gain will take to go through the income statement if you don't sell them before maturity? Then I'll ask my second question. Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. This adjustment that we did in the equity was more for the adoption of the IFRS for our insurance company. And the bank we decide to have the same account classifications. And now we are using the same classification in the accounting portfolios. This was the motivation to do this adjustment.

The maturities, some of them have more than 10 years because they are used in our insurance business for support the provisions. Then most of them have more than 10 years of maturity.

## Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, do you intend to sell -- any intention of selling this before maturity?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

No. No. As I said, these securities are usually in our insurance business for support the provisions, normally for pension plans and for (home) period. This is why the average maturity is more than 10 years.

## Q - Regina Sanchez {BIO 16404038 <GO>}

Perfect. Okay. Thanks for that. And my second question is regarding asset quality going forward, we saw that in NPL ratio increase 10 basis points in the Second Quarter. What is the expectation going forward? And if you could give us a breakdown if you expect; corporate NPL ratios also to already decline or more on the individual side?

And another data that I'm not sure if you have that information, the early NPL ratio, the NPL ratio between 15 and 90 days, if you have a sense, as a leading indicator, how was it in this Second Quarter? Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. We had a little increase in our delinquency ratio 0.1%. Considering the segments that we have, individuals during the last quarter was stable. SMEs in a similar situation but in the corporate side we had a specific situation that we had a little increase, is not (10 day) is due to for the future was only a specific situation.

And we expect for the next quarters that our delinquency ratio will start to have a gradual decrease. Because for the second half this year, we expect the effects of the Selic rates in the economy and the expectation to have a better grow in the economy, we understanding that we will have start to decrease in the delinquency issue.

And the short delinquency ratio in some products we can see that we start to have a better situation, more individuals, more clear that we start to have a better delinquency ratio in some product.

## Q - Regina Sanchez {BIO 16404038 <GO>}

Perfect. And as you mentioned that you expect a gradual decrease, can you give us a range or an idea of how many basis points you expect to see NPL ratios declining by the end of the year?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

It's difficult to give you guidance. But probably, we will have something similar that will start the year, something around the 3.9%, 3.8%.

## Q - Regina Sanchez {BIO 16404038 <GO>}

Perfect. Thanks a lot. And congratulations on operating trends that I really like to see a number of clients increasing, checking accounts increasing. And number of employees declining quarter-over-quarter. Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

## Operator

Excuse me. Our next question comes from Mr. Saul Martinez with JPMorgan. Please go ahead, sir.

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

Good morning, gentlemen. A couple of questions. First, a clarification to the question on the reclassification from held to maturity to available for sale. I just want to make sure I understand. The reclassification is related to the adoption of IFRS accounting at your insurance subsidiaries which mandates that you reclassify them. And do you want to be consistent in your accounting for that at the financial group, is that -- am I understanding that correctly?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes. We are now adjusting the criteria for -- using the same criteria used in the companies because the IFRS is something new in the country in Brazil. And the companies start to migrate -- start to adopt the IFRS. The insurance companies, they start to adopt during 2011. And the financial companies, the Brazilian -- we are not adopting IFRS totally. We are adopting in part. We are following the Central Bank rules.

But talking about 20 days securities, we are now using the same reclassification and then we decided to use in (semi basis). This is why we have this adjustment this quarter.

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

Okay. That's helpful. Secondly, I want also to follow up on the corporate NPLs. You seem to be very confident that these are sort of temporary issues related to very small numbers of credit. Can you just help us understand a little bit better why you're so confident that these are sort of temporary issues? I know you can't get into a lot of color because of the bank secrecy laws. But are we talking about one credit, a very small number of very small credits?

Anything you could say that would help us understand the issue and help us feel comfortable that this is not a -- that this is a temporary issue in that it's not going to continue to worsen would be helpful.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We have total control of our loan portfolio. We maintain the quality. Then during the last -- I think the last two years that our (inaudible) around two year it was stable the corporate adequacy ratio. Then is only a specific situation that we had. And we do not see any other problem, any other situation that can represent some risk for us in this segment. Then this is why we say that we are confident that this specific situation ended for the future. We are not having problems with this segment.

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

Okay. So this is a specific situation, not multiple cases?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

A specific situation, yes.

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

Okay. Great. Thank you. So much.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay.

## Operator

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

## Q - Daniel Abut {BIO 1505546 <GO>}

Couple of questions, gentlemen. On asset quality, if you could comment on your coverage ratio which has remained very healthy, both measured on a 60-day basis or 90-day. But has been steadily declining since it peak in September of last year? Is it going to stabilize at current levels or should we expect it to gradually continue to decline? And what is the level of coverage where you wanted to define 60 days or 90 days that you will be comfortable sustaining over time?

And second, on expenses, for the first half of the year your operating expenses including both personnel and administrative expenses have grown a touch above 12% year-on-year, 12.4%. Your guidance which you reiterated for the year is 8% to 12%. Do you think it's going to be a stretch to reach even the high end of that guidance? Or do you expect a moderation in expenses in the second half of the year below this 12.4% that we have seen in the first half?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Thank you for the question. Talk about the coverage ratio, we had a little decline in (inaudible). We are maintaining the excess provision stable, BRL4 billion. And we are growing our portfolio, the delinquency ratio is stable then up. It's why we had a little decline. We understand actually considering this decline, we maintained a very good coverage compared with the other banks, the Brazilian banks with the system. We understand we have very good coverage.

For the future, considering that we expect a decline in the delinquency ratio, it could be that this reduction will start to reduce -- will start to decline, will be lower in the future and it could stabilize. If you -- we had a grow in the portfolio -- considering the expectations for the future, with the decline of the delinquency ratio and the growth that we expect, probably will have stabilization in this coverage ratio.

Talk about the expenses. The guidance that we have is page 212. We finished this quarter and year-by-year comparison with 12.4%. If you analyze the year 2011, we had strong growth on the second half. Then in the second half 2011 we opened 1,000 new branches. Then our expansion in the second half of 2011 was higher.

Then considering that the next two quarters that the quota we are having now in our expenditures we had a target for the 2012 that the extension would be around 10%. And we expected that -- we understand that we can reach this target. We are very committed to reach this number. That's why we maintain the guidance. And we understand that the final growth comparing 2012 with 2011 will be 10%.

## Q - Daniel Abut {BIO 1505546 <GO>}

Just to make sure I understood you correctly in your second response, Luiz Carlos, you're saying that although the guidance is a range 8% to 12%, you're really targeting 10% and that you feel comfortable you'll reach 10% or 10% is the pace that you expect for the second half of the year?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

10% is the growth that we expect comparing 2012 with 2011, the growth for the year, 2012.

## Q - Daniel Abut {BIO 1505546 <GO>}

Okay. That's useful. And just to elaborate a bit more on the response to the first question. I was not referring only to the small decline that we saw in this quarter in your coverage ratio, your converge ratio has been declining quite steadily for the past several quarters.

If I look at slide 18, for much of 2010, '11, your coverage ratio measured on the first basis that you mentioned was in the 190% plus level. Then it declined to the 180s toward the end of last year, early this year. And now it's in the 170s. So you think it's going to stabilize somewhere in the 170s or at some point as the NPL ratio start to decline, this ratio may start to go back up?



## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We said that with the expectation of the delinquency ratio will start to decrease, probably the stabilization will be around the levels that we have now, probably 144% or 140% for the 60 days. It's 177% for the 90 days. The stabilization will be the actual levels that we expected.

## Q - Daniel Abut {BIO 1505546 <GO>}

Thank you very much.

## Operator

Excuse me. Our next question comes from Mr. Victor Galliano with HSBC. Please go ahead, sir.

## Q - Victor Galliano {BIO 1517713 <GO>}

Hi. My questions have been asked and answered pretty much. But maybe I could ask a follow-up on the insurance side of the business. You did mention that you're seeing this be impacted at least returns be impacted by lower rates. If we do see rates continue to go lower which is very possible here, can we -- do you think you can expect further pressure here on insurance returns?

And do you think in 2Q are we just beginning to see the first effects of monetary relaxation? Will we see the full impact, do you think, in the second half of the year of, say, BRL0.08 Selic rate?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

The effect that we had in the second half, one part came from the reduction in the Selic rate. But another part came from the decline that we had in the Ibovespa. Because our insurance company they have some shares in their portfolio that affect the margins. Then, the second part this Ibovespa reduced around 15%. Then, this was one of the effects that we had in the insurance business.

We expect for the next quarter that probably in the second half probably we will have stabilization in the growth that we have in the premium side, the good results that we have and the expectation for the insurance business, the opportunities that we have in the country, we understand that the Bradesco Seguros can maintain the profitabilities, the ROE.

## Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

## Operator

Our next question comes from Mr. Philip Finch with UBS. Please go ahead, sir.

## Q - Philip Finch {BIO 3252809 <GO>}

Good morning. My question is in regards to your tier one capital ratio on slide seven of your presentation. Your tier one capital ratio has been consistently falling over the past six to seven quarters. So the latest numbers in the Second Quarter was down to 11.8%. Now a year earlier it was 12.9%. And if you go back six or seven quarters, I believe it was around 13.5%.

So the question really is, really if you can help explain why this is happening? What is causing it? And I guess going forward, is this trend likely to continue?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We had a little decrease in the tier one, what part is because the grow of the assets. We had some adjustment in the risk margin because of some new rules and we had some adjustments that affected the tier one ratio. But we expect more stabilization in the future.

## Q - Philip Finch {BIO 3252809 <GO>}

So I guess, are your risk weighted assets growing very rapidly? Is that why this ratio keeps on coming down?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

No. No. We had the effects of the grow in the assets. But one other effects is one adjusted because of new rules that we're having in risk market. And these adjustments produced (zero) the tier one.

## Q - Philip Finch {BIO 3252809 <GO>}

Okay. And I guess, going forward, is this going to continue falling or are we seeing things stabilizing now?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We expect that probably we'll have more stabilization. The growth that we expect to have probably we'll have compensation with the profitability. This specific adjustment that we have where we understand that is not with taxes in the future. But we expect more stabilization in the future for this tier one ratio.

## Q - Philip Finch {BIO 3252809 <GO>}

Okay. Thank you.

## Operator

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

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

Good morning. Let me ask one question. You have reduced your loan growth guidance while you maintain your net interest income growth guidance unchanged. So I was just trying to hear from you how do you plan on maintaining your net interest margins stable even though Selic is under pressure, significant pressure, want the banks in Brazil to reduce credit spreads? If you can provide us some color that it would be great. Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. We've reduced our growth for loans because in the beginning of the year when we gave the guidance, we expected our GDP growth for the year was around 4%. Then, we started to have some adjustments in the expectations for the GDP growth. Now, we have around 2.1% our expectations for the year. And considering that the growth that we are having in our portfolio, we provide a new guidance for the year.

But for our net interest margin, we consider that the guidance that we gave in the beginning of the year was a little conservative. And the fact that we're having the components of the margin, the grow in credit and the (fact) of our prefixed portfolio, that impacted our margin.

We understand that we came up with this guidance for the margins, the net interest. This is why we understand that we decide to maintain the pressure that we having in the margins, in this spreads, we having some specific products that represents a small portion of the total portfolio.

Then, the fact that we are having in the spreads, we are having a compensation with the volume and the growth in the credit portfolio, if you compare the growth in the margins of credits in the last year is around 15%. We understand that for this year we can't maintain this guidance for the net interest income.

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

Okay. Thank you.

## Operator

Excuse me. Our next question comes from Mr. Carlos Macedo with Goldman Sachs.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, gentlemen. I actually have a couple of questions. The first one is a follow-up on Mario's question on margins.

As he was saying, the margins in the quarter for your credit operations, they were down around 10 basis points. And for insurance they were down more than that. The credit, the margin on your securities book, however, was up around 60 basis points and helped stabilize the margin on a sequential basis.

You talked in the past about a fixed income book, a fixed rate security book that you have that provides support to your margins as rates go down. What's the maturity of that book? How much longer can we expect that book to support your margins going forward? Is it something that will last until the end of this year? Or should we expect it to last until the middle of next year, or maybe even further?

And I'll wait for the answer for my next question.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

(inaudible). This operation, the prefixed operation represented for the one part for auto loans is more individual operations. Then, one part of this portfolio is auto loans operations. And we expect probably the effects grew we'll have this year and as is for 2013, we will maintain one part of this effects. Then, the age of maturity was around 18 months, one year and a half. But we expect during 2013 we will have some effects of this prefixed portfolio in the margins.

## Q - Carlos Macedo {BIO 15158925 <GO>}

So we should expect your margins to remain resilient through the end of this year and the beginning of next year?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes. We expect one part of this effects will reflect in 2013.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Good. The second question, that's great performance on the admin expense side of the expense base. However, I was noticing that the other operating expenses, they were up 4% this quarter. And they're up 20% year-on-year -- I'm sorry, year-to-date compared to last year.

And I just wanted to see what is the expectation for this line if you just look the graph that you have in your M&A, it does look like it took a step up? Is this related to the branch opening throughout the year last year? What should we expect for this other operating expense line going forward?

Not the administrative expense -- the other operating expense and revenue line.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We have the guidance only for the total operating expenses -- personnel and administrative. The total guidance is for -- is 8% to 12%.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. But would it be reasonable for us to expect that other operating expense and revenue line to decelerate from the 20% pace that it's running right now? Or is it likely to increase the pace?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Probably it will be stable but we don't have the guidance for this but probably it will be stable we will to continue to grow or more stable.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. So it will decelerate a little bit, right? Not the same pace as the 20% we've seen so far?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

No. No. We expect that to be stable.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Okay. Thank you.

## Operator

Excuse me. Our next question comes from Mr. Marcello Telles with Credit Suisse. Please go ahead, sir.

## Q - Marcello Telles

Good morning. Good morning, everyone. I have two questions. The first one is a follow-up on the capital. Of course, the change in the classification of securities helped you quite a lot on your capital. But are you expecting that the upcoming regulation on the insurance business regarding the one that you mentioned before that could have a negative impact of maybe BRL7 billion in your card capital. Do you think this is about to be released? Or when should we expect any news on that?

And my second question is regarding provisions. Of course there was an increase in provision in the quarter. You mentioned this was related to some corporate loans. Would you expect any extra provisions or some left over arising from this same corporate to be recognized in the Third Quarter? Or everything has been done and that's it? Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Talk about the capital -- we consider that the insurance is probably the minimum requirement considering the (actual) rules in Brazil are the minimum capital is around (BRL8 billion). With the Basel III rules in Brazil will be implemented until 2017. Then, during this period, we will do the adjustments that we understood will be necessary in order to maintain the investments in 100% of the insurance business. And the attended the total rules of Basel III ratio.

Probably we will need to do some reorganization in the structure and in the (share factor), probably we will need to do some this but if we don't the final rules and probably some new rules we'll have in the future, then we understand that we have how to attend the implementation of the Basel III regulation.

Then we maintain the investment and the -- what we'll need to do is some reorganization in our structure for maintaining all the ratios according the new rules.

The -- and talk about the provisions, we understand that we don't have new an extra provision for the corporate side, was only something more specific, more that --

something similar then with doesn't expect an extra provision, more provision, it was something more specific.

## Q - Marcello Telles

Perfect. Thank you. Just a follow-up question on the margin. The reclassification of securities loan from held to maturity to available for sale, does that help you in any way in your margins going forward? I know the securities are very long term, about like 10years as you mentioned earlier. But does it help you in any shape or form?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes. These requests does not affect the margin because any revenue was accounted, because what we have in the equities in only the -- probably the future gains that maybe we can have in the -- with these assets. We understand that when you need to -- when you do the calculation of the ROE, you need to exclude these number, this securities because if we don't have any revenue in our results then the correct figures to excluded this number, this portfolio.

This number is BRL4.1 billion or to do the calculations for the ROE because if any revenue accounted in the results.

## Q - Marcello Telles

Okay. Thank you.

## Operator

Excuse me. Our next question comes from Mr. Marcelo Henriques with BTG Pactual. Please go ahead sir.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Hi. Good morning. I have a couple of question. First one is a follow up on the net interest income and then I have two separate issues, one on the loan side. Your NIM, the way you report it around 10.9% used to be 11.1% in the Fourth Quarter, 2011. Do you still expect this to drop another 30 basis points by the yearend? Is that still your expectations?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

The number that you talk about that -- margins that we having only in the (quest) products --

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Yes, exactly. Yes.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We have decline in the quarter, 0.1%. So probably for the future we could have additional decreasing in this number because the project branches that we having in the spreads. But the decline is probably -- we expect to have a little declining in the future considering the expectations that we have for the total margin that is the 7.6% that we expect probably be the number that we have is considering that the results for the period so that we have that decline was 7.6% in the First Quarter is now 7.5%.

Probably two days of the year we will have a little decline. One part of these effects will be affecting in the spreads, in the loan portfolio. And the 10.9% that we had in this quarter probably will affect -- will have a little declining until the end of the year.



## Q - Marcelo Henriques {BIO 17385475 <GO>}

So another 20 bps, 30 bps, is that a fair assumption until the yearend, in terms of the credit specifically?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Year by year we have a little growth in this quarter we have 0.1% increases. Probably will be a small increase, actually, I don't have a guidance for these. But probably we will have a little decrease until the end of the year.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. And on the securities portion, if you look at the evolution, if you look on page 12, specifically this quarter, basically the variation between first Q and second Q was explained by the securities and other so and without this effect, you've basically, your NII wouldn't grow at all. Actually would decline quarter-over-quarter.

So I understand that you have this fixed income work that you occurring gains. We just want to, let's say -- let's start with the assumption that the yield curve doesn't change going forward, stay the same level that we are now. What should we expect in terms of security gains in the coming quarters? Is this going to stay at BRL1.4 billion per quarter? Is it going to decline or is it going to continue to increase in obvious like BRL300 million, BRL350 million that we saw in this quarter.

And on that. And how long this will last? Can you perform this BRL1.4 billion until the mid next year? Could you give us a little more guidance on this?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay one part of this number is the effects of the prefixed portfolio. It's only one part, (large) total number. Probably the effects of this growth that we have in this value is reflected because the decline of the Selic rate. Then probably for the next two quarters this number will be a little similar or will be stable. Probably it will be next year of this, ending for the 2013. Probably we start to decrease a little because the portion that comes from the prefixed portfolio will start to reduce.

But we need to be clear that the prefixed portfolio is only one part of the number, not the total number. It is what we expect for this line.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

I was just wondering how much you can last on this. Because this number in the Third Quarter of 2011 was BRL680 million. So now it's more than doubled. It's like -- you have like a BRL700 million gain on this specific. So it's like 100% increase.

Is this -- and I understand this is coming down 2013. But is this coming down to similar levels in the past, or is this going to stay above -- if you give us because it's very hard to -- give us a little more guidance. Is it going to stay above BRL1 billion 2013? If you could give us a little bit more color on this, would be great.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. As I said, in this number only one part came from the prefixed portfolio. The growth that we had -- one part of this growth came from the prefixed portfolio. Then probably during this year, we'll maintain this level and for 2013 probably will be something around BRL1 billion. We will start to decrease but probably we will have stabilization around the BRL1 billion level.

We don't have a guidance. But probably the tendencies that (should) be something around that number.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. And just one more question. Sorry about that. On the insurance --.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Have you guys talked about it is quarter basis.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Yes, I got it. Thank you for that. And on the insurance portion, I understand what you have done on the asset side in reclassification. But I'm also concerned on the liability side, the actuarial -- so, when you have like this big decrease on the interest rates, how comfortable are you that your liability side on the insurance should or should not be adjusted on a fair value basis as well -- or how do you handle that on your insurance company, by the way?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Can you repeat the question?

## Q - Marcelo Henriques {BIO 17385475 <GO>}

I was just wondering because on the liability side of your insurance company, you have to meet some actuarial obligations. So I'm just trying to understand how is it on the fair value basis because of this huge decrease in interest rates? If this should not cause an important increase on your liability side on the insurance company?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We understand that we have our liabilities for the insurance business. The interest rate that we adjusted is one of the most conservative. The ratio that we have is around 4% is the interest rate that we have. Then we understand that considering the specific expectation that we have now is a comfortable number. We understand that we are prepared -- the profits that we have for the insurance business is compatible with the liability ratios or the interest ratios that we have in the liabilities.

That we be prepared -- we adjusted the problems for these moments. Then, considering the expectations for the future, we understand that we are prepared, considering the portfolio profits that we have here and expectation of the interest rates for the future.

## Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. Thank you very much.

## Operator

Excuse me. Our next question comes from (Matt Coffina) with Morningstar Equity Research.

Excuse me. We got Mr. (Matt) disconnected. We go to our next question, Mr. Boris Molina Boris Molina with Santander. Go ahead, sir.

## Q - Boris Molina {BIO 1904979 <GO>}

Yes. Thank you for taking my question. I have a question regarding your regulations for the capital reporting for your insurance operations. You've been saying for a while that your insurance operations could work around (BRL7 billion). And you have around BRL17 billion in capital or equity in this operation. Are there any regulatory changes that would increase this capital consumption over the next couple of years?

We know that the society has been working a lot on solvency, too. And a gradual transition. So I don't know if there is an increase in this BRL7 billion number that we can already forecast into the next couple of years?

And the second question is what stops you from distributing this surplus capital from insurance into your banking operations where under Basel III after doing the application of insurance deduction you would be left with a relatively weak Core Tier one capital ratio? So we know that most of the capital gains that you have realized around securities that have been gaining with a declining interest rate. But as far as I understand, the securities are not of free disposition and you cannot actually sell them to realize this gain.

So we wonder how much of this BRL17 billion is actually available for distribution and not locked in to satisfy your actuarial liabilities in your insurance business and you have to ask for permission to actually sell them and pay a dividend? How would this play out in the future? You talk about a reorganization, what would this mean? How can we have confidence that the insurance regulator is going to agree to have the situation of capital from insurance into the bank in a relatively foreseeable future?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Considering the rules that we have now, minimal requirements for the interest this would be around BRL8 billion. But probably, in Brazil will have an implementation of new rules for the insurance business, we can have an increase in this minimum requirement.

## Q - Boris Molina {BIO 1904979 <GO>}

You have any idea more or less where it could go? Is there any --?

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

I don't know -- we don't -- the (inaudible) that is the regulator. They start a discussion but they don't have the final rules. They start the discussions. But they don't have the rules. They are only starting with the discussions.

But to do the adjustments in our structure in the future, probably the excess capital or the adjustment that we would need to do probably trying to choose the best way to do this reduction -- pay dividends or sometimes doing a capital reduction. But without causing any problems or any limitations for the operations in our insurance company, for Bradesco Seguros.

If you look at the total assets that we have in the insurance business, is around BRL120 billion. The financial assets that we have for the insurance business is only BRL128 billion. And the provisions that we have is around BRL111 billion. We can have, we can choose some of these financial assets to do the adjustments that would reduce the (inaudible). And we understand that we have to do this adjustment if it's necessary because we have other ways to attend the Basel III regulations.

But we will choose the best moment to do the adjustment, if it will be necessary or not. But we have how to do the reorganization, our (charter) in the structure of the Company without causing any impacting the capacity of the Bradesco insurance, Bradesco Seguros. Continue to do operations and continue to have a good growth, as they are having in their operation.

## Q - Boris Molina {BIO 1904979 <GO>}

Okay. Thank you.

## A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

## Operator

Excuse me, ladies and gentlemen. this concludes our question-and-answer session. I would like to invite Mr. Paulo Faustino da Costa to proceed with his closing statement. Please go ahead, sir.

## A - Paulo Faustino da Costa {BIO 6436050 <GO>}

Thank you, all for participating in this conference call. I would like to take this opportunity to remind you that our marketing relations department and our IR team are at your disposal. And that all the content of our Second Quarter 2012 and all the information concerning Bradesco is in our website. So thank you all very much.

## Operator

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