

Q2 2009 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, Executive VP, IR Officer
- Jean Philippe Leroy, Department Director
- Luiz Carlos Trabuco Cappi, CEO, Member of the Executive Board

Other Participants

- Daniel Abut, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen.

We would like to welcome everyone to Banco Bradesco's First Half 2009 Earnings Results Conference Call.

This call will be conducted by Mr. Luiz Carlos Trabuco Cappi, Chief Executive Officer; Mr. Domingos Figueiredo de Abreu, Executive Vice President, Investor Relations Officer; Mr. Samuel Monteiro dos Santos, Jr., Executive Vice President and Chief Financial Officer of Bradesco Seguros Insurance; Mr. Jean Philippe Leroy, Department Director.

This call is being broadcasted simultaneously through the Internet, in the website www.bradesco.com.br/ir. In that address, you can also find a banner, through which the presentation will be available for download.

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

(Operator Instructions)

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

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Jean Leroy the Department Director.

Mr. Leroy, you may proceed.

Jean Philippe Leroy

Thank you.

Welcome to Bradesco's Second Quarter 2009 Conference Call. Before transferring the call to Mr. Trabuco, I would like to add that Mr. Marco Rossi, CEO of our insurance group, and (Marcos Galen), Accounting Superintendent, are also participating in this event.

Let me now transfer the floor to Mr. Trabuco.

Luiz Carlos Trabuco Cappi {BIO 2400673 <GO>}

Good morning.

It's a pleasure for me to meet you. And I focus on the first eight slides. And after that, my colleague de Abreu is going to continue to an explanation about our performance.

First of all, it's worth it to mention that we are very optimistic about the Brazilian economy and about the measures implemented by the government. Brazil improved its economy, but more than that it improved the quality of the life of the million of the Brazilians, as one can see by looking at the evolution of our human development EBITs.

In this context, our net income surpassed BRL4 billion in the first half of 2009, a 2.8% increase compared to the same period of 2008.

In the Second Quarter, we almost posted a BRL2.3 billion of net income, 14.7% higher than in the Second Quarter of the previous year.

Banking represented a 65% of our net income, insurance and pensions, 35%.

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Despite the fact that Brazil has been experiencing very strong declines in these rates, our net interest income grew by almost 27%.

Total assets surpassed the BRL480 billion mark, a solid 20% jump over the last 12 months.

In these slides, one can see the expansion of the loan of 18% over the last 12 months.

The delinquency ratio decelerated to 4.6%, in line to our expectations.

Our coverage ratio increased in the quarter, and it stands now higher than before the beginning of the crisis.

In this quarter, we increased our addition provisions by BRL1.3 billion.

Our (adequacy) ratio gives us plenty potential to foster the loan book growth for the coming years.

Our cost to income ratio improved even more, and stands now at 42%. Our aim is to reach 37% to 38% over the coming five years.

In terms of efficiency for the Insurance Group, we reached a combined ratio of 85.5%. It's a very sound ratio.

In the other slide, I would like to emphasize the Bradesco strategy. We are strong believers that Brazil has a fantastic potential for banking and the insurance clients. And Bradesco is present all over the country, with very comprehensive branch and ATM networks.

One on the top of that, Bradesco's position is enhanced by additional networks from the postal services, retailers, stores, dealers and others.

To give you an idea, by Bradesco covering 93% of Brazilian territory, we have a customer base of more than 42 million individual and company. We follow the banking insurance business model, focus all the social category, although our main focus are the lower income classes. We expect to provide quality services, a wide array of products, and the correct pricing.

Improved operational efficiency is our mantra, but we know that we have still a lot of homework to do.

Even more, when we see the stronger and stronger competition in the marketplace. We believe that improvement in efficiency will mean maximizing profitability and we'll be worthy by shareholders, investors and the analysts.

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In the other slide, we are showing true events which occurred, but we already had informed the market through press releases.

The acquisition of Banco ibi is still pending on the approval of the authorities, but we focus on increasing our client base through serving customers of the (C&A) retail chain. At this (view) was already tested it. We see success, as we already partnered with the retail chain at (Casa Baia), (Los Esplanade), (Colombo), (Luiz Bertoli), (Grupo de Barbosa), (Druga View) (Monte Carlo) and others.

The VisaNet deal is considered as Brazil's largest IPO. We sold a part of our participation in Second Quarter, and part in Third Quarter in the (green shoots).

In the other slide, we are including some reasons we highlighted to explain our beliefs in Brazil.

Brazil (the proper) from emerging markets, and is a winner in terms of growth potential over the coming decades. Our economy itself is sufficient with solid corporate governance, and a young population. The Brazilian Central Bank has been ahead the operative curve, controlled by an (efficiency operating) management, and a strong and tight monitor policy. For this reason, inflation is under control.

Loans, loans are growing, but we are still low percentage of the GDP. Mortgage, it is in (inaudible) since beginning, and the interest rates are at their lowest rate ever.

Finalizing, it is always worth it to highlight that our top priority is Brazil and we believe that Bradesco's position is unique, and should capture very solid growth potential over the coming years.

The road by might be bumpy, but we have plenty capital, a fantastic distribution, millions of clients, and an inconvertible staff fully dedicated to meet our targets.

The second half of the 2009 will be much better than the first half. Our expectation is for Brazil to grow its GDP by almost 5% in 2010. And for the coming years, a 4% to 5% GDP growth in our (inaudible).

I would like to ask Mr. Abreu, our Executive Vice President, to explain the Bradesco numbers. Thank you.

Abreu, please.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good morning, everyone.

First of all, I would like to say that we have reduced the number of slides in this quarter's presentation in order to focus more time to Q&A session. Although, other slides that we normally show have been updated and are available as an attachment at the end of the presentation.

Starting from slide nine, our net income in the Second Quarter reached almost BRL2.3 billion, totaling a net income of BRL4 billion in the first half of the year.

It's worth pointing out that this result includes some extraordinary items, in particular the gains derived from the partial sale of our stake in VisaNet, totaling BRL2 billion gross of tax, and a constitution of additional provisions for loan losses, totaling BRL1.3 billion, also gross of tax.

Considering taxed assets, these two factors impacted positively our results by around BRL460 million on both the Second Quarter and the first half results. It's also worth mentioning that provisions for economic plans were booked in the Second Quarter in the amount of BRL241 million, BRL66 million higher than the BRL175 million of the previous quarter.

The cost-to-income ratio accumulated over the 12-month period, stood at 42% in the quarter, 70 basis points better than in the previous few, essentially due to increase in fees and net interest income.

Earnings per share also reported an improvement, as we report an ETS of BRL2.62.

I would like to emphasize that all information presented in this material, consider the (recertification) is closer to the mark in the beginning of July.

The slide 10 shows Bradesco's total assets, which surpassed BRL482 billion, presenting an year-on-year increase of 20%, and a flat variation over the first two quarters.

Return on average asset stood at 1.7%, and return on average equity with 27.7%, higher than in the first two quarters.

In the first half, as I hoped, return on equity came through 23.7%.

The capital adequacy ratio moved up by 1percentage point in the quarter, reaching 17% due to this quarter net income, and the additional provision for loan losses.

This sound level of capitalization gives us a very comfortable position to support expected loan book growth in the coming years, without the spending of additional cost of increase.

Slide 11 gives us a breakdown of Bradesco's net income, not considering additional provisions and the aspect of the VisaNet investment.

In the quarterly comparison, the highlight is the recovery of the relative share of fees and loans, while in the six-month conversion, one can see the reduction in the relative share of loans due to increased delinquency and provisioning. An increased relative share of securities due to the good performance of our (portfolio).

On slide 12, we would like to call your attention to the growth of our unrealized gains. That moved up to BRL8.6 billion in this quarter, thanks to the improved performance of the market conditions, especially aggregates and real interest rates, and inclusive of our remaining stake in VisaNet, which contributes with around BRL6.4 billion.

On slide 13, we saw our income from interest earnings in gray, and non-interest earnings in red, in bold the quarterly and six month comparison. You can see expansion in non-interest result, essentially due to higher gains from our own position, thanks to our (previous) correct position.

Slide 14 shows our net interest income from interest and operations, which has recorded constant nominal growth over the last 10 quarters, although the NIM contracted by more than 100 basis points since the beginning of 2007.

We believe this trend will continue in the medium and long terms, will continue in the mid or long term. In other words, the net interest income will continue to move up, thanks to the growing business volumes, but (short) reduce is likely in terms of NIM. The turn in the quarter from 7% to 7.3% came (via the good) to low growth in weighted assets, and the change in the mix of the portfolio.

Slide 15 gives a breakdown of the net interest income. The highlight here is the consistent growth of price in both the year-over-year, and the quarter-over-quarter comparisons, thanks to the high average volume of operations and the improved mix of the portfolio.

Income from funding reported an important gain over the last 12 months, due to the higher volume and the quarterly reduction was due to the decline in the (Selic) rate.

The slide 16 gives a summary of loan operations. Just to remind you, the gray line represents net interest income from loans before provisions. The red line represents the total amount located to provisions for loan losses. And the blue line, the difference between the first two months, represents the effective gains from loan operations in the respective quarters.

Please notice that, we have not included these graphs additional provisions. Although the (marginal) provisions moved up slightly in the Second Quarter of 2009, it's maintained the First Quarter trend of a strong reduction over previous quarters, showing that the growth in the gross interest income was not sufficient to observe debt turn in delinquencies.

We expect economic scenario in this environment to improve in the second half of the year. So we expect a trend of gradual improvement in interest income (natural position).

Bradesco's total loan portfolio shown on slide 17, with around BRL213 billion in June '09, increasing by 18%, or by BRL32.6 billion, vis-a-vis the first half of 2008.

In (dispute), new borrowers in the (inaudible) companies, because they do not have loans with Bradesco, in June '08, it comes around BRL21 billion.

The total portfolio balance remained flat over the previous quarter, which has a slight increase in loans to individuals and SMEs, and a 1.5% reduction in loans to large corporates, mainly due to the impact of the tiered valuation of the real, vis-a-vis the U.S. dollar or dollar denominated, or dollar index loans.

We believe that the expected strong economies will recover in the second half, will generate stronger demand for loans. Then, a posted impact in (our buoy) resulting in an annual growth in the range of 8% through 12%.

Slide 18 shows the level of coverage of our provisions we weren't expecting a lot. Especially, I would like to say that as of May of 2009, we made certain internal reclassifications and began considering some portfolios related to credit card operations as loan operations, in order to present distortion in this comparative analysis of these curves. We are just above our previous figures at quarter through the (recertification), which will be concluded shortly.

Until now, we have indeed the necessary adjustment from the First Quarter of 2007 on, which is why on this slide and in the next, you see a separation in the curves. Consequently, the figures between March '07 and June '09 are comparable, but are not comparable with those prior to March '07.

The first line in red represents total provisions divided by the loan portfolio. The (supersession) included in this quarter was mainly due to the constitution of the additional provision that we already mentioned.

The second line, the gray one, will respond to the mandatory provisions required by the Central Bank of Brazil. The difference between the first two lines indicates an excess of provisions of BRL3 billion in this quarter.

The purple line represents the percentage of the affected loss, which given to a (move that landed) in the quarters has been recording a strong correlation with the green line, which represents (low performing loans).

Based on these historic trends, we can assume that our write-offs will represent around 5.1% in one year from now, indicating a (relative) excess of provisions equivalent to 2.6% of the portfolio or BRL4.7 billion, allowing us to comfortably overrun an eventual (inaudible).

On slide 19, we saw our delinquency ratio for loan overdue by more than 90 days. As expected, the total delinquency ratio in this quarter rose to 4.6%. As you can see,

individuals in SME segments were responsible for (disaster to quality) deterioration.

Bradesco constantly monitors its provisions and expected losses in the loans segment, always seeking to keep its provisions at high levels. We believe the ratio might be still increased, is likely in the next quarter. Then, stabilize or even have a small reduction by the end of the year.

The slide 20 shows the behavior of short-term delinquency between 61 and 90 days. As you can see, the ratios begin to move up as of December '08. Then it lowers and even stabilizes from February 2009.

Thanks to the (inaudible) (in June), plus signs of improvement of the Brazilian economy, we are confident that the worst is over. However, as we previously mentioned, delinquencies of more than 90 days, will continue to the (deterioration) of the Third Quarter, probably reaching 4.9%.

As you can see on slide 21, fees increased by 6.9% in the quarter, mainly due to the higher gains from capital market operations, such as brokerage and underwriting fees, highlighting the VisaNet IPO.

Additionally, consortium, asset management and credit cards also performed well this quarter.

Regarding personal expenses shown on slide 22, the increase compared to the previous quarter was mainly due to the high concentration of vacations in the First Quarter, when personal expenses are usually over.

The year-over-year rates is explained by the organic growth process in the period plus the weight increase established in the agreement with the union of bank employees.

Anyway, it's worth noting that the operational expenses to the total asset ratio continued to record a decline in the six-month comparison.

Even with the inauguration of 213 conventional brands, and 676 adverse service brands over the last 12 months, showing the Management's efforts to improve efficiencies.

On slide 23, the breakdown of the administrative expenses show that the increase of 3.6% in the quarter or BRL70 million to BRL80 million is mainly due to the constitution of BRL61 million in provisions, for credit cards mileage recording the other expense lines.

On the six-month comparison, increase in the first half was due to the expense of the servicing at work and the higher (volume of) operations, as well as investments in the IT improvement project designed to optimize the technological platform, including the replacement of the (computer of systems).

Revenues for insurance premiums, private plans and saving bonds moving up by 10% in the quarter, totaling BRL6 billion, we are talking slide 24.

Life insurance, pension plans and saving bonds were chiefly responsible for the upturn. These revenues represent a slightly (foreshare) share of the Brazilian markets, and that enabled us to keep the leadership position in the private pension plans and the property and life insurance segments.

Slide 25 shows a (stark) evolution of the combined ratio, which reflects the operational efficiency of Bradesco's Insurance Group. You may see an improvement in the quarter, mainly due to the claims reduction on autos.

Bradesco's macro economical outlook for 2009 and 2010 regarding GDP, interest rate inflation, rate and the U.S. dollar exchange rate as shown in the slide 26. We call your attention to the GDP projection for 2010, when we expect a growth of 4.9%.

We present on slide 27, the revised guidance, considering the macro economy scenario and the business environment experience in this first half and the outlook for the second half of the year.

As already mentioned, the most significant change we expect is the loan book growth, which performed weakly in the first half, mainly due to a stronger reduction in credit demands.

Expected to recover of the economy in the second half of the year lets us be truly confident that the demand for (credits) will be -- we will also be retrieved.

Well using all this, I would like to emphasize that the challenges taken in the first half of 2009 were not few. And even so, we believe that -- we believe a good performance, thanks to our solid balance sheet, the strength of our staff, and the confidence of our (home resident) client base.

A good performance of our (record) in the trading in the last two quarters, helped us compensate the impact of increased credit position expenses, caused by the upturn in delinquencies.

We had noticed strong and consistent sign that's so -- that the worst from the crisis had already passed, not only globally, but also the effect in the domestic market.

Brazil's economy is particularly in privileged position, as for the first time, we have the opportunity to leave with the lowest ever interest rate, both in real and nominal terms, without any inflationary pressure.

All these factors together will certainly impact positively on the domestic economy. And the (credit view) performance important role in fostering production and consumption.

Insurance and pension plan activities, where we are extremely well positioned, we'll surely also benefit in this new economic status.

We have a significant client base, to whom we combine and offer -- and an offer of adequate relationship (based) product mix, (a solid product base) and excellent distribution has worked for all segments we work with. It lets us face the future with much confidence and optimism.

Thank you very much, and I will now ask you to open the floor for your questions.

Questions And Answers

Operator

Excuse me ladies and gentlemen. we will now begin the question and answer session.

(Operator Instructions)

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

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi everyone and good morning, I have two questions.

The first one is on, for 2010 you are forecasting 4.9% GDP growth. I mean I know you just changed your guidance for 2009, but if I may, for 2010, what do you think the business grows in that scenario?

I mean in 2008, for example, the economy grew 5% roughly, and you were able to grow loans around 35%. Can we see such a ramp up for 2010? Is that a possibility or what is your current thinking for a 2010 volume growth?

A - Jean Philippe Leroy

Good morning, Jorge; Jean talking.

I would say if we have an expectation of a GDP growth of some 4.9% in 2010, probably operations loans for example, should be growing around 20%.

I believe it's a little bit difficult to compare with another year, where we grew by 5%, and we grew 30%, because the basis was quite different. The basis of growth in this year is very small, and because of that, I believe that the trend will be more at 20% growth for next year.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks.

And my second question is, your BIS ratio of 17%, I think it's at the highest level it's ever been. Obviously, not that -- it's a bad thing to have a big capital ratio in these days, but with the view that you're potentially going to continue to generate around 20% return on equity. I think you need a lot of capital to continue to grow at these levels.

Is there anything that you want to do with that excess capital? Is there a possibility for dividend payments or what is your view on what should be kind of like on a normalized basis, that BIS ratio, which obviously potentially, eventually becomes a drag on your return on equity?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Jorge, it's Abreu speaking.

Well the strategy at this level is very comfortable, but and you understand that we have the generation of new profit, and it will be an (opportunity) to support the growth that we expect.

We have some exercise for where you consider some potential growth, and I would think that for two years and five years, we think it's enough to -- so, we don't need to increase new capital. That's why we said that.

We don't think to use this excess capital, because you need to understand that we are in the middle of the process of Basel II change. We are now working with a (inaudible; speaking foreign language) --

A - Jean Philippe Leroy

A simplified model?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

A simplified model, but we are coming to -- we are going to go to a defensive model. So we need to understand better how we feel, we require or not the new path.

So it's a special moment that we need to pay attention.

A - Jean Philippe Leroy

And remembering that the loans grew almost nothing and the bank-generated profit, and on the top of that, for the calculation of the Basel ratio, we also incorporated the additional provisions of BRL1.3 billion, that help to increase even more the ads ratio.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you.

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A - Jean Philippe Leroy

Next question please?

Operator

Excuse me, our next question comes from Mr. Daniel Abut with Citibank.

Q - Daniel Abut {BIO 1505546 <GO>}

A couple of things.

First, a follow up on the loan growth question that you answered before. In the past, when the economy grew closer to 5%, and you were expanding the loan portfolio significantly in the 30% plus range, the key driver of that loan growth was the consumer, also individuals in general. What we've been seeing this year, as your loan growth having more muted, is that most of the loan growth has been (inaudible) by the corporate sector.

As you head into next year, and the economy grows 4.9%, and your loan growth is more 20% as your guidance Jean, should we expect individuals to go back to be the key driver, consumer loans in general? Because that has an important implication for the loan mix, and therefore for overall margins and spreads.

That's question number one.

Then question number two, I think Mr. Abreu suggested that we could see some additional increase in the MPL rate, so probably no more than 30 basis points in the Third Quarter, and then it should stabilize after that. I was surprised though by the significant sharp increase in the SME segment in particular.

Should we expect SME to stabilize also in the Third Quarter, or may it take longer for the SME MPL ratio, which is now 4.5% measured in the 90 days plus form? What has driven that sharp increase, and will it stabilize in the Third Quarter or is it too early for that?

A - Jean Philippe Leroy

Okay, when we are expecting this loan growth for next year, and I believe when we made the revision of the guidance, you probably noticed that corporates were expected to grow more than individuals. And after revising our guidance, we began actually to have the perception that individuals who had already begun to grow a little bit more in this year, than in 2000 -- than in the previous guidance we gave in the beginning of the year.

For next year, definitely we are strong believers about the loan book growth for individuals. We have plenty of space to increase, and definitely the acquisitions we did like Banco ibi and others, they will help Bradesco to grow even more into this direction.

And for the corporates, we have actually the improvements of market conditions making capital markets to be open. We have IPOs, we have fixed income deals, and this actually

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impacts the loan book growth for our corporates.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Daniel, about the growth in delinquency, we expect the growth in SME. It's important to say when you consider SME here. It's not only these small companies. We consider some large middle-sized company. So when you consider this segment as a whole, there is no words more than that we have normally in the other segments.

What happened here, and if you have some or other specific case, that has been a big impact here, so don't expect this to continue to grow. That's why we -- then, the number that we gave, the 4.9% that we gave the last -- the First Quarter, we continue to believe that it's possible not to have this number. We really, for what we are seeing now, that we think that it's possible not to reach even this BRL4.9 million.

A - Jean Philippe Leroy

And Daniel, also looking at the question about middle market, you have always to ask to the bank, what is the range of revenues being (forecasted). (For Bradesco with) BRL30 million to BRL350 million, it varies from one bank to others.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, thank you to all.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, I have two questions as well.

First is, you maintained your net interest income growth guidance at 18% to 22% for this year, even though I think your net interest income is growing closer to 30%. So does this mean that you expect to see maybe lower treasury gains in the second half of the year, or do you expect some margin compression in the second half of the year? Or do you think your guidance is just on the conservative side?

The second question is, you have made it clear that it seems like the worst is over, that our asset quality should start normalizing by the end of the Third Quarter. So why was there the need to boost your excess reserves above the minimum required by the Central Bank?

Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Abreu.

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Please, we didn't change the net interest income, but if we look at the bottom, you should note that we have not considered non-interest income. We changed this moment, why? Because the trading rate was higher to the previous quarter, but we don't -- we cannot count on these kind of gains to give the guidance. But we keep the same net interest income, but we will not consider the non-interest income, all right?

Q - Mario Pierry {BIO 1505554 <GO>}

Abreu, sorry, before you go on, just let me then clarify.

Given that we have seen such a sharp drop in the Selic in the first half of the year, and I think the expectations of the Selic to remain stable, should we assume then that the trading gains should normalize or should decline from this BRL1 billion or have same in the first and Second Quarter?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, the trading (gains) have not to do with the reduction in Selic, but it's the gains that we have in property position, like CDS or other special positions that we our (Treasurer) was position. There is nothing to do with the reduction in Selic, right? The reduction in Selic, we have observed interest margin, and we will see that the gain that we have in the fixed portfolio, that we will mitigate this effect in the next year.

When you talk about trading gains, of course the first half of the year was very good for trading gains. That's where we showed a very, very good improvement in all the markets. But don't think it's feasible to expect to have this and the same in the Second Quarter.

A - Jean Philippe Leroy

And a lot was the recovery from the (inaudible; multiple speakers).

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. This was recovery of that, what we lost 2008. So something that's to be considered.

Of course, we are -- our treasury is very, very active. They are very, very aware. We are trying to use all the opportunities that we can (get), but of course we never give guidance of this (thinking).

Sorry, Mario, your question was about the -- okay, the provisions, the excess provisions.

If you consider that the total provision that we have, we just recovered the margins that --

A - Jean Philippe Leroy

The corporate, corporate margin.

Q - Mario Pierry {BIO 1505554 <GO>}

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The coverage ratio (inaudible; multiple speakers), the coverage ratio of before the crisis.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We didn't (make anything) different.

If you see that if you serve in December, we used to have the 165.6% of the coverage ratio, when you consider 90 days. And now we are a little bit higher, only a little bit higher on 69%. I think it's important to have the reason that we expect to have a good, a better performance from delinquency from now, but it's better to have very good -- it gave us some comfort to do this.

A - Jean Philippe Leroy

And in the Third Quarter, it doesn't mean that the additional gains from VisaNet would be used to increase even more VisaNet cash. We feel very comfortable with this level.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, so does it mean also then, that we should not expect any reversal of these excess reserves in the short term?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I don't think we need to do so, but of course -- it's at a very good, a very comfortable level, the (inaudible) profit, but it's important to have this -- what happened since the second half of 2008 show us that it's better to have a very good (collection) of provisions.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

A - Jean Philippe Leroy

You're welcome.

Operator

Excuse me, our next question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone.

My question is related to the outlook for the operating environment for Bradesco, but specifically focusing on regulatory issues and government involvement or intervention in the industry. Is Bradesco expecting changes from government measures to bring down banking spreads?

And in addition, what is Bradesco's view on potential changes in the credit card acquiring business, and how will these impact Bradesco?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Specifically about spreads, that we understand that spreads there are many things to do in order to reduce spreads. I think the spreads is a function of the environment, of the risk that is involved in the operation with everything.

When (inaudible) spread, we reduce in the next quarter, not because the government wants to reduce, but because the economic environment will give us all the comfort that we need to operate in a better situation.

A - Jean Philippe Leroy

When the (inaudible; microphone inaccessible) goes down.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. When the risk is going down.

But of course in these fields, when the standard is many things the government should do in order to improve the environment for the spreads, like to reduce the tax and auditings.

A - Jean Philippe Leroy

We don't (inaudible; microphone inaccessible).

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We don't expect some regulatory measure in these fields. I think for a single reason that it doesn't work.

About the credit cards, we are seeing some discussions, some things that we don't expect to -- of course it would serve some change, but don't expect to change too much. The things that really is involved in the business, it is not possible to change dramatically. We don't expect any change that we will -- we changed the dramatically the situation that we are observing now.

Of course, it's very important that when they are giving some direction in order to improve the competition, but not some things very drastic that you can change in the way.

Q - Jason Mollin {BIO 1888181 <GO>}

And just as a follow-up there, I mean we saw in a Central Bank study released earlier this year, recommendation that they reduced the payment period to merchants from the acquirers, from 30 days to two days. Is that something that you see as a possibility, and how would that impact such a large franchise as Bradesco?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look Jason, I don't think it's possible to reduce this, because they are just looking for one side of the operation. When we fix -- we pay the merchant --?

A - Jean Philippe Leroy

Merchant.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Merchants for 30 days, but we receive the money from the consumers, the same 30 days.

If they need to change this, they need to change the others. And so, that is impossible to change just one side of it. We don't consider this. I think they are at the -- they know this, that they don't --

A - Jean Philippe Leroy

Yes. They are aware of that.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. They are aware of that, and don't need in this site.

I think mainly we understand you observed some change in the regulations, but in order to give more -- to put more competition, they might , but not something very drastic in this way.

A - Jean Philippe Leroy

Yes, I believe in the U.S. it is --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I don't think this is the way to change.

A - Jean Philippe Leroy

I believe, Jason, in the U.S., the payment of the merchants is shorter, but on the other way around, you as a consumer, you have the interest rate, which is paid. So actually it's -- you cannot compare on an apple-to-apple basis.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much, gentlemen.

A - Jean Philippe Leroy

You're welcome.

Operator

Excuse me, our next question comes from Mr. Saul Martinez with JP Morgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hello, everybody.

I guess just a couple of follow-ups on some of the other questions.

First, can you just talk a little bit about what you're seeing in the SME segment? Obviously, that's been an area that has faced a lot of stress, it's really since the latter part of last year.

Obviously, your MPLs went up there, but are you seeing improvement lately in terms of origination activity? Are you feeling more comfortable with the risk profile of borrowers, are you reducing rates? Do you see some incremental improvement there, in terms of the outlook?

And secondly, on just a follow-up on spreads. I guess your spreads have benefited, because of the fact that you don't hedge out your fixed rate portfolio. In an environment, where rates may stay stable into 2010, and lending spreads are coming down, how do you see your net interest margin, excluding trading gains evolving in 2010, if rates remain stable?

A - Jean Philippe Leroy

Hi, Saul. This is Jean.

In the SME segment, actually definitely we saw a major change between the middle of last year, and the middle of this year. I would say don't forget that out of that, it's also statistical, because middle market was the loan growth, which has been growing the most, and say over the last maybe 12 months before the crisis.

And when the book didn't grow anymore, actually you had a statistical effect, and the negative effect on your billing (country) ratio. But we are actually quite comfortable to see that the new inflow of operations that we are seeing with SMEs are getting better. It seems the situation, the crisis, is already passed, and the adjustments are just happening in the different segments.

So we are okay with the segments, even though maybe the delinquency could grow a little bit more. I would say the pace that you can see on page 19 of deterioration is moving down.

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So this is definitely a positive outlook. Taking together with the slide number 20 when you see that the loans to corporations, they are roughly stable in terms of delinquency between 61 and 90 days.

In terms of the margin, excluding the trading gains for next year, we believe that we are going to see a decline in the NIM. Also, nothing very strong, but you saw over the last years a decline in the NIM. You should probably see a decline in the NIM, although probably the loan book could be growing more in individuals and next year when the spreads are a little bit better, which could also help the NIM not to go down so much.

But the direction is to move down the NIM minus trading gains next year.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great.

Just a follow-up question then. Just one quick question, detailed question, and I apologize if you disclosed it in your release somewhere, I didn't see it.

But did you disclose how much you gained in the Second Quarter? How much you had in trading gains from your CDS -- from the mark-to-market on your CDS of Brazilian sovereign debt?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

When you consider, you can see this -- we had in the footnotes. When it's -- it's something -- it was minus BRL260 I guess in March, and now it's minus -- the mark-to-market is minus 50. So it would present closer to BRL200 million.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, so the gain was about BRL200 million in the quarter?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Mark-to-market in this quarter is BRL200 million quarter-to-quarter?

Yes. When you compare quarter-to-quarter, the First Quarter was BRL130 million.

Q - Saul Martinez {BIO 5811266 <GO>}

So it's a BRL130 in the First Quarter and BRL200 million in the Second Quarter, more or less? Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay.

Operator

Excuse me, our next question comes from Mr. Marcelo Telles with Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello everyone. I also have two questions.

The first one, regarding the outlook for 2010. Given your expectation of nearly 5% GDP growth, do you think you would be able to eventually accelerate further your branch expansion next year? Do you see room for practical growth there?

And the second question is related to your service piece. Do you think that in an environment of 5% GDP growth, do you think it will be possible for service piece to grow double digits next year, given the (year) that we have with a lower management piece on investment funds and so on?

Thank you.

A - Jean Philippe Leroy

Marcelo, the expectation for next year is bad in terms of the economy and the expectation of the distribution growth should be also better than this year.

Also, taking into -- to gather information about the IBI Bank acquisition, so maybe some 300 branches, mini branches in advance points of sale for next year.

Marcelo?

Q - Marcelo Telles {BIO 3560829 <GO>}

Yes, I'm here. Thank you.

And for fee revenues next year, do you see room for double-digit growth?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We don't have the guidance.

Marcelo, it's Abreu.

We don't have the budget for 2010 yet. We are working on these now, but it's possible, yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay.

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A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Then, the adjustment this year is a year of adjustment, but it's possible, yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Welcome.

(Operator Instructions)

A - Jean Philippe Leroy

Okay, since we don't have any further questions, I would like to thank the participation of each and every one in this call, and our Investor Relations area will be more than happy to respond to your questions.

Thank you.

Operator

That would conclude the Banco Bradesco's Audio Conference for today. Thank you very much for your participation, and have a good day.

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