

Brazil's Bradesco Rated BB- by Fitch

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International ratings agency Fitch Ratings has affirmed the respective International and National Insurer Financial Strength (IFS) ratings of 'BB-' and 'AA(bra)', for the Bradesco Seguros S.A. (Bradesco Seguros) of Brazil.

The Rating Outlook for both is Stable. Bradesco Seguros is the lead organization and holding company for the activities of the Bradesco Seguros Group. The analysis was based on the insurer's consolidated activities and numbers.

According to Fitch, the ratings reflect the strength, stewardship, and support of the owner, Banco Bradesco S.A. (Bradesco), as well as its strategic importance to the overall diversified financial service operations of Bradesco Seguros Group.

The ratings also reflect, they say, the continued market leadership of the Bradesco Seguros Group despite heavier competition in recent years, its good management of risks, consistent profitability, and very solid growth in recent years, despite the cycles and volatility of the local economy, presenting adequate liquidity levels and reserve coverage and a superior capital position compared with its Brazilian peers.

The insurer's International scale rating is at the same level as Brazil's sovereign risk.

The Bradesco Seguros Group contributes about one third of its parent's earnings and operates in the basic insurance segments, Vida Gerador de Benefícios Livres-VGBL (a product similar to the U.S. 401-k plan but structured for employees without formal registration), Health, Pensions and Capitalization (a savings plan with a lottery feature), maintaining its leadership in almost all of its business lines.

Its main advantages compared to its peers are the strong synergy between the group companies for selling products, and its own service network, totaling 136 proprietary installations and agreements with about 23,500 brokers and outlets in the post office network.

During 2004, the Bradesco Seguros Group's revenues reached BRL 15.4 billion in insurance premiums, pension plan contributions and annuity payments from the savings plans, 17.4% higher than that of 2003 and the 16.6% annual growth presented by the insurance market in the same period, which enabled it to maintain its growth trend and the market share leadership observed in recent years.

In 2004, the Bradesco Seguros Group remained the largest insurer in Brazil, with a 25.7% market share in terms of premiums and contributions.

The larger revenue volume obtained in 2004 is mainly explained by the strong growth of the group's VGBL product (36.7%) that year, accompanied by the health and savings plan segments, which increased 17.6% and 17.5%, respectively, in 2004, despite strong competition.

In 2004, the Bradesco Seguros Group continued its broad corporate and operational restructuring, still reporting a negative operational performance, but better than the year before, despite earnings having been affected by significant non-recurring expenses during the year, which were responsible for 48% of its operational loss.

These expenses reflect the adoption of more conservative provisioning rules in line with international practices, in addition to greater administrative expenses related to employee dismissals.

Recalculating technical and operational earnings net of these non-recurring expenses, the Bradesco Seguros Group reached BRL 601.7 million in technical profit and an operational loss of BRL 486.3 million in 2004, numbers much more

favorable than the negative amounts of BRL 300 million and BRL 1.374 million, respectively, presented in 2003.

In addition, if the returns on assets that guarantee the pension fund segment as part of operational earnings are taken into consideration, Bradesco Seguros continued to show efficient financial management, despite the greater pressure of falling interest rates on its margins, turning its operational results from negative to a positive BRL 836.1 million in 2004, four times higher than that achieved in 2003.

The accounting net income of BRL 888 million, 45% better than that of 2003, reflects this lower operational loss, improved financial and equity pickup results, and a smaller tax impact, due to tax credits activated in 2004 that improved its return on equity ratio from 20% at December 2003 to 25.7% at December 2004.

Fitch also notes that, based solely on accounting data, the insurer's efficiency indicators are distorted, due to an increase in non-recurring expenses in 2004, comparing unfavorably with those posted in 2003.

The adjusted consolidated loss ratio declined from 78% in 2003 to 76.3% in 2004 and continued to suffer from negative performance in insurance fields of relative importance to the portfolio (such as automotive and health), comparing unfavorably with its main peers.

Fitch expects that the company will show more significant improvement in these indicators beginning in 2005, reaching levels closer to those of the market, having concluded a review of its underwriting policies for all insurance fields in 2004 and for renewing the portfolio itself.

Recalculating its combined coverage ratio - based on international standards - using loss ratios and operating expenses adjusted for non-recurring expenses, an improvement in operational performance can be observed in 2004, declining from 92.2% in 2003 to 89.3% at the end of the year.

In 2005, with expansion of the economy, the Bradesco Seguros Group estimates it will maintain its 25% share of the insurance market through more modest organic growth in its positions and, more particularly, in the life, VGBL, savings plan, and pension segments.

Fitch believes that the Bradesco Seguros Group will continue to maintain a strong operational profile and capital position to support claims payments and the projected growth in production.

The insurer's performance should also benefit from an expected improvement in loss experience and the streamlining of its processes, as well as optimization of the operational structure developed in recent years.

Bradesco Seguros' capitalization ratio remains adequate to support the group's current business and the majority shareholder continues to show its commitment to provide the equity capital needed to achieve the goals and strategies of its insurance operations, positively reflecting the strong ties it has with Bradesco.

For 2005, Fitch considers that an increase in the Bradesco Seguros Group's current operational leverage levels can be expected, due to the growth in the fields on which it continues to focus and a capitalization level similar to that of 2003, based on management's decision to maintain the insurers' equity only at the levels needed for it to operate.

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