

## Q1 2015 Earnings Call

### Company Participants

- Carlos Wagner Firetti, Market Relations Department Director
- Luiz Carlos Angelotti, Managing Director & Head-Investor Relations

### Other Participants

- Aníbal Valdés, Analyst
- Boris D. Molina, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Philip J. Finch, Strategist
- Saúl Martínez, Analyst
- Thiago Bovolenta Batista, Analyst
- Tito LaBarta, Analyst
- Victor A. Galliano, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's First Quarter 2015 Earnings Results Conference Call. This call is being broadcasted simultaneously through the internet in the website, [www.bradesco.com.br/ir](http://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 be a question-and-answer session. At that time, further instructions will be given.

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 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'll turn the conference over to Mr. Carlos Firetti, Market Relations Department Director.

### **Carlos Wagner Firetti** {BIO 2489005 <GO>}

Good morning, everybody. Welcome to our conference call for discussing our first quarter 2015 results. We have today with us here in Sao Paulo, our Executive Vice President, Alexandre da Silva Glüher; our Executive Managing Director and Investor Relations Director, Luiz Carlos Angelotti. It's a pleasure to host this call today.

I'll turn the call now to Luiz Angelotti.

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

Good morning, everyone. I would like thank you all for attending the first quarter 2015 earnings call. We will now take a closer look at Bradesco results for the first quarter of 2015.

In slide number two, we have here the highlights. The adjusted net income reached at R\$4.274 billion, 23.1% year-over-year growth. The ROAE reached at 22.3%, 180 bps increase from the first quarter of 2014. Some aspects contributed for this performance. The NII, interest-earning portion increased 22.1% in the period. This increase is related to the increase in the volume of business, and in particular, we had some additional earnings from the asset liability management that our securities and others company (4:02); we had there some benefits from the inflation, IPCA inflation rate in our assets that's improving the earnings in this period. And additionally, we had some other benefits from the assets and liabilities that we had in the management.

The fees and commission income increased 8.7% year-over-year. Probably during the year, we expect to reach at double-digit growth probably. And the cards and the segmentation will help us to improve this fees commission growth. The operating expenses went up by 4.7% when we compare with the same period the last year. This growth is below the inflation that now in the same period is running at 8.1%. This show the strong commitment of the company with efficiency.

The total assets amounted to R\$1.035 trillion. The expanded loan portfolio reached at R\$463 billion, up 7.2% year-over-year. The net income from insurances reached at the amount of R\$1.283 billion, 23.4% year-over-year growth. And the ROAE of the company reached at around (5:59) 27%. The insurance written premiums grew in this period 19.4%.

On the negative side, in this period, we had the increase of the expense provisions for loan loss. And this increase that we had is more related as the downgrading in some specific clients, the corporate clients, and this ballpark of the growth is related to the seasonal effect of the growth in the delinquency ratio in the period, normally in the first

quarter that we expected. For the next three quarters, we will return to the historical level that we had delivered.

Then our expectations for the year for the growth with expenses with the P&L is now around 8% to 12%. But this increase in the expectations for these expenses, we understand that (7:15) interfering in the expansions for the ROAE that we have to maintain, are growing around 20% level, over the 20% level. Because the other lines that we have, the diversification of the earnings that came from the insurances, the fees and the efficiency improvement that we are having. Then the performance of the company is now at one of the best levels. Our efficiency ratio is running at 38.3%. This is the lowest level of our history. And the operating coverage ratio reached at 77.4%. This is in combination with the fees, revenues, how much this covered the operating expense, personal and administrative costs.

Now Carlos Firetti will tell about the next slides. Then after, in the end, we will turn to the Q&A section.

### **Carlos Wagner Firetti** {BIO 2489005 <GO>}

Okay. From now on, we proceed with our detailed explanations on our results.

So going to page three, the adjusted net income. Basically, we only had a small adjustment this quarter related to provisions for several lawsuits (8:49) amounting R\$50 million. We closed the quarter with R\$4.274 billion earnings that represents an adjusted ROAE of 22.3%.

Adjusted net income growth in the quarter, basically in the quarter, the main drivers for the expansion of our earnings came from margins, especially the interest portion of our net interest income. Reductions in the expenses in the quarter mostly related to seasonal factors, and compensated partially by the provisions for loan losses that increased in the quarter and other operating expenses that where we had a provision issues amounting a total of R\$475 million.

In the annual comparison, the drivers for the variation of earnings were higher NII. The good performance in fees and compensated also by loan losses provisions and the same effect in other operating expenses.

Our net income breakdown, basically insurance remained representing 30% of our total net income, the same amount stay compared to the past few quarters. We highlight the security and other items that increased share this quarter, especially influenced by the impact of the IPCA inflation index on our portfolio of inflation-linked bonds, plus the positive impact from our assets and liability management and also interest rates. Interesting to notice that loan products (11:09) related activity represent 67% of our earnings.

In page six, we highlight the main efficiency ratios we track here in Bradesco, the efficiency ratio and the operating coverage ratio. Basically, we reached our lowest level in

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terms of efficiency ratio this quarter with an index of 38.3%, and also considering the efficiency ratio, adjusted by risk, also a very low level in our history, 46.9%. Another efficiency indicator we track, the operational coverage ratio that is fees divided by costs, reached 77.4%, also a very good level. This is a result of our constant investments in technology, our strong cost control and a good performance in terms of revenues.

Our program of investment in technology is already maturing, but we still have the implementation of a big part of the new system that is still due and should continue bringing a positive impact in our efficiency ratios going ahead.

In page seven, net interest income, basically our net interest income in the quarter, total net interest income increased 4.7% QonQ, 24.1% year-on-year. Our net interest margin from the interest portion of our margin increased 20 bps in the quarter.

Going to slide eight, the net interest income analysis, the earning portion of our net interest income. Just a comment here, last week, we released a note communicating that we changed the methodology we would present our net interest income before we broke it out in forecast, the credit, the funding, insurance, securities and others. We made a change where we put the credit and funding portion of the margins together where we added a line that was previously in non-interest margin that is the cost related to deposit insurance. And this form, what we call now, credit intermediation margin.

Basically analyzing the components of this margin, we had a growth of 13.2% on an annual basis with a very good performance in terms of funding. We still present the former methodology this quarter. We should discontinue it going ahead, so you can see that. And also this line grows with volumes.

There is also a good performance in terms of insurance that is due to the increase in our premium volumes over the last 12 months, but also the impact of higher interest rates and the high IPCA inflation this quarter that impact our portfolio of inflation-linked bonds.

In the securities and others, same explanation, volumes, the impact from the IPCA and our asset liability management results. The net interest income grew 4.6% in the quarter, 22.1% year-on-year.

In slide nine, we analyze the credit intermediation margin.

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The net interest income grew 4.6% in the quarter, 22.1% year-on-year.

In slide nine, we analyze the credit intermediation margin. Basically our credit intermediation margin grew 13.2% in the last 12 months, 1.8% in the quarter, while our net credit margin dropped 1.4% in the quarter as a result of higher loan loss provisions and is growing at a rate of 7.7% year-on-year due to the expansion in volumes mostly.

Our spread from credit intermediation grew 20 bps in the first quarter, a very good performance. Looking to the last 12 months, we have an expansion of 30 bps. The net spread is flat, mostly impacted by the increase in loan losses provisions.

In slide 10 we show our BIS ratio. We are in a very comfortable position already with some excess of capital. That should increase over the next few years. Looking to the schedule of implementation of BIS, this quarter we had two changes. Now the deduction from our equity amounts (17:39) 40% of the total deductions, and there was a change in the calculation from the financial consolidated to the Prudential Consolidated index.

Basically, there was also a reduction in the ratio that is due to the intangible assets that comes from the consolidation of Cielo and were created in the deal, Banco Brazil's Cielo.

Considering our fully loaded BIS ratio, we have a ratio of 12% that is basically based on common equity. This is very strong and as I said in the beginning, we should continue to see in our view in the next few years, an expansion of this number as our capital base grows more than the consumption of capital in credit operations.

And as our last highlight on this slide, our ROE considering a target common equity ratio of 11% is now at 25.3%. This chart shows that actually we (19:11) have an even better ROE because we carry some excess of capital.

Total assets and shareholders' equity evolution. Total assets grew 12.2% year-on-year. Our return on assets reached 1.7%, coming from 1.5% first Q 2014. Our shareholders' equity grew 14.5%, with our ROE reaching 23.3% compared to 20.5% in the first Q 2014.

Now discussing our loan portfolio based on our expanded loan portfolio. Our total loans grew 1.8% in the quarter and 7.2% in the annual comparison. In terms of the main lines, we have an expansion of 4.6% in the corporate loan book and 10.4% on an annual basis. This stronger growth in corporates is at least partially explained by the effect of depreciation in the quarter.

Payroll loans grew 6.6% in the quarter, 16.2% year-on-year. Real estate financing and mortgage grew 4.8% Q-on-Q, and 29.3% year-on-year. These two lines in individual should be one of the main drivers of our growth for this portfolio. We have a guidance for the loan book growing in 2015 between 5% and 9%. We believe that the lower portion of our guidance is achievable.

Another highlight that looking to our individuals portfolio, 52.3% of the total loans to individuals are related to loans that have some sort of collaterals, meaning lower risk, what is the base for - what is a strength of our portfolio at this moment.

Delinquency ratio in page 13. Basically this quarter we have the impact of seasonality, as happens most of the years. Basically in terms of 90 days NPL, we have an increase of 10 bps in the total NPL. Our NPL for corporates remained flat.

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Our NPL for individuals increased 10 bps in our view mostly due to seasonality, and our NPLs for SMEs 20 bps that is mostly due to the lower loan growth in the SME portfolio. Actually the SME portfolio reduced 1.4% in the quarter. That affected the constitution of the NPL index and also some impact from the weaker economic activities.

Last year some people may question that we didn't have this increase in NPLs. And the explanation is related to the fact that we had a bigger change in the mix of loans in 2013 and some changes in the internal procedures for recovery of loans that led to actual reduction in the index that of (23:37) of having the traditional seasonal impact.

In terms of 15 days to 90 days NPLs, we had an increase of 50 bps in the first quarter compared to 40 bps in the first quarter 2014. This is in our view mostly due to seasonality and looking to our intra-month (24:04) indicators, we have already been seeing some improvement in the short-term delinquencies.

In terms of provisioning and coverage ratio, we have a very strong level of provisioning. Our 90 days coverage ratio - our coverage ratio for 90 days NPLs reached 187%, for 60 days 149.8%, what is a very strong level. And it gives us confidence that we have a very strong balance sheet. We believe that coverage ratios should remain floating around the same levels going forward.

We also like to track here in Bradesco what we call effective coverage ratio, that is, how much our provisions cover our actual losses. In this case, our coverage of actual losses amounts 223%, an even higher coverage ratio compared to the traditional ones.

And as a final comment, as Luiz has already mentioned, we have a soft guidance for provision expenses this year going from 8% to 12%. Already including that, our perception of evolution of loan quality throughout this year.

In terms of fees and commissions, we are going to focus mostly on the annual comparison, since the quarterly comparison is affected by the calendar effect. We had less business days in the first Q 2015.

Our fee revenues grew 8.7% year-on-year. The highlights comes from the consortium management that grew 22.6%, credit card, checking accounts, and loan operations and asset management. We have our guidance for this line going from 8% to 12%. And we believe that through this year we will go back to the middle of guidance at least.

In terms of drivers for the growth in fees, we have been constantly investing in our distribution channels, our branch network. We have focus in deepening our segmentation of services, giving our clients the right service they need. And this has been the main driver for the expansion in our fees.

Operating expenses also a big strength for our operation. We expanded our costs only by 4.7%, much below inflation that in the same period grew 8.1%. We believe this performance comes from our investments in technology, our improvement in terms of

efficiency and very strong cost control. We are very comfortable with our guidance that goes from 5% to 7% for 2015.

Now talking about insurance, basically, we had an expansion in our total premiums in the quarter by 19.4%. I will focus the analysis on the annual comparison, due to the fact that the quarter is affected by seasonality. Life and pension grew 26.5%, health grew 19.7%, and capitalization bonds grew 11%. Our net income expanded in the period 23.4%, and our ROE is at 27.3%.

Insurance is a core business for Bradesco. We have a very strong focus on it. And we have been implementing improvements in our sales structure over the last one year or year and a half that has already been resulting in positive impacts, and explains in our view this strong performance in terms of premiums.

In this last slide we have some ratio indicators for the insurance business. Our combined ratio reached 86.8%. And we had over the past few quarters a constant increase in our technical reserves that are the base for our profitability.

So now I turn the presentation to Luiz Angelotti again.

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

In conclusion, even with the challenged scenario we faced in the first quarter of the year, we consider our results as very good. And they allowed us to reach 38.3% efficiency ratio. And we maintain the ROE above 20%. Our results have reflected the actions associated with our strategic planning, which provides consistent and sustainable results, aiming at maximizing the returns to our shareholders.

As we are confident on Brazil's economy this year, we are doing additional investments around the R\$1 billion to expand and modernize our branch network, and we expect to open around 180 more branches through the country.

Thank you all for taking part in our earnings call. And we would be glad to take your questions.

## **Q&A**

### **Operator**

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instruction] Our first question comes from Mario Pierry, Bank of America Merrill Lynch.

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

Good morning, everybody. Congratulations on your results. Let me ask you two questions, please. The first one is related to your guidance, especially for net interest

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income. When we annualize your first quarter numbers, we get to growth of 11% for the year, which is above your guidance range of 6% to 10%. Do you see a scenario where your net interest income could be lower than what you already reported, especially considering the higher interest rate environment in Brazil, as well as less competition from the public sector banks?

Also with regards to your guidance, last quarter you had provided some soft guidance with regards to provision charges, saying that they should be growing half of the rate of loan growth. However, when we take also your provision charges this quarter and we annualize them, we get to 13% growth for the year. So this is my first question, if you could comment then on your guidance for net interest income and for provision charges. And then I'll ask a second question, please.

**A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

Okay, Mario. In terms of the guidance for NII, what we have been saying is that we should be in the top of our guidance that goes from 6% to 10%. We are still in the first Q. It's too early to review our guidance at this moment. We are comfortable that we can deliver the top of our guidance at this moment. So I think that's how we feel on that.

Related to our guidance from provision expenses, basically it goes from 8% to 12%. If you look to the composition of our provision expenses, it is net from the coverage. The coverage (33:55) were lower this quarter, mostly due to lower number of working days and also vacations in the first quarter. So the provisions should also - the coverage (34:09) may also improve going ahead. I don't know if you have something to add?

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

And an important thing is the provision expenses that this quarter, we had another effect that I think the most important effect is that we did some - we downgraded some corporate clients. And then we had some additional expense according to our internal ratings.

And I think it is the most important effect that these wide (34:42) expenses reached a number (34:49) the last part of 2014. All of these the (34:55) next quarters, these effects are waiting downgrade, we could continue (35:00). But probably it will not affect too much the expense, and the coverage that we expect to (35:10) return at the normal level. Probably (35:13) our guidance 8% to 12%, I think, is the most better level to consider now.

And about the NII, the highest goal that we are having on NII, we gave you the compensation (35:32) for these additional improvements in the expense for P&L. And this is why we - and that's possible to maintain the ROEs running at a more higher level. And it's too early to revise the guidance now, but probably you can continue to working with the top of the guidance for NII growth for this year

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

Okay. That's clear. Let me ask you then my second. You showed a slide where you're still very comfortable with your capital ratio. You're still generating a 20% ROE. You're only



growing in your loan book single digits. So what we have seen over the first quarter, you were buying shares of Cielo in the market.

I wanted to understand then the strategy for buying Cielo shares and why not buy your own shares, which appear much more attractively valued, why not be more aggressive in buyback program of our Bradesco shares, rather than buying shares of Cielo in the market? Thank you.

**A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

The acquisition of shares of Cielo is an investment from Bradesco focused in our credit card business. It's part of our core business. We have been buying shares mostly looking to as an investment and considering that it is part of our credit card operation. We don't have any further commitments in terms of what we are going to do next. But it's a strategic decision on that front.

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

And why not buy your own shares?

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

We have open program to buy. If we feel that (37:28) we need to buy, we will buy. But now there's not much to do.

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

So you don't expect to be buying your own shares in the short term?

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

We don't understand that. It's not necessary. (37:40)

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

Okay. Perfect. Thank you very much.

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

Thank you.

**Operator**

Our next question comes from Tito Labarta, Deutsche Bank.

**Q - Tito LaBarta {BIO 20837559 <GO>}**

Hi. Good morning. Thanks for the call. A couple of questions also. Just in terms of asset quality, we saw a pick-up in the early NPLs and also in the total NPLs a small pick-up (38:08) remains somewhat confident in terms of the outlook for asset quality. But just

wanted to get a little bit of a sense going forward, how comfortable are you with the economy likely declining this year that you can't control the NPLs?

And now that we're getting some more color with Petrobras reporting results, this in fact maybe give you some more confidence that asset quality can remain stable. And particularly on the corporate side, you mentioned you downgraded some corporate clients. Could there be some more impacts from that going forward. Just wanted to get a little bit more sense on why the pick-up in the early NPLs and how confident you feel for the rest of the year?

And then my second question in terms of loan growth, you're growing pretty much in the middle of your guidance of 5% to 9% at 7% this quarter. But with the economy declining this year, do you think you'll probably end up at lower end of the range, or could there be some downside to that? Just wanted to get a sense on how you feel for loan growth for the rest of the year? Thank you.

### **A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

In terms of asset quality, early in delinquency, as we have been saying, we have already seen some improvements in short-term delinquencies and we believe it will retreat throughout this year. Basically we have been promoting now in the past few years a big change in terms of our mix. We have a better mix, a safer mix, and not only the mix between the lines, but if you look inside the lines, the quality of the credit we have there are better due to the improvement in our credit score (39:59) systems. And we believe that this good performance and the future potentially good performance in loan quality comes from that. It is a challenging environment. But we are confident that NPLs will most likely float around the current level.

In terms of loan growth, basically, we have been saying we probably are targeting at this point the bottom of the guidance. The economy is weak. Our economists estimate the GDP falling this year. But we will still have a nominal growth for GDP, about 6%, excluding - considering inflation, the real growth. We have the carry off (41:12) interest and we believe that there are opportunities in some segments. So in our view, we should be able to deliver the bottom (41:28) of the guidance at least.

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

You asked about Petrobras. We can't talk about the specific - about the client situation. What we can talk is that our (41:41-41:53) internal credit policy that we had. Then (41:58) we are comfortable with our operations we have -- in our levels the guarantees (42:03-42:09). And for the year, in our expectations for the expense (42:18) P&L, we consider the possible adjustment in the internal rate that we can do in the company (42:29) we understand that it is more - now the more (42:37) leveraged 8% to 12% growth in the P&L expenses.

### **Q - Tito LaBarta {BIO 20837559 <GO>}**

Thank you, that's very helpful. Just maybe one follow-up on the NPLs, when we look at just say large corporate NPLs, it's kind of stabilized at 0.8%. So that is the highest level

over the last couple of years, right, well above the 0.2% in 2013 that we saw. So as sort of the Petrobras issues sort of seem to get handled (43:09), do you think that that can begin to improve maybe sometime later this year, or how do you feel about the corporate NPLs? Or could there be some more downside risk as somewhere we are not today? (43:22)

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

This level, this 0.8% is now our delinquency ratio for 90 days. We expect for this year that probably in the second half of the year, we probably will return to normal level. That is something around the 0.5%, 0.4%. That is probably the level that we understand we'll (43:49) have, considering the situation that we have now in our economy and in the portfolio space (44:00).

**Q - Tito LaBarta** {BIO 20837559 <GO>}

Do you think already by the second half of the year you can begin to see some improvements there?

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

Yeah. This is - the companies where we have the delay in the payments, we don't expect (44:14) any new situations for the corporate portfolio. Probably the clients that we have there, do you have some solution, or we'll have the - we do the write-offs or we will do a renegotiation. Then during the year, we will have this one-off (44:35) solution, and it probably - if we have new clients (44:39) that you have some delay in the payments, we will be in a more lower level these volumes tentatively return for this (44:45) 0.5%, 0.4% until the end of the year.

**Q - Tito LaBarta** {BIO 20837559 <GO>}

Great. Thank you. That's very helpful.

**Operator**

Our next question comes from Jorge Kuri, Morgan Stanley.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have, I guess, a clarification more than a question. So you're saying that the deterioration in asset quality this quarter was seasonal. If I look at - I mean unfortunately you haven't been providing long-term series for NPLs, I think you began in 2008.

So if I look at the last seven years, from 2008 to to-date, first quarter versus fourth quarter, you've had three years of deterioration, four years of improvement, so it's difficult to say that there's any seasonality. If I look at your (45:56) loans, the percentage of total loans as a proxy to NPLs, which you have provided for a long time, since 2000, if I look at the series since 2000, first quarter versus fourth quarter, you had nine years of improvement, six years of deterioration. So if anything, there seems to be a seasonality that helps asset quality in the first quarter.

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If I look at industry data, which goes back - NPLs back to 2000. Out of the 16 years, we've seen nine years of asset quality improvement in the first quarter versus the fourth quarter where there's (46:42) only six years of deterioration. So I guess the clarification is - so what are you seeing now that makes you think that the seasonality has completely changed or is very marked now versus - but clearly there is no real seasonality in the data if we look at the last 15 years. So what's changed now? I just want to understand why you feel so confident that this is only seasonal. Thank you.

**A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

Jorge, the problem is, when you look at the past years, and you go to years where growth was very strong, actually the seasonal impact doesn't appear that much. I think the seasonal impact becomes more clear in the recent years when we had the deceleration.

And actually, as we said in the presentation, looking to 2014 specifically, we had a stronger change in the mix during 2013, and also we had some improvements, mature improvements in the recovery - in our recovery procedures in 2013 that end up basically not leading to the same seasonality in the beginning of 2014. I think that's the best answer I can give you to your question.

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

It's not comparable to the situation that during this (48:17) we have different movements seen (48:24) in the loan portfolio and now we have a different mix in the portfolio.

**Q - Jorge Kuri {BIO 3937764 <GO>}**

All right. And I'm looking at - well, I mean I'm looking at 15 years' worth of data, so that seems pretty meaningful to me. But anyway, if I look at second quarter seasonality, it actually is the other way around. There is a very marked seasonality in the second quarter for a deterioration in NPLs versus the first quarter if you look at your data or Itaú's data over the last eight years, nine years, or if you look at industry data going back 15 years.

So given that there is a seasonality in which NPLs deteriorate in the second quarter, can you let us know what you're seeing now? I know the quarter just started, but what are you seeing in April versus March?

**A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

We have now a different portfolio that I think is more comparable 2014 with 2015. And we have no information about Itau (49:35) and the information that we have in our portfolio is that we can (49:42) the reduction in the overdue of the payments in our - talking about our individual clients. This is why we are confident that probably the majority of these movements we'll (49:59) return for the normal situation as we had last year.

That's why, probably this movement returns at a normal level, we will consider this happening during the quarter. And we expect to have a very similar situation that we had last year. Compared with 15 years movement, I think we have different mix. We have different growth in the portfolio. If you consider now the growth that we have, we are

growing now at a very lower level, then it's more difficult to maintain consideration in the delinquency ratio nowadays than the past. And in our case, but at this point, we don't sell any portfolio. We didn't have any (50:52) the portfolio that can change the situation that we have in the delinquency ratio. These are now the things that we need to consider when you analyze our numbers.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

All right. Thank you. Thanks for the clarification.

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

Thank you.

## Operator

Our next question comes from the Thiago Batista, Itau BBA.

**Q - Thiago Bovolenta Batista** {BIO 15398695 <GO>}

Yeah, hi, guys. Thanks for the opportunity. I have two questions again. The first one is related to the credit standards for the household segment. For sure, other banks were more selective in their credit originations (51:28) in the last years. Do you see any change in the strategy for Bradesco? So, are you becoming more restrictive or less restrictive in your credit origination standards for individuals due to their market scenario?

And my second question is about tax credit. In your slide 34, you show the evolution of tax credit. The bank posted a big increase in the tax credit almost R\$5 billion QoverQ, especially in temporary difference. Could you explain to us this movement in the tax credit (52:06)?

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

Okay. The first question is about the origination, we are not changing any credit policy in our portfolio. What we have is, some products that have a more high demand than a simple payroll loan and the mortgage that have a more lower risk. In this case, the first four that we have - the individuals' portfolio, the niche is moving for a more lower risk. But we have a simple outlook. In the origination, we are having more improving the patient of approvals, because we have, I think, better quality in the clients. The normal down payments nowadays running actually 40%, 45%. But we didn't change any procedure in our credit policy. For us the credit products are one of the most important. We expect to grow in the highest level in our portfolio. But we have this type write-off demands, demands according to the characteristics of each product.

And what we see is that it probably in the long-term, we are migrating for a more lower level risk in the total portfolio, because as I told you the mix of the individuals, the corporate portfolio is growing more than the SMEs. That is the corporates has a lower risk. And our long-term, I think, the standard that we had continue to moving to a more lower risk in the portfolio.

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About the tax credit, we had an increase this quarter. This number around this 5 billion, and actually (54:33) 40% is related to provisions for - when we are looking one year movement there. Now in the quarter, and that 40% is related to provisions for loan loss. And in the other part, it's related to derivatives that we did for the hedge for exposures in other currency.

These derivatives, some of them, we had mark-to-market in some products. But the tax will reduce according to the next periods. These are normal operations and we had some increasing tax loss more related to another derivative that we used to do this, a similar hedge that we had. And we expect in the next periods after this, our tax we'll reduce - probably in three years we will finish this operation.

**Q - Thiago Bovolenta Batista** {BIO 15398695 <GO>}

Those hedges are related to the overheads?

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

On one part of the tax is the overhead because we don't have any servicing exposure. And in this quarter, we had a higher dollar increase in the currency. Then the structure of the hedge that we have affected internal tax results. But probably now during the year, one part of this tax will reduce because we had the increase in the dollar price after the balance sheet. And then probably this effect will return for the normal situation because the profitability of the bank and the structure of the derivatives that we have this additional tax credit will return for the normal level in the next periods.

**Q - Thiago Bovolenta Batista** {BIO 15398695 <GO>}

Okay. Thanks for the answers, Angelotti.

**Operator**

The next question comes from Saúl Martínez, JPMorgan.

**Q - Saúl Martínez**

Hi, guys. Two questions. So, one, I wanted to follow up, Angelotti, on something that you said, understand it a little bit better. In a response to an earlier question, you said that the loan loss provisions obviously were impacted by downgrading some corporate clients that could continue. But you also said that you don't expect it to impact the expense line too much. Why?

It would seem to me, especially in larger companies where you have some larger exposures, downgrading additional corporate credits could have a pretty meaningful impact on your loan loss provisioning line. So if you can give more color as to why you think corporate downgrades are not going to impact your loan loss provision line. That would be helpful.

Second question, the R\$475 million provision for taxes, can you explain that a little bit better what that was for? And just reiterate or confirm that this is more of a one-off type of event and that the other income expense line, which was €1.9 billion negative this quarter is going to come back down to something of a more normalized level in the coming quarters.

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

About the effect of the regions that (58:58) are downgraded in the expense of the P&L, what I said is that we had, I think, a more higher impact this first quarter in this revising process. Looking for our portfolio, we know very well the clients. And as we told you, we'll have some other additional events, similar events during the next quarters. But we don't expect that will affect so much the expense.

And we have another additional effect, compared with this quarter that the recovers is under valuated was effected for the last business day that we had in the first quarter. And probably we expect to have a normal level around the €150 million, €200 million more recovers in the next quarter. And then we understand that probably now the growth expectations running 8% to 12% is more reasonable - looking for our portfolio and the expectations that we have about the part of the clients that we need to do, we will do.

Another question there mentioned (1:00:31), we did one provision. This number of R\$475 million, the majorities are tax provision related to pension plan contribution. It's something that is related on a tax requirement that we had. And we understand that we need to discuss, then we have this provision, but we did provision to protect the normal accounting policy that we have. And it's something that we don't expect that will happen during the year, this year, then it's something more specific, if you need to consider or not as recurring results, according to your understanding. But we decide not to do the adjustments in their results. (1:01:55).

We don't have any guidance for the other expenses. We probably need to consider that the level that we had in December, we introduced some of these exclusive effects that we had in this quarter in the first quarter, I think, probably it will continue running net to this level with the adjustment excluding this tax provision that we did. Probably the normal level that I expect but we don't have that expected guidance for this line.

**Q - Saúl Martínez**

Okay. That's helpful. Thank you very much. I'll let you move on to your next question.

**A - Carlos Wagner Firetti {BIO 2489005 <GO>}**

Thank you.

**Operator**

Our next question comes from Aníbal Valdés, Barclays.

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## Q - Aníbal Valdés

Hi. Good morning, guys. Thank you for the call. The first question has to do with the - I notice a material increase in the risk-weighted assets from operational risk, went up 26% quarter-over-quarter and 31% year-over-year.

And the second question is on the renegotiated loans, which have continued to grow at a much higher pace than the loan portfolio. So, for instance, they grew 11% for individual loans and 9% for corporate loans. So the question is, what would prevent this renegotiated loan to eventually becoming non-performing loans, and also what trend do you see in renegotiated loans going forward? And if you can provide some color on the detail of this renegotiated loans in the individuals' portfolio and in the corporate portfolio. Thank you.

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

Thank you. About the question, for non-performing loans the growth that we had in the renegotiated portfolio, normally this portfolio grows at a similar level that we have in our loan portfolio growth. And this is what you expect to have. Sometimes you have some specific situation that you can have some concentration in some period that you can have a small increase or a different movement when you compare with total portfolio. But the expectation normally is that the renegotiated portfolio will continue growing in a very closer movement that we expect to continue growing in the loan portfolio. In the operational...

## A - Carlos Wagner Firetti {BIO 2489005 <GO>}

I can answer that. It's related to the prudential consolidation. You know that in the first Q, we moved from the financial consolidation to the prudential consolidation. In the prudential consolidation, we consolidate other companies that are non-financial companies like Cielo and others. So this is the explanation for that, the prudential consolidation.

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

More related to Cielo that now we are doing the consolidation, then you need to consider the aspects of the operational risk that we have now in Cielo. Then these affected in this quarter compare to another criteria.

## Q - Aníbal Valdés

All right. Thank you. May I ask one more question?

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

Okay.

## Q - Aníbal Valdés

Yeah, sure. So if you look at the central bank data, we see like a materially improvement in credit spreads for the system. So I wonder if you guys are expecting a continuing



improvement in credit spreads going forward, or you think given your loan portfolio, you are in kind of like a steady state level for credit margin.

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

I think it probably will continue grow accordingly, the average of the system then, because normally, perhaps, we try to be very competitive. And we were running according to the average of the system. Then it doesn't expect to have a different expectation, then in some products probably you will have some additional increase, but according to each product in the environment, then we cannot tell you about now what we expect for the future. We are working hard to have the best margins in our products, according to risk for each product.

**Q - Aníbal Valdés**

All right. Thank you very much guys.

**Operator**

The next question comes from Victor Galliano, Barclays.

**Q - Victor A. Galliano {BIO 1517713 <GO>}**

Hi, there. Thank you. Just a couple of questions. Already my main questions have been answered. But a follow-up here. And following on from margins from my colleague, Aníbal. If you look at the sort of retail loan book and the way that's repricing, and given the move that we've had in Selic, obviously. Sort of, where are we down the line in terms of the repricing of that book? Do you see another sort of six months, two quarters, three quarters down the line where you could still the kind of positive effect there in terms of the repricing of that book, even if Selic doesn't rise any further, which it shouldn't?

And the other thing was just looking at your presentation, you've got in there your macro expectations. As your in-house view (1:08:30) that now after yesterday's increase that were done in terms of the Selic hiking or do you feel there's a chance there for further hike? Thank you.

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

(1:08:46) our portfolio. This increase in the Selic is included in the expectations of the rates in the future rates that we have in the market that are normal operations that has a normal term. They consider that this effect in our rate. Then this is why we didn't expect that our credit portfolio will be too much affected, because the rates that perhaps are now and probably some years ago was considered these expectations for the Selic increase.

The normal portfolio, to do a total (1:09:44) to run is around 18 months that is the average term that we have. And probably, I think that has a 60%, 75% of the total portfolio already included these expectations for Selic increase. About the other effects of Selic, could help or could improve a little the margins probably in the funding and in the assets and liability

management. But our guidance was considering this increase, one part of this increase when we gave the guidance actually the center was 8%.

Now, with this additional event the volume of transactions, the expectations that we have is probably to finish the year in the top of the guidance at 10%. But probably this is a conservative expectation. But we understand now to change the guidance is very early for us to do this. Probably we need to revise this position in the second quarter when we announce the results.

**Q - Victor A. Galliano** {BIO 1517713 <GO>}

Okay. Thank you.

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

Thank you.

## Operator

Next question Marcelo Telles, Credit Suisse.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Hello, everyone. Thanks for your time. I have two questions. One is a follow-up on the earlier question regarding your capitalization ratio. If I look at the slide number 10, where you talk about the fully loaded Basel III, the common equity Tier 1 of 12%. If I compare that number with the one you had in your presentation in your fourth quarter, you had 12.4%. And maybe I'm wrong, but I believe they are apples-to-apples. So in theory, you did have a decrease on an apples-to-apples basis in your common equity Tier 1 from 12.4% to 12%. Is this correct? And what drove that decline?

The second question that I have is regarding your provisioning growth in the quarter. You mentioned that the growth was mainly related to some changes in risk ratings throughout your portfolio. But when I look in terms of the amount of new NPLs that were created in the quarter, and I can look at that, just NPLs or including the renegotiated credit as well, we see that you actually -the amount of provisions, they are very much in line with the amount of new NPLs that were created in the quarter.

So that would indicate, at least to me, that probably this changing in risk ratings were not that meaningful. And that in fact, this increase in provisions had a lot more to do with a real increase in NPLs other than changing in risk categories. Am I to off on that? Thank you.

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

About the first two questions, the ratio, it's now decreasing when we do the full application, is related to Cielo. Because now we are doing the consolidation of Cielo. And we had the intangible assets in Cielo, because the acquisition that the company did, I think, the association, we had 30% of Cielo, then Cielo has a one-off. The effect that we

had around R\$3 billion is what we now have in the consolidation that the intangible assets we need to deduct for the Basel III calculation, the Tier 1 cash out (1:14:17).

And now that's now partly related to the share that we bought I think in Cielo. But this is a small effect, and we consider that the reach (1:14:33) of the banking for the next few quarters will return to the normal levels. And the 12% is a higher level, when you consider that the maximum requirement, with our buffers, is 19.5%. We are very comfortable with this 12%.

About the provision, the growth, you need to consider that one thing is the increased ratio, another into (1:15:07) the rating adjustments. When we talk about the rating adjustments, we don't have any affect in the NPLs or there are only one adjustment in the rate of decline that have this adjustments, so it will affect the expense, but not to affect the delinquency ratio.

The increase in the delinquency ratio, when we talk about the 90 days (1:15:37), we are running at normal level according to our expectation. But in the early delinquency ratio, we had an increase in the NPLs, because as we told you it's more related to seasonal effects that we need to understand, certainly in the (1:15:57).

**Q - Marcelo Telles** {BIO 3560829 <GO>}

I was actually referring to your provisioning growth vis-à-vis the amount of new NPLs that were created in the quarter. Where you had...

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

But in the provisioning growth, we had normal movement of the write-offs. Then we have some new clients that they enter and they start to do the provisions to have the impact in provisions, but we had the write-offs. There is normal movement then the growth is reflecting the situation of the portfolio.

One part of the growth is the credit criteria we did a downgrade and we improved the provisions and these provisions will continue during the period of the clients review maintain the operation with us.

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...we did a downgrade and we improved the provisions and these provisions will continue during the period of the clients will maintain the operation with us. The provisions that we have is for the clients that are overdue or they have some payments that are overdue. We see they will have the normal movement according the Central Bank rules. We do the normal write-offs. Then these are the levels - the provisions normally reflect these movements. And I think one part of this effect of the provisions will be reduced because, as we mentioned, seasonal movement that will return for the normal level.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Okay. Thank you.

## Operator

The next question comes from Philip Finch, UBS.

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

Good afternoon, everyone. I'm sorry I joined the call halfway through. So my question may have been asked already. If HSBC were to sell its Brazilian business, would you be interested in acquiring any of their assets? Thank you.

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

Bradesco forum - our main strategy is to maintain the focus on Brazilian country, our retail operations really are centered in Brazil. There are now opportunities that we have in Brazil, in making - growing the insurance business. We will analyze it and if you really understand it, that could - will add value for the company and for the shareholders. We will - normally probably will do everything is possible, but too early to answer. Then we don't have any movement, but our operations in Brazil in retail business, we will analyze it, see if it's according to our core business.

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

Okay. Thanks very much.

## Operator

The next question comes from Boris Molina, Santander.

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

Yes, good morning. I had also regarding to your guidance for premium growth. You started the year with around 19% year-on-year growth and following an acceleration in premiums in the second half of last year. So could you give us some color on how you expect the different segments to perform, because obviously your auto and RCFS is slowing down, and you're seeing some acceleration in your Life and (01:20:07). Can you give us some color? What are the drivers? Could you expect, for instance, the health insurance to sustain the current pace of growth? And how are - these things you're going to converse to your guidance in terms of premium over the year?

### A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Yeah. Boris, this is Firetti. Basically, we have a very positive view in insurance and our Bradesco Seguros has been promoting changes in its sales structure through the last one-year-and-a-half, and part of this strong growth for - fortunately, a good portion of this strong growth comes from the fact that we have now, in our view, a sales structure that is more effective. We have basically centralized the management of the sales structure in a single unit. And this has been in our view translated in this result.

In terms of protection plans, remember that protection plans were actually weak in the first quarter 2014. The market has normalized since then. And we are basically growing in according to what we feel is more the potential of growth we can reach on that. We have our guidance for premiums in insurance that goes between 12% and 15%, and we feel comfortable with this guidance.

**Q - Boris D. Molina** {BIO 1904979 <GO>}

Would you consider that the guidance to be conservative, or you think that looking forward you think it'll probably be closer to the top rather than the bottom of the range in premium, given the momentum you have?

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

The guidance strategy is not conservative, but you can work with medium-high level of the guidance. We always say that the company has strong structure for sales and it is running very well. The margin will grow around this 11%, 12%. Then the guidance is not at all high, above the average of the market. Then the guidance is very challenging. But we understand that this probably - we can work with the medium-high level of the guidance.

**Q - Boris D. Molina** {BIO 1904979 <GO>}

Wonderful. And my final question is regarding the gap that you're having in terms of the different inflation in access to see how we can forecast the performance of your financial results in insurance operations because they have been growing really well in recent quarters. And we understand that it has to do with the difference between the indices of your assets and liabilities in the insurance operation. So is there a way from your financial statements to be able to calculate what the size of that gap is and how could we forecast the spread you're paying from insurance operations into the future? Do you expect it to be sustained at current levels or do you think it could be towards the second half of the year?

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

I think it's sustainable, the current level. I think we had some improvements in the structured company because one part related is for this new structure that we had some benefits in the account of sales and in the costs because we reduced higher big part of the cost. And the portfolio that we have in the assets according to the risk that we have is the reserves that we're having. The margins are very - could maintain this actual level that we have. Excluding I think it is the effects of EPC that we had in this quarter specifically, one additional effect of the more higher level of EPC inflation index. But when we look for the full year, I think the margins that we have is we're looking for the assets and the liabilities is very sustainable to maintain this ROE of the company. And normally the corporate book is for to working with the long-term vision, how timely are doing the asset liability management and the security that we have in the portfolio. They work for to adapt - to maintain a very good hedge position according to the risk that we have in the liabilities.

**A - Carlos Wagner Firetti** {BIO 2489005 <GO>}

Only to add something, the mismatch between IGP-M and EPCA is not the major source of gains from that line, it's totally linked to the higher Selic and basically the insurance company has its portfolio with EPCA-linked bonds above what is necessary for hedge, the liabilities from IGP-M, actually the relevance of this gap has reduced sizably.

**Q - Boris D. Molina** {BIO 1904979 <GO>}

Okay. Wonderful. Thank you very much.

**Operator**

Excuse me, ladies and gentlemen, there's now no further questions. I would like to invite Mr. Carlos Firetti to proceed.

**A - Carlos Wagner Firetti** {BIO 2489005 <GO>}

Okay. Thank you all for the participation in our call. If you guys have any other doubts, feel free to contact me or any other people in our Investor Relations Department. Thank you all again.

**Operator**

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

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