FINAL

Bloomberg Transcript

Q1 2018 Earnings Call

Company Participants

- Carlos Firetti, Unknown
- Denise Pauli Pavarina de Moura, IR Officer & Member of Board of Executive Officers
- Unidentified Speaker, Unknown

Other Participants

- Carlos Grein Macedo, VP
- Jason Barrett Mollin, MD of LatAm Financial Services
- Jorg Friedemann, Director
- Jorge Kuri, MD
- Mario Lucio Pierry, MD
- Thiago Bovolenta Batista, Research Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. We would like to welcome everyone to Banco Bradesco's First Quarter 2018 Earnings Results Conference Call. This call is being broadcasted simultaneously through the Internet in the website, banco.bradesco/ir. In the address, you can also find the presentation available for download. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the company. 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 to 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 Director. You may proceed.

Carlos Firetti {BIO 2489005 <GO>}

Hi. Welcome to our conference call for discussion of our First Quarter results of 2018. We have today taking the call with us our Executive Vice President, Andre Cano; and our

Executive Managing Director and Investor Relations Officer, Denise Pauli de Moura; our Executive Managing Director, Moacir Nachbar, Jr.; Vinicius Albernaz, the CEO of Bradesco Seguros.

So now I turn the presentation to Denise.

Denise Pauli Pavarina de Moura

Hi, everyone. Thank you, again for joining our conference call. I'll start with the main highlight in Slide #2.

We have net earnings of BRL 5.1 billion, an increase of 9.8% year-on-year and 4.9% quarter-on-quarter, representing a return on equity of 18.6%. Our operating income grew 16.4% quarter-on-quarter. As you know, (inaudible) in our structure in the present year, capturing synergies of the client's operational (inaudible). We also adjusted our debt origination models and correction strategies.

The effect of these adjustments have been captured this year, 2018. And our results significantly show this improvement. The good thing in credit quality, in cost of risk (inaudible) by the delinquency rates, both individual and (inaudible) segment presents continuous improvement in delinquency, bringing the overall delinquency ratio down 0.3 basis points. This (inaudible) deduction of cost of risk which dropped. As you can see, 28% in the quarter. We understand that for the year, cost of risk may be around the bottom of our guidance and it is our process to be confirmed. But that's our expectation.

Operating expenses showed a reduction of 0.4% year-on-year as a consequence of our tight cost control and the adjustments made last year, which more than offset the inflation and the collective salary adjustments that we have in this period.

Then going to the loan book, it grew 6.4% year-on-year in retail. However, (inaudible) expanded loans were 3.2%, mainly driven by the contraction in the corporate segment. We've had to do the letters of credit and also debentures which is capital markets ready. It is in bond, of course. They are a good alternative for the company's (inaudible).

The corporate portfolio changed (inaudible) and investments picked up. We have, of course, waiting for the more clear scenario, companies drawing down their investments and this may change as long as we have a (monthly) scenario.

As anticipated, the average loan volume contraction and some reduction in margin put structure in our net earnings. Net interest income, which reduced 2.6% year-on-year. Continuing investment year-over-year, we'll be growing even bigger in SME segment this year as we saw in the First Quarter. The change in mix should help us offset (inaudible), not totally. But part of the (inaudible).

Going to the insurance business. We have a reduction in premiums this quarter. And we have to say that the reduction of insurance premium varies during to the year, if not, the same quarter-by-quarter. Therefore, the performance doesn't change our expectations for the full year. In fact, we expect good contribution to our results in the coming quarters and we see already signs of improvement in the health insurance business and overall claim.

Going to the end, I would like to summarize some of our few -- some few priorities we have. We keep our cost control very tight, we continue to divest, adjustment will continue (inaudible) now more gradually because as I said, the adjustment (inaudible) given some adjustments were done during those years and (inaudible) quarter. We have just a few things to do here. And the deal we expect to close or convert to (inaudible) was nearly 200 branches. This is a way to (inaudible) reducing cost. The other thing we want to do is to deepen our segmentation strategy, especially in the high-income segment. We reached the initiative implemented in 2017, related throughout the management and the financial advisory already show meaningful result. Here, we have established a new platform that is providing advisory to our clients and we see very good results of that.

Obviously, very important to us is the process innovation, innovation of processes -- innovation of products and sales channel, improving the amount of credit available to digital channel and reducing the paperwork, not only credit but also the other financial products that we can sell. We sold 500,000 products of our insurance here after included in our mobile bank that we have in Brazil.

Additionally, we will continue leveraging our (inaudible) area, we have a (currency), which increases sales effectively. We can now pursue events customer experience continually to more agile processes.

In conclusion, we understand that our quarterly results show that we are in the right direction with cost structure already adjusted, controlled delinquency and appetite to expand our loans this quarter. The quality of these new loans that we are considering are much better. We have improved and this gave us confidence to even extend our loan portfolio. Thank you.

Carlos Firetti now will tell you the numbers.

Carlos Firetti {BIO 2489005 <GO>}

Okay. Thank you, Denise. So going to Slide #3, we have the adjustment of our recurring net income. Basically, the major adjustment this quarter, as usual, is the goodwill amortization, BRL 607 million. We expect to amortize for full year '18 BRL 2 billion.

On Slide 4, we have our recurring income statement. And basically, a few observations here. First, we regrouped our provisions expenses, our allowance for loan losses, moving down the impairments from the margin and on the accounting terms, it is the way it should be to a minor few adjustments on the provision expenses. And also break down the former net provision expenses in each 3 components. So basically, these 3 first lines are -- compose the net provision expenses.

So expanded around for loan losses has a quite good performance, as already pointed by Denise, reaching BRL 3.9 billion in the First Quarter. We understand this level is closer to what we call a normalized level for the time being. We think, over time, over the year, it should continue evolving positively, we think. But it's more normalized level comparing to the Fourth Quarter where we had some extraordinary impacts.

We also had a quite important reduction on the impairment itself, reaching BRL 255 million. We believe this level is also closer to what we could see as a reference for the year, it could be a little bit tough. But we're not going to see, again, the same level as we had at the end of last year, unless we have something extraordinary happen.

Basically, this puts the provision for expense this close to the bottom of our guidance. That is a reference we have been saying is probably a good level for the year.

In terms of insurance, the insurance -- the income from insurance that you see in the P&L has a reduction this year -- this quarter, mostly related to lower premium growth or a reduction in premiums in the First Quarter compared to the Fourth Quarter seasonal reduction. But year-on-year, based on a weaker market and also a higher comparison base last year. Also we had a revision of the present value of our liability with a reduction in the discount rate applied for this calculation. So that also caused an expense this quarter that is responsible for most of this variation this quarter.

Our tax rate in the first Q was 32.4%. We believe our guidance, our segmentation for the full year, between 28% and 30%, continues as a good reference will be -- we believe are going to be in that range.

Slide #5, we have the evolution of our net income. As it is said, 9.8% growth year-on-year for the quarter.

On Slide 6, our net interest income. Our -- the earning portion of our net interest income dropped 2.6% in the quarter year-on-year. This is consistent with our guidance, close the middle of the guidance. The main driver for this reduction is the credit intermediation that reduced 8.5%, mostly due to volumes. But also some reduction in the credit margin. Insurance did well, as we have been saying since the end of last year, given that even if insurance is offset by lower interest rates, actually our asset liability -- we saw this impact.

And in asset liability management is, again, that is related to the fact that part of our balance sheet had a fixed rate exposure. So this brings a positive impact on this position.

Our NIM in the quarter has a reduction of about 20 bps, reaching 6.6%.

To Slide 7, our loan book. Considering the Central Bank classification that involve only loans, has increased 0.4% in the quarter, driven mostly by 1.3% growth in individuals on that classification. On our traditional breakdown, the expanded portfolio, we had a reduction of 1.3%, basically driven by the corporate and middle-market operations, especially in the corporate segment. Sureties and guarantees, we -- there were a couple of letters of credit that expired. And also the payment of some bonds that also reduced the portfolio in the quarter. The big highlight here is that our retail and mid-high income operations, including individuals and companies, grew at a rate of 6% -- 6.4% year-on-year for this segment where we have net credit products for our own clients.

In Slide 8, we have our breakdown of the expanded portfolio, 1.3% growth for individuals is the big highlight. Payrolls are growing at a 13.4% rate year-on-year, real estate, 5.5%. And car loans, 10.5%. In real estate financing or mortgage, basically, we had a very good beginning of the year with a very strong level of origination. And keeping that, considering we are operating very competitively, we should continue with a very good performance in this line.

In Slide 9, we have our loan origination for our business day, a big part of our business day. For earmarked and the nonearmarked loans, this represents roughly probably 80% of our total loan book. We have, for individuals, an increase year-on-year in the quarter of 35%, for company's 31%, showing that our origination is really picking up and that can continue allowing us to continue accelerating in the individual's portfolio.

In terms the delinquency ratio, also a very good performance, especially in SMEs and individuals where we have been seeing improvements since the Fourth Quarter '16. We think there are more improvements to happen considering the performance of our more recent vintage. And considering also the current NPL levels are still high. So we should continue see these NPLs improving.

In the corporate segment, NPLs are still high. Remembering that in 2014, '13, when they operated on what we consider more normalized, they were around 50 bps. We believe that corporate NPLs should continue on a relatively high level until the end of this year. We don't see really big tickets moving this ratio to much higher levels. But we don't see actually an improvement in the short term.

In Slide 11, we have our NPL formation, that is also a very good highlight for the quarter. NPL formation dropped to BRL 4.4 billion, it's the lowest level we had for a long time. We -- our provisions were consistent to the NPL formation. We continue providing for the new formation. In terms of provision expenses including impairment, they represented 3.2% of our loan book this quarter.

In Slide 12, in the NPL creation per segment, we had quite good performance in SMEs and also a continued improvement in individuals. We think NPLs formation for both segments and also the total NPL formation can still continue improving. The corporate NPL formation increased a bit this quarter but its participation in the total NPL formation is relatively small.

In Slide 13, our coverage ratios, we reached the 219% coverage on 90 days NPL, a very strong level. We believe our coverage will -- probably will continue increasing a bit more. We don't manage our provisions through coverage. We -- for the time being, we don't have any plans to reduce the excess provisions. We can eventually reevaluate that in the near future if necessary. But we shouldn't be doing that in the short, medium term.

Renegotiated portfolio evolved positively with a reduction in the total renegotiated loans. And also the renegotiated loans that are still in our loan book, that is the gray line. The difference between the 2 are renegotiated loans that were in our off-balance book coming from write-offs. The coverage for this renegotiated portfolio is quite high. And it's been -- it has been performing quite well in terms of credit quality.

Slide 15, fees and commissions. We have fees growing 5.4% year-on-year. The highlights are for checking accounts, where we have the impact of synergies from our acquisitions. We have been able to capture more fees on the client base, mostly as selling services with higher value-added. Asset management, management will continue doing well as a result of our efforts in the wealth management with our investment consultancy for our clients. And this is in line with our guidance.

Operating expenses. We also had a good performance. Total expense has dropped 0.4% at year-on-year. The administrative expenses dropped 0.9% year-on-year. A highlight here for personnel that grew 0.1% year-on-year, a good performance. But looking to the structural part of it, there are salaries and benefits, we had a reduction of 1.7% despite the 2.7% increase in salaries last year. That reflects the results of our voluntary dismissal program. What is holding a better performance for total personnel expenses is the no structural part and the main responsible are the expenses with labor lawsuits. What happened is with the increase in the number of people leaving the bank last year, we have more people (gaining) with lawsuits against us. In the First Quarter, reached BRL 407 million, a more normalized level is something probably below BRL 200 million. And we believe, over this year, we should reach those normalized level, that we go to a more normalized situation in terms of labor lawsuits.

In Slide 17, we have our efficiency ratio. We had improvement of 100 bps in our efficiency ratio this quarter.

In Slide 18, the -- our insurance operations, our premiums year-on-year had a reduction of 2.1%. We are affected by the high -- strong base of comparison last year. But also a weaker market. We believe that despite this relatively weaker performance year-on-year, we, considering that other periods in the year are more important, we can, without much problems, be on the -- in our guidance range.

In capital, Page 19, reminding you that this quarter, we have Brazil already operating with 100% implementation of the BIS III in terms of capital deductions. Our ratio in the quarter was 12.4%, Tier 1; 11.6, CE, Tier 1. Reminding that the fully loaded calculated in the Fourth Quarter was 12, Tier 1; 11.2, CE, T1. So we've had an organic expansion of capital this quarter based on comparison to that fully loaded.

And finally, our guidance in the realized numbers, basically, for the loan book, we are below it. But we believe we can still be in the range, especially in the mid-low portion of it. But more important than being in the range, let me remind, we are growing more in retail and SMEs, especially small-sized SMEs. And this is mix accretive. So for our margin growing those segments can be as important and offset. The fact that we don't grow that much or eventually, we'll not grow that much in corporate.

In net interest income, we are tracking our guidance. We believe we can improve a bit over the year, being closer and closer to the center of the guidance that is 2% or a little bit better than it. Fees were 5.4%, in line with the guidance. Operating expenses, we will be probably in the mid-low portion of the guidance. Insurance premiums, we are running below. But we believe we can go back to the guidance range. And we are doing quite well in provision expenses.

With that, I conclude our presentation and open for the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming from Mr. Carlos Macedo with Goldman Sachs.

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

I have a couple of questions. First question is on margins. We saw that your margins went up largely because you had some stronger results in (the alignment) and other things. But the credit margins were lower sequentially. Despite its slight change in mix in the portfolio with the consumer loans growing faster. I'm trying to get an idea of what you expect through the end of the year. But more importantly, if you think that the process of passing through the low SMEs was gone. And if you think that the competition, now that everybody is trying to grow loans, particularly in the consumer side, will have any impact on margins, or no, maybe not this year but down the road. Second question, on asset quality, how much more do you think -- I mean, you talked about potentially improving and NPL ratios getting lower. The cost of risk is already much lower. Where do you think the NPL ratio can go to? Then does that mean that with NPL ratio being low, you can actually have the cost of risk even lower?

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. In terms of margins. And starting with competition, the answer is we have seen some impact in spreads and some lines. This is a competitive scenario. And basically, everybody is there because actually the demand is there. The -- we have -- so we have seen spreads going down some lines, still remaining in health levels but it's -- we have already seen some reductions in some lines. In corporate, for instance, where the competition is more capital market than, actually, the other banks, spreads are already meaningfully lower than the peaks we have seen. And in some cases, getting closer to the precrisis levels. We believe our margins during the year can -- our credit margin can stabilize due to mix. It's only -- we have been growing in richer mix loans -- or loans with higher margins, especially since the Fourth Quarter last year. We only have roughly 2 quarters growing there. We think over the following quarters, as the participation of these loans grow, we can have some sort of offsetting margins due to this mix effect.

Our expectations for NII for the year being minus 2%, basically, it implies that margin probably will go down somehow this year. I'd add -- but it's implicit that it's not going down a lot. On the cost of risk, we used to have a longer slide on NPLs where the NPL --

total NPL in the past cycle reached something like 3.5%. Considering the mix, the fact that actually new vintage are doing quite well. We can go below that level. We are -- expenses, reducing, retreating as a percentage of the loan book. Looking not only this year but longer term, we believe we can also operate in levels below what we have seen historically, given the mix effects and the fact that actually new loans are doing quite well.

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

One follow-up question, if I may. I mean, the question I think on competition, there is still a lot of room to expand because the potential in the borrower is still low given that nobody was borrowing. At some point, you'll start bumping heads with your competitors and everybody trying to go in auto and payroll and these mortgages and these loan lines that have low risk. Do you expect the competition to intensify this year? Or is this something that there's still enough room for everyone to grow so that it will become more of an issue next year?

A - Carlos Firetti {BIO 2489005 <GO>}

Competition is quite strong this year already. If you look to mortgage, to car loans, everybody wants to grow. I think the difference could be that the demand probably will become even more as the economy improves and as people start to get jobs. At some point, we can have a differentiation. That is our position. In our case, this differentiation has -- didn't help us with full impact because, as you know, the regions where we have stronger position than our peers were the ones that suffered most and probably will take a little bit longer to be running at full potential. We also have some differentiation in some lines, one example with -- are the payrolls. We have invested in that and -- because, actually, we can because we have a strong distribution network to get retirees receiving salaries in our branches. So we have an access to these clients that no other -- few other banks have. It's the -- only the positive factor. And this is a very good channel where we can grow. Also, in terms of mortgage, the provision in terms of clients, relationship and agreement also can give some differentiations. But we cannot avoid that in normal conditions with expectations of risk in our lower level, competition actually will be stronger. It's natural but that -- we don't see that as a major problem.

Operator

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

Q - Jorge Kuri {BIO 3937764 <GO>}

Can I ask about competition from the fintech space? We're seeing a lot of new companies offering free checking accounts on digital accounts and payment companies offering significantly lower MDRs, companies that are able to go into your system, see who your best clients are and try to offer them better rate. How do you think this is going to play out? What is Bradesco doing to defend its market share and to create also a digital world that is appealing to the younger crowd that is rapidly accepting, adopting these new platforms? I'm sorry, if I may ask, particularly in what products or segments do you think there is more risk? And what are you doing specifically about those products or segments?

A - Carlos Firetti {BIO 2489005 <GO>}

Sorry, can you repeat your last question? Sorry.

A - Denise Pauli Pavarina de Moura

(foreign language)

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. I will answer the first part. You are right, Jorge. The competition is strong and we are basically fighting back. It's a strong bank which saw some players growing in areas that are very important for us and areas that are -- on which we want to be. One of them is the -- for instance, in the digital accounts and also the acquired business for individual, small merchant. We have launched -- we are ramping up the operation with Cielo to offer cheaper products and selling the machines at very competitive prices. We are -- we offer -- we are going to offer digital accounts. So we have tools to fight back and really think that -- we believe that with (inaudible) with our capacity and technological capacity, we can really remain as a very competitive and strong player in the segment as we are in most of the market segments. In -- specifically in the digital operation, I'll remind you of our operation with Next. That is our digital bank focused on younger clients. Basically, it is a platform totally separated from ours and very innovative, very (inaudible) already prepared to open on a -- open bank (call set). And we already have more than 100,000 clients. And we are ramping up. We launched it only two months ago, the free accounts. We're in the first stage of the launching. We were operating only with paid accounts. And the rate of growth after the launching increased a lot. And this platform gives us a lot of leverage in the sense that we can experience, we can try different products, different formats. And it's working. So we should keep investing on Next. It's -- get new profile clients that are normally younger and have a full digital profile for our part of the clients that want the digital accounts. We should -- we will play with digital accounts. And we have more. We have the complete portfolio of products that we can offer them when they need. We think other fintech banks not necessarily have that. We are a very traditional bank in the -- in small company's operation. Probably we have one of the largest portfolio. We have more than 2 million clients in the company segments where we can offer -- acquiring. We can offer digital products. So I think we are prepared. And you'll hear a lot from us playing in this new role.

A - Denise Pauli Pavarina de Moura

Just to add. So in other clients that grew within companies such as (Porto Seguro) and others were clients that we are not actually cutting because of the level of credit, this score of credit that we have inside Bradesco. It doesn't mean that they -- we are losing our own clients. Those are clients that we are operating (inaudible) or no credit. And so this is something that now with this new strategy that we have, where we were selling the (Bradesquinha) which is the new machine for our clients to commercialize their product. We sold in 40 days 14,000 equipment and this is -- and POS. And we went to end the year with around 100,000 equipment. So I think that we are there as we were in other situations where we have to compete. And basically, we changed some metric. We created new products. We also created a prepaid card for certain types of clients that have different needs. So yes, that explains the competition as we have done now.

A - Carlos Firetti {BIO 2489005 <GO>}

Jorge, I didn't get the second part of your question. Can you repeat it?

Q - Jorge Kuri {BIO 3937764 <GO>}

Well it was -- pardon me, I'm sorry. I was asking specifically where did you see more risk. What products and services do you see more risk on -- coming from fintech. Is it payments? Is it credit? Is it spreads? Is it in acquiring and insurance? And so I wanted to know on a product-by-product basis, what -- where do you see the more risk? And what are you doing about it? You partly answered it but if you can just expand a little bit on the credit side because that's obviously where there is excessive pricing in the market. And we are seeing fintech companies that are originating credit cards at much lower rates, that are offering clients a better rate. And so just if you can -- you alluded to the payment statement. If you can talk about the credit market and what are you doing to defend yourself from fintech.

A - Denise Pauli Pavarina de Moura

To be honest, Jorge, what really concerns us more than the competition is...

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm sorry. It's really very hard to hear, sorry. It's very hard to hear, sorry.

A - Denise Pauli Pavarina de Moura

Okay. I'll say again. What -- I'm saying that what concerns us more is the growth of the economy is delayed (always) because if the economy is growing, then we can see credit (inaudible). We are very prepared to face.

Operator

Our next question comes from Mr. Jason Mollin of Scotiabank.

Q - Jason Barrett Mollin {BIO 1888181 <GO>}

My question is a bit of a follow-up on what was being discussed. I'm just looking at the number of clients or customers that you show as going down. I'm looking at definitely a little bit lower number of branches. And you did mention, I guess, Next customers -- or these 100,000 clients, I think, that you mentioned, are these in those -- the 3 customers? Because it looks like you lost quite a bit more than that. If you can talk about that, if that was a migration to competitors or to these kind -- it's hard to tell where they're going, I'm guessing. Or are these clients weren't profitable and you're actually trying to push them out?

A - Carlos Firetti {BIO 2489005 <GO>}

Basically, the main reason for the reduction in clients is unemployment. We have the new (inaudible) very, very strong prices over the last two years. As you know -- and a lot of clients lost their jobs, closed their accounts. We have a lot of accounts that are payroll relationships. So this -- one of the -- this is the main driver, I would say. It's -- so it's -- in terms of account numbers, current account numbers, this quarter, it was stable. And as I said, the main reason for the reduction come from that. When you look, for instance, on health care plans, unemployment, we play mostly with corporate health care plans. And with unemployment, we have the reduction in the base of clients, we believe our position and our strategy focusing all segments of clients from the top to the bottom since we have more than our product sector competitors in the bottom where unemployment grew more than anything else. It's naturally that we got affected.

A - Denise Pauli Pavarina de Moura

Just to add, Jason, we -- our focus is much more now on total clients rather than cash accounts and so because our strategy now is to sell, to include those clients in many segments that we have to use the CRM to cross-selling with clients offline, surely to sell our products or to sell investments that we have done. So our focus is -- so now we're much more on total clients considering that all of them that buy any product of Bradesco are our clients. And cash account is one of the products. So we shouldn't look at those as the main driver.

Q - Jason Barrett Mollin {BIO 1888181 <GO>}

Yes. It's interesting because I see that -- I mean, it's interesting in the total customers, it looks like quarter-on-quarter, there's a small increase. But if I look at the breakdown you give, it looks like the only -- the numbers show a reduction in all types of customers, in all of the line items here except there's 100,000 increase in account holders. The total customers is increasing by 700,000. So I'm not exactly sure where they're coming from. But that makes sense. What about on the branch...

A - Carlos Firetti {BIO 2489005 <GO>}

Jason, just one thing. The saving accounts, if you look every year, there's interesting phenomenon that we have. I mean, big increase in (inaudible) number of saving account clients at the end of the year and a big reduction in the First Quarter. There is some seasonality. Probably people would receive their Christmas bonus or get more money, open the account and we have, sequentially, a big reserve. You can see every year, the same thing happens in saving accounts.

Q - Jason Barrett Mollin {BIO 1888181 <GO>}

Right, year-on-year. But I guess that -- you were explaining that, that could be the economy.

A - Carlos Firetti {BIO 2489005 <GO>}

No (inaudible)

Q - Jason Barrett Mollin {BIO 1888181 <GO>}

What about the branch...

A - Carlos Firetti {BIO 2489005 <GO>}

Yes?

Q - Jason Barrett Mollin {BIO 1888181 <GO>}

What about the branch network? Can you continue to rationalize that? The number of branches was down 8% over the last year, almost 1%. I think 40 branches in the quarter were closed. If you can talk about that.

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. We plan this year to reduce about 200 branches. Last year, we closed about 565 branches. In the First Quarter, we already closed something like 44 branches, if I am not wrong. Part of what we say closed is conversion points of service. That is small format, only with ATMs, 1 or 2 account managers focused on relationships.

A - Unidentified Speaker

Two managers.

A - Carlos Firetti {BIO 2489005 <GO>}

Two managers per branch and focused on relationship. We think that this -- our way of keep the presence, keeping the -- a way to serve the clients with a much lower cost structure. So especially this conversion will happen a lot but the reduction from our launch could be -- is over than it was last year.

A - Denise Pauli Pavarina de Moura

We are analyzing region by region, city by city. And see the model that fits the best in that place. And this is the number that we have now. But those are evaluated all the time to have new look that we...

A - Unidentified Speaker

(inaudible)

A - Denise Pauli Pavarina de Moura

Yes. Every day, we will look at the model that fits better for that region, place, city, situation and change to a more efficient (inaudible)

Operator

Our next question comes from Mr. Jorg Friedemann of Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Just a point that I noted on your capital position. I understand that most of the effect on common equity Tier 1 in this quarter comes from the agenda of the fiduciary adjustments that rose towards 100%. However, I also got a bit surprised with the impact on the common equity Tier 1 coming from higher risk-weighted assets. So just wondering if you could give a bit more color why the credit risk increased more than 2% despite the, I know, sluggish credit performance and also the operating risk went up more than 10%. Just a bit more color on that.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. It's -- part of it comes from credit. It also has a little bit to do -- just a second. Jorg, sorry, a simple answer. There were some changes in the weight in risk-weighted asset.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Sorry, could you repeat that? I couldn't hear you.

A - Carlos Firetti {BIO 2489005 <GO>}

There were some changes with some weight for assets (returned) by the central bank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay. Both in credit risk and operational risk as well?

A - Carlos Firetti {BIO 2489005 <GO>}

Yes, yes.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, perfect.

A - Carlos Firetti {BIO 2489005 <GO>}

I'll follow up more on details on that with you. That -- but that's the answer.

Operator

Our next question comes from Mr. Mario Pierry of Bank of America.

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

Let me ask 3 follow-up questions here, if I may. The first one, on the cost of risk, BRL 3.9 billion this quarter. If we annualize, we come slightly below your BRL 16 billion forecast for the year. So I just want to clarify a bit. Then this -- you're still comfortable with your guidance range of BRL 16 billion to BRL 19 billion? Or do you think you can come below your guidance? Because the way the things are trending in terms of asset quality, it's showing that things continue to improve. So that's the first question. Second question is going back to all of these questions on fees. When you bought HSBC, I remember that the revenues that you were getting out of the HSBC clients were roughly 20% lower than what you had at Bradesco. So if you can try to discuss -- do you think that the profitability or the revenues that you're deriving from the HSBC clients are already at the same level that you had from the traditional Bradesco clients? Because I think what is catching the attention here is that your fee is only growing 5% year-on-year, right. And we understand all the dynamics there. But it seems low because you originally, roughly two years ago, incorporated a big franchise. And the third and final question on -- has to do with costs. Just wondering here if perhaps in all of the benefits of your early retirement plan, is that already fully reflected on your results? If you can comment on that, that would be great.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. First, the guidance. Annualizing the first Q, really, it goes below the guidance. Early to review, we think. As I said, this new level with kind of a reference -- we don't see big increases in -- as the most likely scenario. Probably even impairments also have reached a more normalized level. So it seems -- we have said we expected more the bottom of the guidance. So the first Q makes sense with this statement. For now, let's wait. But we are comfortable. We are doing quite well on that, isn't it? We prefer not to change the guidance.

A - Denise Pauli Pavarina de Moura

About the revenues for clients, as you have asked, when you have a retail and corporate clients, they are about the same already. And when you go to income -- high-income clients, we have still a ways to go. So we are not there yet and working hard to reach the same level.

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. One thing that happened is in the agreement with the anti-trust regulators, basically, we cannot increase the fees at once. It's kind of a commercial relationship. And we have to sell a better product and the customers have to allow to (titrate). So it's a gradual process. And as Denise said, the mid, high-income segment is where we have probably a little bit longer way to go. In terms of the voluntary dismissal program, some people left only in February. It's a smaller part of the program. So the possibility, first Q is not really fully reflecting all the adjustments but maybe almost fully reflecting on the personnel. What is impacting the personnel expenses is kind of called -- high part of the benefit is the fact that we had very high expenses with labor lawsuits in the Fourth Quarter but especially in the First Quarter, something like BRL 407 million. These expenses normally around below BRL 200 million. The reason for that is the fact that a lot of people, at last event, last year, it takes a while to receive the notice for the lawsuit. A lot of people anticipated the moment they would get with the lawsuit comparing to what we had before the labor reform. We believe in the coming quarters, we'll have a big improvement on that, as I said, maybe growing from that BRL 400 million to something around BRL 200 million or below it. So this is not a benefit from the voluntary dismissal program. But it's an important benefit we still have to capture.

Operator

Our next question comes from Mr. Thiago Batista of ItaÃº BBA.

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

Actually, you had a comment during the call -- in the call that the results in insurance companies -- the insurance company results were impacted by kind of one-off expenses related to the change in assumption of the technical reserves. Can you comment in which segment this was impact? I believe (inaudible) but not totally sure. And also the magnitude of this impact, how big was this impact in the (company) results?

A - Carlos Firetti {BIO 2489005 <GO>}

Basically, to the -- through a regulation of our liability in the insurance company, it's related to the revision of the discount rate from 4.3% to 4%. The impact is roughly going to BRL 150 million after tax in the insurance product.

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

Okay, perfect. And this was seen in the pension or the business itself or in the life or (inaudible)

A - Carlos Firetti {BIO 2489005 <GO>}

Across the board.

Operator

Excuse me, ladies and gentlemen, since there are no further questions, I would like to invite the speakers for their closing remarks.

A - Carlos Firetti {BIO 2489005 <GO>}

Hello. Thank you, everybody, for participating on our call. The Investor Relations department is available for any further questions you may have. Thank you very much.

A - Denise Pauli Pavarina de Moura

Thank you.

Operator

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