

Q4 2014 Earnings Call

Company Participants

- Luiz Carlos Angelotti, Managing Director & Head-Investor Relations
- Paulo Faustino da Costa, Market Relations Department Director

Other Participants

- Boris D. Molina, Analyst
- Daniel Magalhães, Analyst
- Mario Pierry, Analyst
- Saul Martinez, 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 Fourth Quarter 2014 Earnings Results Conference Call. This call is being broadcast simultaneously through the Internet in the website, www.bradesco.com.br/ir. In that address, you can also find a banner through which the presentation will be available for download.

We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will 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. Paulo Faustino da Costa, Market Relations Department Director.

Paulo Faustino da Costa {BIO 17286050 <GO>}

Good morning, everyone, and thank you all for participating in our fourth quarter conference call. We are here today to provide you with all the information you may need about our numbers, and this is in line with our goal of always increasing the transparency of information disclosed to the market.

We have here today Mr. Alexandre da Silva Glüher, Bradesco's Executive Vice President; Mr. Marco Antonio Rossi, Chief Executive Officer of the Bradesco Seguros Group and Bradesco Executive Vice President; Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer; and Mr. Moacir Nachbar Junior, Executive Director.

I will now turn to our Executive Director and Investor Relations Officer, Mr. Luiz Carlos Angelotti, who will lead our conference call. And after his presentation, we will be open to answer your questions. Mr. Angelotti, please go ahead.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. We will now go over Bradesco's results for the fourth quarter of 2014. Let's start here on slide two with the highlights of the fields. The adjusted net income reached BRL 15.3 billion in 2014, up 25.9% year-over-year and is 4.1% in the fourth quarter, up 4.6% quarter-over-quarter.

ROE [sic] ROAE (03:17) reached 20.1% in 2014, a 200-bps increase year-over-year. Our ROE [sic] ROAE (03:26) in 2013 was running around 18% and we had a significant increase during 2014 and this increase was also because our NII interest-earning portion increased by 12% during the period. Our efficiency ratio reached 39.2%. It's the best level ever. It is aligned with our target [indiscernible] (03:56) five years ago.

Our fee and commission income increased by 11.6% year-over-year as a result of investments in increased segmentation of our client base and the improvements in technology are also more broader to our clients. The operating expenses for personnel and the administrative went up by 190 bps below inflation year-over-year. And our target for 2015 is to maintain the operating expenses growing below the inflation.

Our total assets exceed BRL 1 trillion; the expense loan portfolio reached BRL 450 billion, up 6.5% year-over-year. The net income from insurance fee amounted to BRL 4.4 billion in 2014, up 17.8% year-over-year growth. And the insurance written premium increased 13.9%.

Moving to slide three, we have the book net income versus our adjusted net income. In the fourth quarter, our book net income is BRL 3.9 billion. And we had some non-recurring events and the main events relate to the impairment of assets, BRL 702 million and composed by BRL 85 million related to software that during the year, it started being

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(06:04) and this BRL 617 million is related to impairment of cost of shares that we have in the insurance fee portfolio for using as a guaranty of the technical reserves. With these adjustments, non-recurring EBIT that we had in the period, our revenues - our profit or our adjusted net income in the quarter is BRL 4.132 billion. And our final ROE (sic) [ROAE] (06:43) for the year is 20.1%.

Moving to the slide four. We have the adjusted net income growth. In the quarter, the growth is 4.6% and we have, from the net interest earning portion, a contribution of the BRL 505 million related to the increase of business volumes. And the highlighted - the main line is from insurance margin that came - we have the contribution.

The fees, we had BRL 200 million. And the - a negative impact that we had during the period is related to the administrative and the operational cost that we - in the amount of BRL 643 million, above the average that we had in the other quarters. But we had a seasonal effect normally in the last part of the year. We have a seasonal growth in the operating expense related to more volume in the transactions, and then we have some costs that are related to the volume of this growth. And then we had an increase the marketing expenses.

Talking about the year's growth, we had contribution, a good contribution from the net interest earning portion, related to the increase of the business volume. But the main factors came from the loan margins and the funding margins. This had a very good contribution, more than BRL 2 billion, BRL 2.3 billion in the year, very good growth that we had because we could improve the offer of products for our clients.

And the operating expenses reduced, an additional way that our products, BRL 1.2 billion. But we need to - we had a growth (09:11) operating expense, and additionally the commitment of this - the company, we did a control of costs.

Moving to the slide five, we have the net income breakdown. This quarter, we could maintain reasonably stable all of the (09:35) of our products. But we expect that for 2015 that probably the most growth will be, same as we gave in the guidance, will continue to run in a more lower level but (09:54) the most contribution in the net income probably will not be stable because we expect that our net interest ratios will continue to be stable. Then that the net loan margins will continue having a positive contribution.

And another thing is that we have 72% of our profits that came from the other is not related to loan growth. We have fees and the funding earnings and the insurance contribution that is normally around 30% of our profit. This diversification (10:41) of our income gave us a possibility to maintain the expectation for our stability in our profits for the next year - for this - for 2015.

Moving to slide six, we have the efficiency and operating coverage ratios. The lines that we have in the top of the slide is our operating coverage ratio, that's the combination of the fee and the commissions to the personnel and the administrative costs. We are having continuous growth in this ratio. Generally, we are improving our efficiency.

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And we can see that our efficiency ratio is improving this year. We have a decrease in the ratio around 300 bps. That is the combination of our efforts for increasing the revenues and we control the costs or expenses. And we have been successful to reach now the best level ever that we have in the company is 39%, that is one target that we planned five years ago and now we have this level.

We expect to - by the next stage, that probably we'll continue having some more - mainly because improving efficiency. But probably, it will be in a more gradual way, probably only up 1% a year that we expect to continue improving and we will improve gauging our efforts to maintain our ratio running a better way.

Moving to slide seven. We have here our NII. In this quarter, our NII reached - the total NII is BRL 12.9 billion, BRL 705 million increase compared to - with other quarters. We have now our NIM here. Normally, we disclose our NIM, at the quarter, NIM in a normalized way, that is in this quarter the number that we have is 7.7%. But now we will start to disclose the NIM, but in the year (13:46) that's now 7.2%. We think that this ratio shows there the changes of our NIM for the company. That's now at 7.2% and we expect that for 2015 that this ratio will maintain stable at this level 7.2%. We (14:11) reasonable that we will expect this stabilization in the ratio.

Moving to the slide eight, we have the NII interest-earning portion that in this quarter, we initiated BRL 12.7 billion, BRL 525 million growth compared with the year - with the quarter before. In the quarter, the main highlights we have in the Insurance margin, 24% growth. It's related to the growth in the volume of transactions. And for Insurance and the - another party with the combination with the IPCA, the inflation index that in this quarter has 1% additional growth and then we have some bonds that they have a relation - related to IPCA. And then we have these additional revenues.

Looking for the year, we had a 12% growth and the main factor is more related to (15:39) that is around 70% of the total NII and the funding that grew 33% and we are working to reduce the cost of funding and give more priority for the retail funding and we had took care during 2014. And we expect that during 2015, we will maintain this policy and probably we expect some additional gains in the next - during 2014 - 2015.

We gave the guidance for 2015 for our NII. That is 6% to 10% growth. And we expect that our NII from loans will probably be more a little better than we had in 2014, 5.5%. We expect to have a better evolution, a better growth because the spreads in some operations that we have possibility to increase. In the funding portion, because of the cost control that we are working and improving when you compare with 2014, we expect to have now grow around 10%.

Insurance normally, our margins, we have to grow between 10% to 15% is the average. And the secured and others that is our other assets and liabilities in the bank excluding loans, funding and the insurance, the assets in the insurance policy, we expect to have growth around 8% to 10%.

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Moving to slide nine, our credit margin. We have in the top of this slide, the line, our spreads that is reasonable, stable, around the 10%. We expect that probably in 2015, we will maintain this level, and our spreads after the delinquency ratio, we expect that we will have some improvements. Now, we have 6%, but probably during 2015, we expect to have some improvements because our expectations for the costs which - the delinquency ratio that is in this graph is the red portion. We expect some stability during the year in the delinquency ratio, and the cost will grow less than our expectations for the credit margin.

Then probably the (18:50) that we have that is now 30%, so that is our costs with the delinquency ratio is consuming from our credit margin. Probably we will be running more closer to 38% during 2015. And then the cost with the delinquency ratio that we have, with our expectation of stability in the delinquency ratio during the year, probably the expense will grow less than the loan portfolio growth, around 50%. That probably - this is what we expect because the part of our portfolio that we said that we have.

Moving to slide 10, we have here our BIS ratio, the Basel ratio. On the left-hand side, we have our positioning in this quarter that the Tier 1 we finished with 12.9%, and doing a simulation with a full impact of Basel III, we start with 12.9% and then we had the adjustments in the 1.6% decrease of the additional deduction that we have according to schedule. During the fourth quarter, we did our adjustments about the migration of cash in our insurance business that we transferred cash for the non-insurance company and we now - the adjustment is very small, only 0.1% that we need to do, on the test, it was 1.4%.

And then looking to the future, our tax credit, we will do the compensation until 2019, our Tier 1 that we expect to have is 12.4%. It's more than the requirement that we have now and we have decided now is possible to do the Basel III implementation without any (21:16) or without any limitation in our capacity to do business with our clients.

On the right-hand side in the top of the slide, we have here a new graph that is a demonstration. Internally, we have a decision to maintain our common equity with a minimum 11% when we have the final implementation of Basel III, and with the additional margin of 27% with the Tier 1 and Tier 2 bonds. Considering this ratio that we expect to maintain in the future, we feel we do a calculation of the profitability, the ROAE of Bradesco considering the risks allocated for our operations.

We have here the ROAE, now Bradesco will be at 24%. It's the level that we are running. Then the excess cash or excess capital that we have today, we maintain because we need to finish the implementation of Basel III. But we have the best situation in this Brazilian environment, Brazilian financial companies to do the Basel III implementation.

Moving to slide 11, we have the information about our assets. We finished the year with BRL 1.032 trillion in assets. Our return on assets is stable. It is stable at 1.6%. And our equity, we finished the year with the BRL 81.5 billion, a 14.9% growth and the ROAE 20.1%.

Slide 12, we have here our expanded loan portfolio. We finished the quarter with BRL 455 billion, 6.5% growth in the last 12 months. And we have the Individual segment that has the best - the higher growth, 8.2%. In the company's segment, Corporate had the best

performance, 7.3%. And the SMEs is running now around 3.4% in the last 12 months and our expectation is probably SMEs will maintain similar growth probably very similar that we had in 2014.

The main products that probably will continue having the higher growth in the portfolio is real estate finance that we had in 2014 that we'll maintain the higher growth and rural loans probably we'll maintain a similar evolution.

Moving to slide 13, we have the delinquency ratio. On the top of the slide, we have the delinquency over 90 days. In this quarter, we are decreasing our ratio, 0.1% decrease, related to the decreasing in the delinquency ratio for Individuals and the SMEs. And we have stability in the Corporate delinquency ratio. Our expectation is that this number, 3.5%, probably during 2015, we expect to maintain the stability in this ratio because in the Individual's portfolio, we have some parts of that are having now the higher growth in the portfolio, have less delinquency ratio that is real estate financing and the payroll loans.

And in the Corporate portfolio that we have now 0.8% delinquency ratio, the normal level is around the 0.4%, 0.5%. Then probably, we expect during the year that we will return in forward to this level. Then our expectation then is that this number, 3.5% growth, we will be running 0.1% more or 0.1% less during the year. But we (26:20) show there the stability.

And when we look for the short delinquency ratio that another graph we have on the right-hand side shows that in the last quarter we have here a new decrease in the ratio, 0.1% and in both segments, Individual and the Corporate, we had this movement.

Moving to slide 14, we have the provisioning and the coverage ratios. On the top of the slide, we have here in the first line is our provisions compared with our credit portfolio that's now at 6.7%. In the second line, we have the level of provisions according to the Central Bank rules that we need to be 6% then this 0.7% is around BRL 4 billion is our excess provision. And when we compare with the real loss that we have in the company after the delinquency ratio that is the left line, the lower line level, that is around 3%. Then our provision, excess provision to cover this loss in one year is around BRL 12.7 billion.

And it shows how we are comfortable with our provisioning level. And the red line each year is our delinquency ratio. That show that we have success in - and normally our delinquency ratio is - it's the delinquency ratio. The real loss is under the level of our delinquency ratio normally that we have.

Looking for the slides that you have in the right side, we have here in this last quarter, the red cone is the level of provisions that we have in our balance sheet. BRL 23.1 billion is the total provision that we finished in the quarter. And then our coverage ratio that we have now for operations overdue more than 60 days is 156%. And then for the operations overdue more than 90 days is 189%.

Then we have been in both coverage ratio some additional growth this quarter. Then we are very comfortable with these levels of the coverage ratios. And this is one of the highest level in the Brazilian financial companies. And we expect probably that in the next

periods that we will have some stability in these ratios, probably with some growth or some decrease. But we don't expect any higher (29:47) and more stability.

Slide 16, we have fee and commission income and in the fourth quarter of 2014. We finished with BRL 5.8 billion in the quarter, 3.5% growth. But in the year, we have 11.6% growth. And the main growth and the more important growing the cards 12.8 billion (30:18) cards, now is one-third of the total fees. And probably we will maintain this double-digit growth for the next period and this is why we expect that probably we will have to maintain fees and commissions running in a double-digit way pushed by cards and another important line is checking accounts that in the last 12 months grew 11.4%.

But with the segmentation investment that we are doing and our clients today that we are improving the number of clients. We expect to maintain double-digit growth in this line. Loan operations is some other line that we could maintain this evolutions and in construction that's maintained to grow year-after-year around 10%, it's a very important product for us and our revenues from the investment banks that we - and the rising financial development services, that's probably we will help to maintain at this level this growth. I think the guidance that we gave for 2015 that is 8% to 12%. Our expectations that we finish the year running more in a higher level of the guidance between 10% and 12%.

Moving to slide 16, we have the operating expense. We finished the quarter with BRL 7.8 billion. In the quarter, we had growth of 8.9%, higher than the average of growth that we had in the other quarters but we have here the effect of the seasonality. For the administrative costs, we have marketing investments that is normal. We have marketing investments in the end of the year and we have some costs that they have - they grow related to the business volume that - with the increase of business volume in the last quarter, we have some additional expenses.

And in the personnel expense, we have effects of the agreement with the union in September, this is why we had some additional costs. But when we look the full year, we finished the year with 4.5%. Administrative costs running - growing only 2.3%. Then this shows the commitment of the company with the control of cost with efficiency. And we expect to maintain costs for the next period running below the inflation. Our guidance that we gave is for 2015 for our operating expenses 5% to 7% and 7% is the level of inflation that we expect in our economic department, the inflation that we expect is around 6.8%.

Then we understand it's possible to continue running costs below the inflation. And because of the effects of the investment in technology, our (33:52) that we are doing in IT systems during 2015 and 2016, we will continue the implementation of the new systems in the bank, and then the old systems we will we turn off.

And then our new system that we will use to do the implementation gave us the possibility to review the process to have best class in information, more automatization. Then we will continue to have some benefits of the IT (34:25) plan. And then, in another way, our efficiency committee will continue working for - maintain costs running below

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the inflation, working with other departments in the bank, other responsibilities for areas, looking for opportunities as far as reduce costs in the revising process.

Moving to slide 17, we have some numbers about our insurance business. Then our insurance written premiums, pension plan contributions and capitalization bond income posted a 38% growth quarter-over-quarter, mainly coming from the Life and Pension Plans segment, driven by a higher concentration of pension plan contributions in the period. On an annual basis, we saw an increase of 13.9%. This is regarding the effect of the DPVAT. We reduced the DPVAT association.

I would also like to highlight the performance our auto that grew 28%, health 22%, capitalization bonds 15%. The net income for the quarter increased 16.8% basically as a result of the increase in the revenues and having an 180 basis points in decreasing the claims ratio and the stronger financial results for the business.

And then year-over-year, the net income increased 17.8%, and is mainly explained by an increase in the revenues, the maintenance of the claims and expense ratios, the improvement in the administrative efficiency ratio in the insurance company and the stronger financial results.

Moving to slide 18, we show some of the main figures of our insurance activities. The financial assets amounted to BRL 166 billion, while the technical reserves stood at BRL 153 billion, BRL 134 billion of which from life and pension plan.

Now slide 19, here we have the comparison with the 2014 guidance and the actual performance that we finished the year.

Now, in the majority of the guidance, we have reached the targets, and we need to - remains only the loan portfolio. During the year, we need to revise the loan portfolio growth, because of the economic environment, we decreased our expectations of loan portfolio growth. But we need to remember that our NII interest earning portion, we increased the guidance into the fees and commission. We did a similar movement.

In the slide 20, we have our guidance for 2015. As I told you, for the loan portfolio, 5% to 9%. The extent of the guidance is 7%. It's a little better growth we expect when we compare with 2014. And the - our expectation for the - for loan growth - the GDP growth is 0.4% or 0.5% that we have - from our economy department.

The NII interest earning portion, 6% to 10%, we expect to have. And the main contribution will come from the loan portfolio because the expectation to have some additional spreads and a little better growth.

Fees, we have 8% to 12%, but we expect to maintain in the higher level of the guidance in the double-digit portion, probably, between 10% to 12%. Operating expenses of 5% to 7% is still maintaining our target to have the operating expense running below the inflation, that's the limit at 7%. And insurance premiums, that we have - that we have very good

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guided to grow 12% to 15%. We are (39:35) to reaching this guidance because with the new commercial structure that we have to report our insurance companies that we restructured during 2014 and considering the high synergies that we have between the bank and the insurance company.

Well, finally we consider our performance in 2014 that is very good, were very good especially considering the challenges generally, basically - and the growth that we met among which I highlight is our ROAE around 20% and the efficiency ratio that we reached 39% which provides us a 25% increase in the net income and the dividend payout.

Also, our coverage ratios remain strong and our delinquency ratios remain stable. This is important for the - shows the solid balance sheet that Bradesco maintains. These aspects reflect the strategic spending initiatives generating consistent and sustainable results preparing us to face even - greeting challenges in 2015. We will continue to invest in our business in addition to our current investments in infrastructure, IT and telecommunications, and I think the average is around BRL 5 billion. In 2015, we expect we will do additional investments in around BRL 1 billion. That will be in direction to have a modernization of our branches and improve the development of our branches. Definitely, we are working to offer better branch service for our clients.

Thank you all for your attention, and we would like now to invite you to our Q&A section.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes Mario Pierry, Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Good morning, everybody, and thank you for a very detailed presentation. I have two questions. First one is related to asset quality. You seem very comfortable with the outlook for NPLs, for provisions. Meanwhile, we see that the macro trends in Brazil are deteriorating, especially with regards to inflation, unemployment, GDP growth. So, it seems like there is a disconnect between what you're seeing - what we are reading in the papers and seeing day to day.

So, I wanted to get a better feel for why are you so confident that you can maintain NPLs under control. Is it because you have been very cautious in growing over the last few years, or is it because you have a more upbeat outlook for the economy?

My second question is related to net interest margin. On your outlook, you're talking about stable net interest margins. However, we are seeing that the competitive environment seems to be better for you today, especially as public sector banks are slowing down. Also, interest rates are much higher than they were. When I look at your net interest margin in 2014, they increased 60 basis points throughout the year from the

fourth quarter 2013 to the fourth quarter 2014. So, why don't you expect net interest margins to be higher in 2015? Thank you.

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

Okay. Thank you, Mario, for the questions. About the asset quality, we know that in 2016, we will - the growth in the economy will be on a lower level - one year of adjustments. And then we could have some other adjustments in the expectation of GDP.

But I think, firstly, we have more sensitivity in loan growth. If we have some decrease in the GDP expectations, I think we will be - firstly, our loan growth would be more - could be reduced. We could grow in a lower level from our guidance, more close to 5%. But when we talk about the quality of the portfolio, if you analyze the main segments that we have here, Individuals, example, in our portfolio of Individuals, firstly, Bradesco do investments, our time is for - in the last years for to develop the parts of our models, our systems to do the analysis and the approval of request. And our models, normally, they check more than 50 information about the client in the operation before to do the approval. And then this is one thing that help us to maintain the quality of our portfolio.

And in the Individuals portfolio, we have some products that has a lower delinquency ratio that are growing more than the other products. That is mortgage operations and the payroll loans. And our expectations for the unemployment rate for 2015 is according to our economic department is less than 1%. And probably, we will have an increase in unemployment rate but it will be 0.7%, 0.8% I think is the number that we have.

At this level, increasing the unemployment rate and considering the mix of the portfolio and the expectation - the goal that we have for 2015. We understand that probably the Individuals delinquency ratio will start to - will continue decreasing in a gradual way but probably will continue decreasing.

About SMEs, we expect that SMEs will grow less than the other two segments. Probably, it will grow the total portfolio, our expectation is in the center 7%. But the SMEs probably will grow next year 3%, same we had in 2014. And then, we have in these segments a little more volatility, but we do not expect that we will have an increase in the delinquency ratio considering that the level that we have now in our delinquency ratio, the level that we have is between 4% and 4.5%. Probably, during our year, we will be running between these levels.

And when we look for the Corporate's portfolio that is 40% of the total portfolio, normally the delinquency ratio is in a lower level. We have now around 0.8%. We expect probably that this 0.8% will decrease during the year for the normal level that is now closer to 0.5%. With this combination, we expect that we will maintain stability during the year in the delinquency ratio considering that the parts of the portfolio that we have now, the environment that we have now, we don't see any risk to have an increase in the delinquency ratio or a modification required of our portfolio.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me – so before you move into the answer for net interest income and net interest margins, let me ask you then a bit more specific about your exposure to the oil and gas sector, right? We read in the papers, there is significant problems at Petrobras, the downgrade of Petrobras today and the impact also it could have on the rest of the sector. How comfortable are you with your position to the oil and gas or how big is your position there?

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

We (49:02) to comment about any clients or a specific situation. But we have is a credit policy in the bank to – don't have a concentration in the portfolio. (49:29) segment in companies that are – the operations we have, the majority are guarantees according to the (49:35) or the structure that we have in the operations.

And then we analyze all the time our portfolio. According to Central Bank policies, the big ticket, or the big risks, we have individual analysis and all the time we check the ratings of the company, and we have internally our governance.

(50:07) need to modify any rates of the company. We do, according to the rules. And then our adjustment that we need to do, we did. And we are comfortable with looking forward to the portfolio that we have now and the information that we have in the market, and the information that we have according to the finance movement that we have in our cash flow of the operations. We are comfortable with the parts of the portfolio.

About the NII, I think our number, our guidance is a little conservative. Probably we could have some opportunities during the year for increase the spreads because the competition, those banks now are working more in a normal way and perhaps more normal spread. We see opportunities during the year to continue to maintain the spread in a more normal level and our delinquency with the risk that we have in a normal competition.

But I think it is – we will maintain this level during the year. If you understand that we have how to improve the guidance, okay, we will do. And I think we were a little conservative in this guidance, but we could be working on a more higher level of the guidance. I think it could be reasonable.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. Thank you very much.

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

Okay.

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. One, just a follow-up a little bit more on asset quality, it's a big topic now. But, just given all the macro concerns that Mario mentioned, but at what point do you think things could begin to shift particularly hearing more potential risks of energy rationing in Brazil? At what point do you think you could see some deterioration in asset quality and in terms of kind of your provisioning levels I think you also mentioned that they can even grow less than loans. At what point again do you start to get a little bit more uncomfortable just given kind of the macro risks? I just wanted to understand that a little bit more.

And then second question just in terms of your fee income guidance, I know you continue to be - see good growth there to create with credit cards. Saw also credit cards grew quite a bit in the quarter. Just want to understand if loans don't grow that much, what makes you comfortable that you can continue to grow fees at sort of a double-digit pace? If you can give some more color on that as well. Thank you.

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

Okay. About the asset quality, when we talk about our expectation of stability, we consider the information that we have now that these expectations with the potential increase in pricing in some segments, in the energy or the retail, that we have without water - we'll be without water in some situation. But you need to consider that if you look for the last period, we are growing now more according what's possible to grow with quality, then we work enough to our policy to maintain our portfolio with the quality that's stable.

Then - if we expect to grow this year there, I think our guidance that we gave here, 5% to 9%, is what we understand that's possible to grow during this year with quality. And then I think considering the environment and the risk that we have, okay, we could have some additional effect. But I think our expectation is probably with stability, we will be - it will happen during the year because we could have some variations, 0.1% more or 0.1% less during the year.

But when you're looking for the long term, our expectation in our portfolio that we will have a decrease in the delinquency ratio because of the problems that are growing more, and have some problems that have a lower delinquency ratio, Individuals portfolio, SMEs is growing less than the average of the other segments.

In the Corporate portfolio, okay, we have some additional risks in the quality, but every year, we have additional risk. If you look at last year, we started the year with the GDP expectation, what it was, 2.1%. We finished the year with near, closer of zero.

If you look at our delinquency ratio, Bradesco delinquency ratio, it's stable 3.5% beginning the year - 3.5% in the end of the year. Then we have said probably we will have a similar situation this year. We have (56:11) new events (56:12) during the year but looking for our portfolio, our positioning, we understand that probably we will maintain this reasonable stability in the delinquency ratio.

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Q - Tito LaBarta {BIO 20837559 <GO>}

So, just to clarify, I guess, so in terms of your sensitivity, say to GDP growth and the macro, you feel pretty comfortable that given, sort of the tighter lending standards you've had over the last year or so that even if there's a recession in Brazil, you still feel pretty comfortable with this outlook of relatively stable asset quality?

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

Our expectation - okay, 2015 because it's a year that we will have the adjustments, we can have - we will have this small GDP growth, probably 0.5% that we have now or could be less. But our expectation that in 2016, we will return to recover the growth, then this year is one year of adjustment, higher adjustment.

But we understand that these adjustments, we will build it for the country one way to recover the growth that it will return in 2016, then I'm considering this scenario that we have here, as our expectations, we understand that this small growth in GDP during the year or could - if we have negative growth, not too affected the parts of our portfolio. In 2016, the economy will return to growth and probably, this stability will continue.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay.

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

And about the fees that you are - your question is about credit card fees that is maintaining a huge growth. The guidance that we gave is expectation maintain fees growing at double-digit. And the main product, normally it's credit card. That is one-third of the total fees we expect for this year, 2015 and toward 2016, that we will maintain - we will continue with the growing credit card in the double-digit level. But year after year, this double-digit growth is reducing a little.

Then, last year, we finished - in 2013, I think we finished with our audit around 15% growth in credit cards; this year, 12%. But probably 2015, this product, we will be closer to 11% or a little less than 12%. And then next year - or probably we will maintain a double-digit growth. Then we understand that the cards, considering the environment and the - probably we'll maintain this (59:21) to be running double-digit.

And we consider the other fees and the commissions that we have and the investments that we are doing in segmentation that we are now investing our retail base of clients and create a new segment. And we expect to improve the number of products per client to offer more services. And we probably, the fees, this is why we expect that the fees will continue growing in double-digit growth - okay, in a more lower level, in the guidance that we have now probably between 10% to 12% is our expectation to finish the year. But the important evolution is to compare that if we have the costs running below the inflation, we will continue improving the efficiency in the company.

Q - Tito LaBarta {BIO 20837559 <GO>}

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All right. Thank you very much.

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

Thank you.

Operator

Our next question comes from Marcelo Telles, Credit Suisse.

Q - Daniel Magalhães

Hi. Actually, this is Daniel Magalhães. And I would like to ask you two questions, firstly, what would be the practical impact in your business from the energy rationing? For instance, would it be in volume growth in delinquency? And for the second question, I'd like to try to get a little bit more of color on your exposure to Petrobras supply chain, and then your exposure occurs mainly through bonds or through credit operations? Thank you.

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

Thank you. About the potential effects of the energy price, the rationing, we understand that it could affect the GDP growth, and we were talking, could it - our GDP to grow less than we expect, 0.5%? Could it be near there or could be negative? But we understand that the - about the asset quality, I think we don't expect to have a huge impact, and this is why we talk about the stability in the asset quality, the delinquency ratio. I think some effect could have been in our loan portfolio growth if we have GDP growing less than we expect. Probably the loan portfolio growth will be running a more lower level of the guidance.

And then talk about Petrobras. We can't talk about the clients or a specific situation. But as I told our credit policy, we don't have in our credit policy (62:27) not to have a concentration in segments or in clients. Then we have internal limits for segments and clients, and these limits we revise it normally in our governance, in the committees, then - and normally we working in this analysis, trying to prevent the future risk.

Then, I think that in the fourth quarter, we have the combination that we have in our portfolio, the guidance that we have in the operation is structured. We don't expect any huge or potential effects, and this is why we say that we are - our expectations for the delinquency ratio is to have the stability. And we don't have any other - another information about this situation.

Q - Daniel Magalhães

Okay. Thank you very much.

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

Thank you.

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Operator

Our next question comes from Thiago Batista, Banco Itaú.

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

Hi, guys. Thanks for the opportunity. I have two questions. The first one regarding insurance premium growth. The guidance of 12% to 15% indicated that the growth of insurance will be even higher than the level we saw last year. So, my question is what is the main segments that will lead this expansion in - during this year?

My second question is about the service fees income. You commented that the credit card and also the checking accounting will lead the expansion of the fees during this year. But we noted that the number of checking account holders have declined during the last year, so - sorry. Actually, it went up only 0.2%. So, my question is do you see a higher increase in the number of checking account during this year, or the segmentation will justify the potential increase in service accounting fees?

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

Okay. Thiago, thank you. About the insurance fee guidance for premiums, it's on a more higher level if you compare it with the other years. One thing is because the new commercial structure that we - during in 2014 we restructured. Now in the (65:00) we have a better positioning to have better growth and consider this a situation as a synergy that we have with the bank.

The main growth that's expected in some segments, mainly health, life and housing insurance, the main growth that we expect. But normally, the majority of the things came from pension plans and we expect to have a little better growing this product, too. With this combination, I think it will be possible to reaching the target or the guidance that we have now.

About checking account holders, during 2014, one thing that the number of checking accounts was more stable, but because we are working to developing now this segmentation in our base of clients. Then we work during the year to develop the other - this new segment that we are creating that name is Classic (66:13) and Exclusive.

These two segments that will be run and it will be for clients below that's the - we have now the five segments. We will help build or we will - permit us to improve the number of products per client and we expect now during 2015 to recover the growth in our client - the checking account holders - the amount of checking account holders.

And then we used 2014 to develop more this new segment and then now during 2015, we expect to have some benefits now that with this new segment, the fees normally because the (67:13) we will be - we will grow and the clients need to accept - to have a migration for these new segments. But when they accept it, okay, they will have to pay fees a little more higher and additional prices but they will receive some better benefits and some advantages.

Therefore, with this combination, we understand that the fees for our checking account holders, we will have some - we will maintain a double-digit growth in 2015. And really, Bradesco, we are more developed in the segmentation in the top tier of our pyramid - in the corporate (68:06) segments. Looking for the individuals, we have the private clients, but we have obviously to develop more our segmentation of the client base in the retail client base. It's the biggest portion of our clients and where we see a lot of opportunities to grow the profitability of our clients.

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

Okay. Thank you very much.

Operator

Our next question comes from Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

How are you, guys? I hate to beat a dead horse because we've addressed asset quality in a lot of detail. But I think the market's reaction to what seemingly were good results indicates that there's a heavy amount of skepticism about your asset quality guidance and especially your guidance for loan loss provisions growing at less than or half the rate of loan growth. So, a couple of additional questions that you partly addressed.

First, in a stress scenario where GDP growth doesn't contract 1% or even 0.5%, but you see 2%, 3% type of contraction or even more over time, how does that impact your view of the business and asset quality and provisioning? And I worry because, obviously, on the consumer side, you may be okay, but with corporates and companies, you have very big tickets. And as you start to downgrade companies' entire risk classifications, it could have a very, very sizeable impact pretty quickly on your provisioning. So, if you can talk to that, one.

Two, you have in your portfolio, based on public disclosures, BRL 36 billion of real estate and construction, and BRL 24 billion of construction exposure, which is about 7% of your loan book. Can you talk a little bit about why? Because it seems that's bigger than your peers, most of your peers - can you talk a little bit about why you feel comfortable there, especially in light of the issues that construction - some construction companies are facing with the Petrobras' corruption scandal?

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

Okay. So, about the GDP, we don't have this expectation to have 3% decrease negative growing the GDP. We don't have this expectation. GDP probably, we can have north of the 0.5% growth, can have some negative effect. But the GDP to 1% (70:47) that not will affect our expectations for the quality of our assets during the year. And then, we - that this - the scenario that we have, if we have a stress scenario is one scenario where we probably are growing the loan portfolio being a lower level 0.05%, or could be a little less.

But when I look for the 2016, what we expect is that the country recover the growth. Then, there's a short piece of construction, we can have some reduction of the construction or some effect but (71:38) to have a huge increase in the delinquency ratio in the sector or SMEs or other sectors.

About the exposure that we have here, our segment that we have when we talk about segments, we analyze our company that we have there and (72:02) the companies that we have there and we have the, in Brazil, in the last conference and that's in March, only companies that work with Petrobras and we are in the operation with (72:19). We are comfortable with the volume of - we have in - the operation that we have in our segments.

And the builders that we have in the position, we have some of them are builders that work only with real estate or mortgage operation. And we have different sectors. And the concentration that we have per clients, some of the companies that they have - they are huge groups, having many or many other companies in differently other segments. And then they are not the only builders companies.

They have these companies in the group that they are builders. Probably this is why we classify, saying as builder. But they have other investments or other business that relate to other segments. Then we are comfortable with the position that we have in - by per segment or per client. And it's according to our criteria of (73:38).

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Now, I think I understand, that's not the base - the economic - a more severe recession is not the base case view and you're not factoring that in. But there are folks who are increasingly worried that given all the negative developments that Brazil can have a much more severe recession than 0.5%, it cascades further. In that scenario, is it fair to say, your credit quality will suffer even if it's very difficult at this point to pinpoint how much?

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

We know that it will be not an easy year. It will be a very difficult year because the scenario that we have, the adjustments. But as I told you, I think you need to work normally in a preventative way, okay, if we were very risky in the last two or three years, okay. Probably, we will have now some problems because one part of our growth will probably - will happen in more higher-risk clients, I think.

But consider the position that we - Bradesco maintained in the last year, and according to our policy, I think we could develop or we could maintain the portfolio in a quality that, for us, is enough to support this environment that we have now and we expect for 2015.

And as I told you, it's only for 2015 because for 2016, we expect that the economy will start to recover the growth. Then this situation - or during 2015 not to be enough to modify our expectation about the parts of our portfolio, the stability that we expect, the stability that we are talking with some increasing 0.1% or 0.1% decrease. But it is something that - not to change our expectations during the year.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thanks a lot.

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

Thank you.

Operator

Our next question comes from Boris Molina, Santander.

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

Yes. Thank you. Just two questions. The first one is do you expect that the Brazilian regulators are going to issue a new regulation rate at the Basel III for domestic significant or large institutions implying an increase in your capital requirement. If so, do you expect this to be 100, 150, 200 basis points? What are your current thoughts on this?

And second, could you please elaborate a little bit on the mark-to-market losses on available-for-sale securities on the bank book? Apparently there was a negative adjustment close to BRL 500 million in the combination of equities and foreign bonds. If you have any color on this, would appreciate.

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

Hey, Boris. About the Basel III, some potential new requirements, probably we will have our Central Bank probably about some potential new requirements. Then probably we will have more close of the end of the implementation of the first steps. Then probably more closer of 2018, 2019, I think we will have the information.

But really we don't know how much will be the level. Probably around 1%, but we don't have the potential percentage that they expect to adopt. But I think you have - at the maximum, it will be similar of the international rules but we don't have now this information.

About the market - marking adjustment, it's a normal adjustment of the market price of the bond. For the available-for-sale portfolio, these adjustments that we do is in the average. It's according to portfolios that we have now, we did the adjustment, looking for the market price. Then we don't have any specific situation that we can highlight.

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

Okay. Thank you.

Operator

Our next question comes from Victor Galliano, Barclays.

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

Hello, there. Just a quick follow-up here on the credit quality issue. If you look at your consumer credit quality exposure and, in particular, if you look at that Class C which obviously was the dominant driver in terms of consumer loan growth in the last boom, they're probably sitting on quite a lot of leverage right now, a lot more than the average that the Central Bank data shows. Can you give us some sort of idea of how exposed you are to that Class C, and what you do to mitigate the risk of worsening NPLs and people getting overleveraged in that space? Thank you.

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

Okay. Victor. (79:55) have the information about to disclose how is our exposures for this Class C, but I think if you look at our portfolio for Individuals is very (80:09) in the - for (80:12) products. I think we don't expect any modification. Our expectation for the Individual portfolio is that probably will continue to decrease the delinquency ratio for the payroll loans, the mortgages growing at the ratio around 20% to 15%.

And the other products, they are growing closer at 7% and 8% and the other products have more higher risk. Then our clients basically, probably a little more stable, the other products, the delinquency ratio. We don't see any reason to have a modification in our portfolio because an effect in this potential class.

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

Okay. Not even in kind of credit cards exposure through the consumer finance arm?

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

All the action that govern they are doing is trying to control the inflation, and they improve the SELIC rate. They are reducing the capacity of the people financing their - to buy products. Then what we will have is only the consumption, the growth in our portfolio decrease. But we select the clients according to capacity to buy products - to financial capacity according, all the internal policy. Then, I think we don't expect any difference affecting our client base considering this Class C clients.

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

Okay, understood. Thank you.

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

Thank you.

Operator

Excuse me. Ladies and gentlemen, I think there are no further questions. I would like to invite Mr. Paulo Faustino da Costa to proceed.

A - Paulo Faustino da Costa {BIO 17286050 <GO>}

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Thank you all for participating in this conference call. I would like to take this opportunity to remind you that all our Market Relations Department and our IR team are at your disposal. Thank you very much to all of you.

Operator

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

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