Y 2019 Earnings Call

Company Participants

- Carlos Firetti, Market Relations Departmental Officer
- Leandro de Miranda, Executive Director and Investor Relations Officer
- Vinicius Jose Almeida Albernaz, Chief Executive Officer Insurance Arm

Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Mario Pierry, Analyst
- Thiago Batista, Analyst
- Tiago Binsfeld, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. We would like to welcome everyone to Bradesco's Fourth Quarter 2019 Earnings Conference Call. This call is being broadcasted simultaneously through the Internet in the Investor Relations website, banco.bradesco/ir-en.

In that address, you can also find the presentation 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, when further instructions will be given.

(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 the future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Carlos Firetti, Market Relations Director and Head of IR.

Carlos Firetti {BIO 2489005 <GO>}

Hi, everyone. Welcome to our conference call for discussions of our fourth quarter '19 results and also the discussion of our guidance for 2020. We've today with us our CEO, Mr. Octavio de Lazari; our CFO and Executive Vice President, Andre Cano; Vinicius De Albernaz, Chief Executive Officer of Bradesco Seguros; and our Executive Director and Investor Relations Officer, Leandro de Miranda.

To start with the presentation, I turn the floor to Leandro.

Leandro de Miranda {BIO 21476649 <GO>}

Thank you very much for that. Hello everyone. First of all, I would like to thank you for your participation in our conference call this time for the release and disclosure of our fourth quarter 2019 results, as well as our guidance for the year.

2019, as you have realized, in reading our financial statements, were very positive for us. The signs of improvement in the economy we had seen at the end of the third quarter was deferred [ph]. We saw the pace of the economic recovery consolidating, mainly with the boost in consumption, with strong retail sales volume, both in Black Friday and in Christmas.

We also see initial signs of the companies will be finally entering an investment cycle, and we see it in our day-by-day in our credit committees. And with the increase in the number of public investment announcements, as well as the intention to invest, that we hear directly from the owners of the firms. We live in a scenario of historically low interest rates. But with inflation under control, that is good for the country, and we're still able to navigate in a very good way. With the possibility that the interest rates will remain at low levels for a long-period, we see space for the continued increase in card penetration in Brazil, with emphasis on real estate financing.

The year also ended positively in the field of economic reforms. We have the approval of the most important of our reforms with social security, with an amplitude of those -- this initial expectations. This alone brings conditions for a balance of bank accounts in the medium-term. New reforms such as the fiscal administrative reforms will be approved in 2020, which further raises of our optimism and for the market as a whole.

We also see deceleration of fluctuations and concessions, with the potential to have a significant impact on investments relating to increase in productivity. Our economic team has already raised our GDP growth projections in 2020 to 2.5% per year, a significant acceleration compared to our 1.2% expectation of growth in 2019, and maintaining the consistency of the economic policy (inaudible) for the maintenance of the positive scenario for 2021.

In this context, with the improvement in the economy and confidence, we had a great performance in 2019. Our net profit reached an all-time high of BRL25 billion, a growth of 20%, and with a very good news of our operating profit growing 11.5% itself. We have kept the ROAE over 20%, as you have been seeing all over the year, so it reached 20.6%. And our ROAA at 1.8%. According to a recent announcement of (inaudible) regarding to the top 20 banks in the world, we have the highest ROA at all.

Credit portfolio presented a robust growth of 13.8%, 4.6% in the last quarter. This growth was boosted by Individuals and SME segments, and also an acceleration in the large companies. What was not expected to ourselves which seems to be very good news not only for the fourth quarter, but for the coming quarters as well. As we present in the guidance, we expect that 2020 demand creates [ph] this positive scenario for credit as a whole.

Our delinquency remains under control with the 90 days NPL, closing the year at 3.3%, a reduction of 20 basis points in the quarter. In the quarter, the positive evolution of the SME and Corporate segment pushed it out. We highlight also the low NPL creation level, the lowest level in the series in our history. We see great quality indicators remaining at very comfortable levels in 2020, considering the information we have about the most recent credit vintage so far. And finally, we highlight our dividend distribution in 2020, which posted amount almost to BRL16 billion, representing a pay-out of approximately 74%.

In disposals also included the BRL8 billion of extraordinary dividends that are paid, and complementary dividends of BRL491 million that we have just announced in this morning. Jumping to Page four, I'd like to share and highlight some initiative of ours that been very, very important. First of all, almost all of them having come on a great focus on improving the experience of our clients. We have many projects being delivered in 2020, which we increase even more the perception of our clients regarding the quality of our sources, among these initiatives, we would like to highlight four.

First of all, expansion of our customer base. We had a significant growth of our customer base in 2019 of 1.8 million clients. All in Bradesco, we have around 360,000 accounts opened through the mobile app. Today, 60% of our checking account customers are digital, performing their transaction through the website or the mobile bank, the mobile app.

We've several initiatives being implemented. In the traditional Bank, we have a better digital on-boarding experience for the individual clients and also for entrepreneur and companies. In addition, Bradesco Expresso has increasingly shown itself to be an efficient and cheaper way to serve our customers, generating an important volume of new accounts and important spaces for our shareholders. Another important highlight was the Bank's positioning, the acquisition of rights to process public cycle payroll, a business in which we benefit from our extensive service network and that usually has a very-high internal rate of return. Comparing our performance to that of our direct competitors, we acquired the largest number of payroll and customers in the auctions carried out in 2019.

The second major initiative is branch optimization. As you know, we closed 139 branches in 2019, as we had anticipated in last quarter. And now we plan to close more than 300 branches in 2020. We'll continue to convert larger units into units with optimized formats, whenever we see the opportunities. We also expand the number of units in the hub in satellite contract, where we create a network of many branches integrated to a central one. That's our hub.

Also, very important to highlight the development of Next. Our digital banking network -- native digital bank, which reached 1.8 million customers in December, and now in January, we've reached 2 million clients. We expect an even greater acceleration in 2020 now that our on-boarding have improved significantly, and we are targeting 3.5 million customers until [ph] the year-end.

We introduced a new version of the App, which, for example, in its latest version, made the homepage customizable. So pretty much clients can choose which kind of services, products and information they wish to see first. We will bring new versions throughout 2020, which among others, will allow direct access to the Agora platform. Agora is an open platform and is even unique investment platform with Next, with Next's investment experience the most complete on the market. We continue to advance in our strategy of segregating Next from Bradesco's platform. Next has already moved its own headquarters to another place, and we created new administrative and management structures, such as human resources, IT, among other initiatives. We hope to complete with focused operation still this first-half of 2020.

And finally, regarding to Agora Investimentos, it differentiate -- it from the other participants in the investment market for individuals. Agora is Bradesco's arm for retailers, many have kept Bradesco Seguradura for institutional investors. Not only Agora has a cutting-edge technological platform, but with the best investment products available in the market, as well as exclusive products. It has a unique distribution capacity in financial services. But now as you have been able to read in the papers this morning, Agora signed an exclusive partnership with Grupo Estado, allowing Agora to seize Grupo Estado's excellence in high (inaudible) capability. On a daily basis, that impacts over 25 million clients through its own channel, from paper-to-digital, non-cash, as well as Grupo Estado radio network.

Together with the launch of the new Agora, we incorporated approximately 850 internal investment advisers into Bradesco's operations. We choose the best ones from them, and we are pretty sure that they will provide a great financial advisory to our clients. So basically, we are complementing these things [ph] with the remote platforms that we call PGBL [ph]. We believe that to have a significantly increase in our financial advisory offer to clients in that we should achieve important results still this year.

Moving to Page five. As Octavio has made this important announcement, last year, we became a signatory of the Principles for Responsible Banking or what we call PRB. More than adhering to the commitment, we were the only Brazilian Bank to participate in the construction of the Principles in partnership with the United Nations. We are a founder of this Principles for Responsible Banking in Brazil, and together with the United Nations, as well as 19 other banks all over the world. Since then, we have been working on implementing these guidelines to strengthen the positive impact of our business. And as a result, Bradesco announced this morning also two important actions aligned to our climate change agenda.

First, in 2020 still, we'll become one of the first large financial institutions the whole world to have a 100% of our operations supplied by renewable energy. This action, coupled with efforts to reduce energy consumption, should reduce our carbon emissions by approximately 20%. In addition, Bradesco will also offset -- of the carbon emissions generated by operations from 2019 on-wards. This includes all emissions, direct and indirect, that are part of our greenhouse gas inventory. These are advancements in the agenda that we have created, seems to have signed for the responsible banking. And for a long-time, we assure that Bradesco is totally prepared to face this kind of risk and benefits from the opportunities that the transition to a low-carbon economy provides to market as a whole. We have a very serious commitment to our community over this matter.

Besides that, we are reinforcing our understanding, management and disclosure of climate impacts on our business in line with the recommendations of the Task Force on Climate-related Financial Disclosures. This shows that we are in-line with the main demands of the market and investors worldwide that companies enhanced their contribution to the sustainable development agenda through innovations in their business models. We are doing that.

Now moving to the financial results of the fourth quarter 2019, I'd like to start here on Page seven, with the recurring income statements. We had 14% growth in our net income in the fourth quarter and 20% in the full-year. In 2019, the NII expanded 5.4%, and the provision for loan losses reduced 2.4%. We highlight also the strong performance of our insurance operations, which grew incredible 12.7%. We will present it in more detail, different lines of the results on the following slides.

On Page eight, we show the events affecting our results, extraordinary. The main one was the gain resulted from the revaluation of our inventory of tax credits due to the increase in social contribution by 5%. This revaluation had a positive effect on the result of BRL6.4 billion. At the same time, we will revalue the series of provisions for contingent liabilities and loan losses. And we made an impairment of non-financial assets, some of these new provisions were due to changes in the calculation methodology. We believe that these provisions reinforce our balance sheet and demonstrate that our management is conservative, but on the best way possible for a bank. We may explore more things about these provisions in the Q&A session, if you wish.

Moving to Page nine. Our ROAE in the quarter expanded again, reaching 21.2%. The ROAE expansion this quarter, in addition to the earnings growth, is partly explained by the effects on the capital of the distribution of extraordinary dividends and also by the effect of the provisions we made in the quarter. We consider that a return around 20% is sustainable for 2020, as we have talked to you in the last month. Even with this effect, our shareholders' equity has grown by 10.4% in the last 12 months.

And our ROAA in the fourth quarter remained in 1.9%. And as I have told before, according to Euromoney, the largest among the top five largest banks in the world. On Page 10, the expanded credit portfolio shows a strong growth of 4.6% in the fourth quarter, bringing the annual growth to 13.8%. There was a strong acceleration in the growth of the corporate portfolio in the fourth quarter. That was good news for ourselves. It was nothing that we expected to happen in such a pace in the fourth quarter.

But this trend may continue in the following quarters. That impacted the overall growth of the portfolio as a whole. Considering the portfolio reclassified by the new segmentation, the corporate portfolio grew by 8% in 12 months, the SMEs accelerated to 17.5% and the individuals portfolio grew by 19.2%. Considering the individuals portfolio, the main highlight was the personal credit-line with growth of 35.4%, followed by the payroll at -- by 23.7% and vehicles at 22.3%. We highlighted the credit cards portfolio also accelerated, reaching a growth of 14.7%.

Moving to Page 11 regarding to loan origination per business day, we see the comparison remained robust for both individuals and companies, indicating that the growth in the portfolio balance should continue to be strong. For the following Page, 12 to be more precise, regarding to net interest income, we see that the NII grew by 4.4% in the fourth quarter. And in the annual comparison, with a strong performance of the client NII and a reduction of the market NII, which was very strong in the fourth quarter 2018, with the improvement of the market after the elections.

The client NII grew 9.2% in 12 months, with a positive effect of volume growth and some spreads compression. And we're keeping the same level so far. The gross credit spread remained stable in the quarter. In the quarterly variation of the NII, there was mainly a strong positive effect of the growth in the volume of our operations and transactions. We'd like to remind you that in the first quarter 2020, the credit margin should suffer the negative effects of the implementation of the new overdraft rules, which sets the maximum rate at 8% per month. But despite of that, we're very confident that we shall fulfill our guidance.

Delinquency ratio over 90 days. Moving now to Page 13, you're going to see that we performed very well in terms of credit quality. With the reduction of the total NPL by 30 basis points, positively impacted by the corporate and SMEs, while Individual segment presented a small increase in defaults, mainly due to the growth in the high-risk lines that are more than offset and well paid by the very high margins that we get in these segments.

In the quarter, we sold 100% provisional credit operations of BRL356 million, which contributed to a reduction in delinquency ratio by 10 bps. We see a very good performance in the new credit vintages, which indicates that the delinquency ratios must remain very well behaved. Moving to Page 14, where we address NPL creation and allowance for loan loss expenses. We see that there was a sharp reduction, we reached BRL3.7 billion. In the quarter, we had an increase in cost of risk, which reached 2.6%.

However, we see this indicator remaining very well behaved throughout 2020, allowing a growth of provision for credit losses, smaller than the growth of the credit portfolio, especially because we have already reinforced our provisions in the last quarter of the year as you have seen. We are now on Page 15, we see NPL creation, we would like to highlight that it reached the lowest number in our whole history. We are very proud of that. Fee and commission incomes were very good news. Pretty much, we accelerated the origination of fees in the last quarter, and we are able to go into our guidance.

Now we would like to highlight the checking account lines, consortium, custody and brokerage, as well as investment banking fees that helped us to get such a faster pace than when compared to the previous quarters.

Moving to Page 17. When we see operating expenses, it is a clear line that we won't adjust in 2020. Our CEO has been very vocal saying that we are trying the best we can in that with every single head of the different divisions here at the bank to work on a base zero. Therefore, we are very confident that we shall keep the guidance that we are providing to you.

The acceleration in cost expansion in 2019 was primarily due to investments that we decided to make. Now we have it totally under control according to our strategy. We implemented a new variable compensation program for our Relationship managers. And from now on, we just shall see it according to inflation at most. And a structural measure that was of great importance of our business -- important to seeing this new world, this -- the lack of search of tool that we have adopted. We also would like to highlight the higher cost with labor claims that we initially anticipated with the acceleration of agreement and that from now on shall keep on the same levels.

In terms of number of employees, the impact of the voluntary dismissal program is already partially reflected in the quarter, but some exits will extend over the first quarter. In addition, we had a reduction of 139 branches 2018, and we expect to close more than 300 branches in 2020. The reduction of the staff and adjustments in the branch network should contribute to a better performance in cost in 2020.

Income from insurance, pension plans and capitalization bonds. We had a great performance in insurance, with total premium growing 7%. Despite having been a year of adjustments for the pension plan segment as a whole we did it. The result of insurance operations grew 12.7% in the year, which allowed us to expand net income by 16.6%. Of course, we realized that with the decline in interest rates, we shall have a lower range, but it is still a very strong operation when compared especially to our peers. The insurance growth of ROAE in 2019 was 23.5%.

Still in insurance, pension plans and capitalization bonds, we have a 28 [ph] profit growth in health operations in 2019. The life and pension plan segmented showed a more modest profit growth, pressured mainly by the reduction in the management fee for the pension plan products as a whole, when you consider the industry totally. In the full-year, we continue to present positive evolution both in claims and in combined ratios.

Moving to Page 20. When we share some numbers regarding to our BIS ratio, you can see that our Tier 1 capital reached 13.3%. Basically have a reduction in the years for very good reasons. It was too robust and we have paid extraordinary dividends of BRL8 billion announced at the year-end period, as you all know. And the effect of prudential adjustments also represented by the impact of the extraordinary provisions made in the quarter, already net of the effect of the distribution of dividends from the insurance operating companies to the holding Company. We see our Basel Index evolving organically throughout 2020, already considering our dividend and the growth of credit portfolio.

And now last, but not least, we go to our guidance. Pretty much, as you can see, we're keeping the guidance of 2019 for expanded loan portfolio, net interest income and fee and commission income that is accelerating. And we're also keeping it to operating expenses due to the lack of new measures, such as all dismissal voluntary program and labors and lawsuit settlement that we had initially.

Our income from insurance, pension plans and capitalization bonds are being slightly reduced to 4% to 8% because of the current interest rate that we live in the country. And the expanded provisions was set at from BRL13.5 billion to BRL16.5 billion. That is pretty much where we are. We are very confident with 2020, and we have realized it. We have the best data in the industry, and we are pretty much sure that we are going to keep on presenting very good results to our shareholders, employees and community as a whole, to all of our stakeholders.

Thank you very much for your attention and now we remain at your disposal to the Q&A session. Thank you.

Questions And Answers

Operator

We will now initiate a question-and-answer section. (Operator Instructions) Our first question is coming from Thiago Batista of Banco UBS. Thiago Batista was disconnected. Our next question comes from Mario Pierry from Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi everybody good afternoon. Congratulations on your results. Let me ask you two questions primarily related to your guidance. First of all is on your net interest income growth guidance of 4% to 8%, roughly half of the growth that you are expecting on your loan portfolio. Can you break-down this growth for us between growth between market-related and client-related income? And what is the impact that is embedded here from the Caps on the overdraft? So if you didn't have the overdraft cap, how much do you think that your margin of clients would have grown? And then I will ask my second question later.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. We're -- as you know, we provide the guidance for the full NII, not for the parts. But I'd say we -- considering the scenario of interest rates, probably the market NII would be a little bit smaller than what we achieved this year. But -- and basically, the most important driver for the NII, as a whole is the client NII. If you break down the two portions roughly, the client NII makes for 85% of the total NII. So this is really the most important driver.

In terms of, as you said, the NII this year is negatively impacted by the new rules for the overdraft product. Probably if we didn't have these rules, the growth in NII probably would be closer to the growth of the average loan book. That is the main driver, considering we've spreads under pressure but a positive impact from mix. I wouldn't say it will be growing in-line but probably more closer to the loan growth level for the average book.

A - Leandro de Miranda {BIO 21476649 <GO>}

Mario, this is Leandro complementing here Firetti's answer. How are you doing, man? Well, pretty much as you have seen, we have a much more significant decrease in interest rates in 2019 than is expected to 2020, right? So looking 2019, we're able to grow the market by 4.4%, it is very likely that we shall have a lower number on this figure this year. But on the other hand, the client NII, that is the healthiest one, right grew 9.2% in 2019. And pretty much the way we see it is that we are accelerating in this portion. So we shall see the NII keeping the level. But on the other hand, we see the healthiest portion growing much, much faster than the market one. That's good news.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. No, that's very clear. My second question then is related to your guidance for provision charges because your -- if we take the bottom of your guidance, you could actually consider like a decline in provisions in 2020. But then when you talk about your loan growth, right, of 9% to 13% driven by the consumer primarily, where I think you said it could grow as much as 20%. So I wanted to reconcile that. Why do you think that your provisions could actually decline when your consumer loan book should be growing close to 20%?

A - Carlos Firetti {BIO 2489005 <GO>}

We think, basically, the main driver -- if you break down these provisions, I would say, the provisions for the retail products basically are growing more, driven by the average loan growth base. And we have very low provisions for the corporate loss. Basically, this is the main driver. As you -- as you saw this quarter, we also strengthened our balance sheet with provisions. Part of that relates to as we mentioned, revision in the criterias for letters of credit and guarantees, impairments of bonds and also strengthening some provisions.

So basically, considering we already had a very healthy position provisions and topped with this strengthening of provision, we believe the flow of new provisions coming from the remaining of the portfolio should be much reduced. And this is the main driver for keeping provisions in the level we're indicating. We can say, we're very confident with the range of this guidance.

A - Leandro de Miranda {BIO 21476649 <GO>}

Mario, just let me give you my two cents here. Besides everything that Firetti said that pretty much reflects our view as a whole, I would like to add that we are growing very fast in individuals, especially in personal loans, that allow us to have incredible spreads but with a much riskier portfolio. So that's the reason why, together with the other items that Firetti has pointed-out, that we are also increasing our provisions, despite of the ones that we have put in the fourth quarter.

The second thing is that we did not expect to have such a growth in the large corporate. As Octavio was previously mentioning, the capital markets may play an important role this year. So we do not know, if we are going to keep the same -- we are going to have the same growth in corporate names such as we had in the last quarter.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. No, no, that's clear. So -- but does it mean that your reserve coverage the next-year or in 2020 should be lower? Is that how we should read it? Like you boosted your reserve coverage with this excess gain that you had now in the fourth quarter and then your coverage should be declining throughout the year?

A - Carlos Firetti {BIO 2489005 <GO>}

Coverage, as we always say, it is not a reference for us. Basically, it is much more kind of a product of the process of provisioning. Basically, we expect NPLs relatively under control, probably already close to the bottom of NPLs. And basically, we are not going to touch next year on the additional provisions. Probably, these provisions will be integrated in the provisioning process, when we migrate for IFRS 9, that is probably going to happen in 2021. But basically, I would say provisions, the coverage maybe will reduce a little bit. But again, it's not really even something we look at. It doesn't really connect to our provisioning process.

A - Leandro de Miranda {BIO 21476649 <GO>}

I guess it is too early to say, but let's work on.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Now I'm very clear. Thank you very much.

Operator

Our next question is coming from Thiago Batista of UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi guys, sorry for the problem I had in the beginning. But just one question on the insurance business. The mid-point of the guidance implies an expansion of something close to 6%. How much is the top-line growth that we are expecting in the insurance business in 2020? And which type of segment should lead this expansion? So to try and to understand which of your business will lead to this expansion. And also, if you're expecting an acceleration in the number -- in the growth of the number of clients in insurance company?

A - Vinicius Jose Almeida Albernaz {BIO 17958985 <GO>}

Hi, Thiago, this is Vinicius here. Yes. I mean, indeed, we are expecting that the operational results will be able to counterpoint the expected fall in the financial results. As a matter of fact, if you take into account both the last quarter as well as 12 months 2019, we already had a very healthy growth in the operational results, even higher than the growth in the financial results.

In the full 12 months, we had 14% growth in the operational results and 10.8% growth in the financial results. And of course, we don't expect the same kind of scenario that allowed us to have such a strong growth in the financial results next year. And we're counting on that strong trend of operational results to continue growing into 2020.

In terms of client base, yes, we're expecting a continuation of growth within our client base. If you take into account, for instance, the Auto segment even though we had a -- if you take into account P&C as a whole, we had a growth of 2.2%, the Auto segment more close to 3.5%. If you take into account, our premium growth was actually 6.5% in the auto sector.

We did, in fact, had a very healthy growth in terms of items insured and as well as in the health sector, as you know. We are not disclosing our expectation of top-line growth, but we are definitely expecting that the rebound in the economy, the return of the growth in jobs [ph] will allow us to deliver the kind of operational results that we need to deliver. Just to finish here, we're very well-positioned in terms of our distribution platform to capture those opportunities, and we're actually investing a lot as well as in our digital platforms to be able to leverage those opportunities.

Q - Thiago Batista {BIO 15398695 <GO>}

Very clear, Vinicius. Thank you.

Operator

Our next question is from Tito Labarta of Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good afternoon thank you for the call. A couple of questions. Hi guys, first on your loan growth guidance, just to understand, you kept it pretty stable compared to 2019. And I think, you mentioned you don't expect large corporates to grow as much. But just wanted to get a sense here, given GDP growth should be accelerating this year, why you don't expect an acceleration there? If you can maybe give some color by segment in terms of how you expect retail loans to grow and corporate loans to grow this year.

And then second question in terms of fees, you also kept the guidance similar to 2019. But if you could maybe give some color by line right? Because we saw some pressure in some segments in 2019 such as cards, asset management that offset by the growth-line [ph] -- brokerage and underwriting. So if you can give some color on this fee income guidance by the different segments and where you could see pressure and where that could be offset. Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Okay. Tito, that is Leandro speaking. I am going to start here with our guidance regarding fee portfolio, making some views regarding to the GDP as you have requested. And then Firetti and I, we are going to touch base here regarding to the evolution of each line in terms of service, okay?

First of all, we had a very important growth because of the wholesale in the last quarter. We do not really feel, if it is going to come along in the way to us or if it is going to be absorbed by the local debt capital markets. So we prefer to be a little bit more cautious and conservative here. Nevertheless, as we're growing in SMEs, and especially individuals, where we see very much higher margins and the delinquency is very under-controlled. The new vintages are pretty much healthy. We believe that we shall see our margins growing despite of the portfolio being on the same growth. But on the other hand, we shall have to see the year, how it is going to evolve.

Regarding to the fee side, basically, we've seen an acceleration in the fourth quarter. We have had new clients, we have made adjustments in every single-line of business and Firetti has here some notes in which he can pass it to you our view in the main-lines.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. Tito, just complementing Leandro. As we said, we've seen a very important growth in the base of clients. But if we go line-by-line, we also have very interesting drivers. If you look to the credit card line, I remind you, last year, we had most of the year, the impact of the cap of that card interchange that was capped at 50 bps from 80. That was the average before.

This year is a -- an year where we don't have this impact in the comparison. We also had, last year, the very important impact in the acquiring business. Maybe that may continue somehow but probably less -- in a lower degree than in the past. But overall in cards, we should benefit from very strong volumes of credit card and the card transactions, as probably you know the estimates for instance, from the Credit Card Association that points for a very-high growth for this year.

In checking accounts, we have been growing the number of clients. We believe we grew last year 7.5% year-on-year. We think we are going to grow again maybe not the same level. But we believe, given the increase in base, we may grow something this line. In asset management, we've been doing a very good job in terms of accelerating the growth in the assets under management from clients, retail clients and high net worth clients.

A - Leandro de Miranda {BIO 21476649 <GO>}

And we have adjusted the mix.

A - Carlos Firetti {BIO 2489005 <GO>}

Yes, we adjusted the mix, moving more and more to products with higher management fees and higher returns, as the market strives. So we should do better. Actually, if you look at the growth pace for this line Q-on-Q, you are going to see that we were -- the drop in year-over-year much more than we are right now. And the last quarter, which ranked only 06 [ph] during -- the 2020, we believe, will go to positive territory.

A - Leandro de Miranda {BIO 21476649 <GO>}

Yes. It is an inflection point here.

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. So the credit or credit operations, you have there fees on some credit operations like the mortgage that where we're growing very well and the negative performance of this line came much more from the reduction in fees, in letters of credits and guarantees for which we believe we may see a better performance this year. Consortiums is a line that we've recognized revenues on accrual basis, so we grow the number of clients, the management fees and accrue.

So it's not volatile at all. So I'm not going to go -- investment bank should potentially be a very good year. So I -- as you can see, the dynamics for each line seems better for this year and considering the mix, we think, the 5% in the middle should be okay.

Q - Tito Labarta {BIO 20837559 <GO>}

Thanks. Very helpful, very thorough. Just one follow-up, if I may. Just on the -- going back on the loan growth. So do you think that the loan growth can accelerate for SMEs and individuals and that is probably offset by the conservativeness on large wholesale, but -- or do you think those stay around at 19%, 20% or is it able to accelerate there?

A - Carlos Firetti {BIO 2489005 <GO>}

I think it should stay probably something around that level. If you look to the pro forma numbers, we report that adjust for some change in the segmentation we made in the past. We're growing, as an instance, 17%.

A - Leandro de Miranda {BIO 21476649 <GO>}

Yes.

A - Carlos Firetti {BIO 2489005 <GO>}

It is very strong. We are growing the individuals as a whole and 19% is super strong. So probably, it should be something like around those levels. And the number is not -- the total number is not better because the growth in corporate is more like single-digits, low single-digits with today's point of view. Again, as we said in the presentation, we've appetite and capital. If there are good opportunities with good spreads, we might grow more.

Q - Tito Labarta {BIO 20837559 <GO>}

Perfect. Very helpful, thank you.

Operator

Our next question is coming from Mr. Jason Mollin with Scotiabank. You may proceed.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. My first question is related to the non-recurring charges that you showed in the quarter and you classifies non-recurring. You had the large tax credit generating a gain of over BRL6 billion. And that was offset, as you clearly show, by BRL3.4 billion in provisions for, contingent liabilities, BRL2.5 billion in loan provisions and asset impairment charge over BRL1 billion and provisions of about BRL800 million for your voluntary severance program.

And then, of course, you have the goodwill, which is around the level that you've been reporting, a little higher. But can you talk about these items in a bit more detail? Particularly, what's the timing here? What's the timing for these provisions because of the tax credit? Is that why you decided to make these changes to the loan provisions now and then that will strengthen the balance sheet, and over time maybe you won't have to make as much? If you can give us some color on the timing and the nature of these -- each of these charges, that would be helpful.

And then the second question is related again on loan growth. You're showing, on Slide 11 of the presentation, some really interesting numbers on loan origination per business day. And we really -- we did see a dramatic increase in companies that you show. I guess, this is on the base of 4Q'18. But it is interesting that the base for individuals remain the same in the fourth quarter and the third quarter. Is this the kind of origination that you are expecting? And then the growth, if you maintain this kind of origination, just with the higher base, your growth should be a little bit lower in lending to individuals?

Or can you really sustain the kind of growth that you have been showing -- that you showed in the fourth quarter? Thank you.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. Regarding the non-recurring charge, basically, we clearly took the opportunity of the revaluation of tax credits to run through our models and assumptions for some different lines and took a more conservative approach. I think, if you go back in history, it's not the first time we have done that. When the tax rate was increased from 34% to 40%, then when it went from 40% to 45% -- so basically, how we differentiate what is recurring from non-recurring. What we called non-recurring is basically when we have a change in methodology, a change in assumptions, not really something that comes from the ongoing flow of provisions from the operations, and basically, I think that is the way we can explain it.

Regarding loan growth, we believe when you look in loan growth, you have everything. You have companies, you have small companies, large companies in the company segment. Basically, SMEs, the level of loan growth is really -- our origination is even stronger than what you can see in the mix of companies, as a whole. And for individuals, if you look to year-on-year, it is growing at 20%, 24%. We believe this is enough to keep growing our books probably high teens for individuals and mid-teens or something for SMEs. I think, that's the view.

A - Leandro de Miranda {BIO 21476649 <GO>}

But regarding to your question, if we see a deceleration in the individuals portion and if we believe it's going to reduce? No, we do not. Basically, we shall keep the same pace or grow because pretty much, we're adjusting more and more this platform. So we're still very positive on individuals and SMEs, special individuals.

Q - Jason Mollin {BIO 1888181 <GO>}

That's helpful. And maybe just a comment on the goodwill amortization that we see -- we have been seeing every quarter and that does have the implications for book value. What should we expect run rate for goodwill amortization should be similar in 2020 versus 2019?

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. Basically, you can take -- you can consider in 2020 something BRL1.5 billion in goodwill amortization. We have on schedule. Actually, we report that. You can see the schedule for BRL1.5 billion for 2020.

A - Leandro de Miranda {BIO 21476649 <GO>}

But just in case you don't have it, we can send it to you afterwards.

Q - Jason Mollin {BIO 1888181 <GO>}

Got it. Thank you.

Operator

Our next question is coming from Tiago Binsfeld of Itau BBA.

Q - Tiago Binsfeld {BIO 19874107 <GO>}

Hi everyone, good afternoon. I have just one question about asset quality. We saw a pickup in NPL for retail segment this quarter. So now that you've had expanded this book more aggressively, do you believe this could be an inflection point in terms of asset quality for this book? And also, what would be your base case in terms of delinquency rates for this year? Thank you.

A - Carlos Firetti {BIO 2489005 <GO>}

We can say that for individuals, probably we are in the bottom. Probably, we don't expect a big acceleration but considering we're growing to some line -- we are growing very fast in some lines that have higher delinquency, for instance personal loans, that really puts some pressure in this line. But looking to the new vintage, we don't see any acceleration in any individual-line that really tell us we are going to see a big acceleration. It is much more due to mix than actually a more consistent increase in NPLs.

A - Leandro de Miranda {BIO 21476649 <GO>}

But of course, it depends on the GDP. If we have the employment rate getting better, we shall have more individuals in the system to be Banked, and we can increase even more those individual lines.

Q - Tiago Binsfeld {BIO 19874107 <GO>}

Okay, that's clear. Thank you.

Operator

Our next question is coming from Carlos Gomez of HSBC. Mr. Carlos you may proceed.

Q - Carlos Gomez {BIO 15024854 <GO>}

My apologies. I was mute. Congratulations on the result. Question is on provisions. If you mentioned in the Portuguese conference call that you have not provided for IFRS 9, can you remind us how much you expect the impact of IFRS 9 to be and whether you can confirm that it will be applied starting next year? And also, as part of your extra provisions, did you include anything for economic plans? Thank you.

A - Carlos Firetti {BIO 2489005 <GO>}

For IFRS 9, we said we didn't make provisions for specifically for IFRS 9, because considering our level of provisions, we believe we're already covered for the requirement -- for the adjustments we have to make for IFRS 9. We expect -- we are still waiting for the regulation for IFRS 9. Probably, it is going to be released this year, independent -- if officially, it starts in 2021 or maybe 2022, probably we are going to be starting -- if we even start to use IFRS 9 for ongoing provisions already in 2021 anyway. So that -- and we think, we are in terms of provisions, it is already covered.

A - Leandro de Miranda {BIO 21476649 <GO>}

So basically, we do not expect to have any negative impact on the adoption of IFRS 9.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. And regarding economic plans, we -- as part of the revision of assumptions we made in the quarter, we also made some provisions strengthening our position for economic plans.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you. And if I may follow up on economic plans, how long do you expect the problem to continue because there seem to be new cases beyond what was expected last year?

A - Carlos Firetti {BIO 2489005 <GO>}

We are under a process of agreements where people go to the courts and accept the agreement reached by the Banks with the government and with supported by the Supreme Court. So this is an ongoing process. There are some discussions on which they will elongate the period only people can go into these agreements. So basically, that's where we are right now.

A - Leandro de Miranda {BIO 21476649 <GO>}

But in terms of this expansion that Firetti just made in reference, we just want to know it by March.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you very much.

Operator

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

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you. Thank you very much for participating in our conference call. The Investor Relations Department is available for any further questions you may have. Thank you very much.

Operator

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