

Q2 2011 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, EVP, IRO

Other Participants

- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning, ladies and gentleman. We would like to welcome everyone to Banco Bradesco's Second Quarter 2011 Earnings Results Conference Call. This call will be conducted by Mr. Domingos Figueiredo de Abreu, Executive Vice-President and Investor Relations Officer. Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros Group, Insurance. Mr. Luiz Carlos Angelotti, Deputy Officer. And Mr. Paulo Faustino da Costa, Market Relations Department Director.

This call is being broadcasted simultaneously through the internet on the website www.bradesco.com.br/ir. At 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. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Security Litigation Reform Act of 1996. Forward-looking statements are based on the belief and assumptions of Banco Bradesco's management. And any 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

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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 call over to Mr. Domingos Figueiredo de Abreu, Executive Vice-President and Investors Relations Officer. Mr. Abreu, you may now proceed.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. Good morning, everyone. Welcome to our conference call. In recent months, certain international economic activity indicators have been below market expectations. At the same time, concern over the European fiscal issue and the continuing of the US public debt has been accelerating.

Nevertheless, despite the increased risks, the global scenario is still marked by abundant liquidity and high commodity price. As we believe this to be true, it's unlikely to change substantially in the coming months. Thereby, favoring Brazil.

On the domestic front, the inflationary pressure has been facing a monetizing. Combined with a reduction in government spending and the market potential measures. The (elderly) (inaudible) should ensure that inflation converts towards the targets throughout 2012. Although the economic road is likely to be more modest in this convergence phase, at around 4%. The long term prospect remains highly favorable.

The expansion of loans, including mortgage loans, has been based on sound fundamentals, including the improved job market. And intense upward social mobility. Generating a favorable scenario for banks and insurance companies, with operations in Brazil. We believe that the expansion of investments in the infrastructure and the indication replace an important road in increasing the country's growth potential. I will now go into more details regarding our results in each category.

On slide two and three, represents the period's main highlights. Of which, I'd like to emphasize on line two, the adjusted net income for the first half of 2011. Which, totaled BRL5.563 billion representing a growth of 21% over the same period of the previous year. The total assets, which represented a 24% increase over the last 12 months. Amounting to, approximately, BRL690 billion.

On slide three, it's worth noting assets under management, that's the total BRL934 billion, as of June 2011. And the delinquency ratio, which came to 3.7% last June, showing an important recovery in comparison to the previous year.

On slide four, we show the repopulation between book and net incomes and adjusted net incomes in the respected periods. This quarter, asset had occurred last quarter, we had only one non-recurring item. Which, was the constitution of provisions for civil contingencies for economic plans in the gross amount of BRL69 million. After adjusting for these events, our book and net income went from BRL2.785 billion, adjusted BRL2.825 billion, generating an analyzed return of 23.6% in the quarter.

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Slide five. So our net income in recent quarters. The increase in the Second Quarter was mainly due to, one, the increase in income, especially from credit card transactions. And two, the reduction in other operating expenses net of other operating income. This increase was partially offset by, one, higher personnel and administrative expenses. And two, higher income and social contribution tax due to the end of the tax credit arising from the increase in the social contribution rate from 9% to 15%. And of course, the increase in the tax book income.

In the six month comparison, the 21% improvement in our net income was mainly due to one, the upturn in the net interest income, internally fueled by the higher volume of operations, two, increased revenue from our insurance group. And three, higher fee and costs.

Slide six, this slide shows our operating efficiency ratios. The blue line shows our operation efficiency ratio, just to risk. Which, remains virtually flat over the last quarter. In the six month comparison, the ratio improved by 2.4percentage points, mainly due to the increase in net interest income, net provisions for loan losses due to an important improvement in delinquency. The 12 month ratio, the red line. And the quarterly ratio, the red line. And the quarterly ratio, the red bar also remains flat at 42.7%, 42% respectively.

A performance we consider satisfactory, if you take into consideration the organic growth we have been experiencing. We believe with these indicators, we remain close to (accruity) level in the short term. In the middle term, however, we'd like to remind you that we expect these indicators to improve with the conclusion of these estimates in organic growth, as well as improvements in our segmentation process.

Slide seven, total assets came into BRL690 billion, resulting in an increase of 23.5%, or around BRL131 billion as of June 2010. Return on average assets remains at 1.7%, while adjusted a return on average equity, as we had already mentioned, stood at 23.2%. The capital adequacy ratio or Basel ratio closed the period at 14.7%, slightly down on the previous quarter, chiefly due to the increase in the credit risk proportion, in line with the expansion of loan operations. We believe the accruity levels leave us in a comfortable position to sustain expected growth.

Slide eight. This slide shows a relative share of our main operations in net income. Financial activities account for 72% of net income, of which I would like to emphasize that this funding accounts for 8%. Showing an increase from 5% in the same period last year. This was mainly due to an improvement in the funding mix at the higher interest rate. I'd like to place emphasis on the insurance segment, which remains an important pillar of our business. And which, accounts for around 28% of our consolidated results.

Slide number nine. We have consistently maintained high levels of realized gain. Which, totaled BRL9.4 billion in the Second Quarter. The quarterly variation was due to the relative devaluation of the mark-to-market of our securities both fixed income and equities, partially offset by appreciation of some of our investments, especially in Cielo. Note, that these figures do not include the potential from our own properties in the total amount of BRL2.9 billion.

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In slide 10. On this slide, I would like to highlight the constant evolution of the interest proportion of our net interest income which increased by 20% in comparison to the first half of 2010. And by 4% in the quarterly comparison. This performance was due to the higher average volume of preparation. Especially, in the lower and the funding portfolios. The quarterly reduction in the non-interest proportion was, basically, due to reduced gains from treasure and securities operation reflecting market volatility in the last quarter.

Slide 11. Despite the positive increase in the net interest income, the annualized net interest margin decreased to 7.6% of total average assets in the Second Quarter of 2011, differently from what we expected. Primarily due to the change in assets mix, reduced average net interest margin from insurance in turn, impacted by the assets index to IPCA, the consumer price index. And the decline in (Boa Vista). It's worth noting that the important growth of our large corporate loan portfolio results in assets that generates lower margins.

Slide 12. This slide shows a breakdown of our net interest income. The quarterly highlights were the evolution in margins for loans and funding, impacted by the higher volume of business. And increase in average spread. The reduction in the insurance segment was due to lower gains from assets in the index of IPCA in the fall of the Boa Vista as we have already mentioned. Compared to the first half of 2010, funding terms performed best, reporting a 69% increase essentially, due to, one, the average amount raised, two, the improved mix. And three, higher interest rates.

Slide 13. This quarter brought interest income from loans, the gray area, increased by 6% to BRL6.548 billion. Once again, this growth to us supported by higher business volume, as well as an increasing average expressed. The red area shows the provision for loan losses, which increased by 3.3% in line with the 4.6% growth in loan operations, coming to represent 37% of the growth interest income, as a result, the net portion, the blue area, increased by 7.6%. Compared to the first half of 2010, at 12.7% of total net interest income, was chiefly due to the increase volume of business. During that average balance of the loan portfolio grew by 23%.

Slide 14. This slide shows our expanded loan portfolio, which goes to 2011 at around BRL220 billion, representing an evolution of 4.5% in the quarter. And of 22.1% in the last 12 months. Growth was chiefly driven by loans to large corporates, which increased by 5.8% in the quarter. And 28% in the last 12 months. And the loans to micro businesses and SME's, which grew around 5% in the quarter and 27% in the last 12 months. In the year-on-year comparison, the large corporate portfolio highlights were other loan risk operations, which includes products related to the capital market, two, BNDES (inaudible) and, three, mortgage loans.

Slide 15. This quarter of delinquency ratio came through 3.7%, slightly higher than the previous three months. It's important to mention that in this -- in the individual segment, we made a conservative change in our credit card delinquency criteria, which also contributed to increase ratios. Given the behavior of the shorter delinquency, as we will see in the upcoming slide. And the maintenance of strong (job market), we expect this ratio to remain at accruity levels.

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Slide 16. This slide shows our delinquency ratio for loans reduced between 50 and 90 days, in comparison with the national financial system. As you can see, confirming what we had already mentioned on other occasions. The delinquency ratios represent a seasonal behavior, for Bradesco and the market as a whole, increasing at the beginning of each year, particularly in individual loans. I would like to emphasize that for comparison purposes, that that has been disclosed by the Brazilian central bank, the Bradesco ratios in this slide shows only the portfolios used in the center bank calculation. And therefore, does not reflect the delinquency of our entire loan portfolio.

Slide 17. This slide shows our delinquency ratio for loans overdue between 60 and 90 days which, as you can see, has remained stable in the last few quarters. Indicating that delinquency is under control.

Slide 18. This slide shows that we have maintained high provisions levels, with the surplus of BRL3 billion in relation to the amount required by the central bank. Or, BRL8.1 billion in relation to expected gross losses for the next 12 months, the dotted part of the blue line. Or, given BRL10.8 billion in relation to the expected losses, net of recoveries, the dotted part of the purple line, mostly for the next 12 months. This leaves us in a highly comfortable situation, should there be any change in Brazil's currently stable economic scenario.

Slide 19. Underlying what I mentioned in the previous slide, this slide shows the coverage ratio of the allowance for loan losses which, remains at very comfortable levels. This slight reduction in the last two quarters was already expected. Due to the nominal upturn in non-performing loans, which tends to follow the growth in the loan portfolio.

Slide 20. Second quarter fee income moved outside 6.9%, mainly to the increase in the revenues from investment activities, with another 120% increase, followed by lower operations, with 9%, collections with 7.6%. And credit cards with 7%, reflecting the higher volume of operations and expansion of the client base. The six-month comparison, the fee income claimed by 30.9%, led by income from consortium with 23.8%, credit cards with 21.7% and checking account with 18.9% primarily due to the large client base, which increased by 2.1 million new checking accounts in the last 12 months.

Slide 21, operating expense increased by 3.7% in the quarter, driven by higher personal -- personal experiences mainly to the growth in the non-structural portion, which in turn primarily due to higher expenses from provisions for labour matters. Growth of the structural portion was chiefly the result of the lower concentration of vacations in the Second Quarter and the expansion of the workforce with a net addition of around 1,600 employees as part of our (dressed) growth. The 12 month comparison, the increase was chiefly due to the 2010 -- 2010 collective bargain agreement and the net addition of more than 9,000 employees during this period.

Slide 22, to give you a better idea of the behaviour of our operating expense, on this slide we have broken down the impact of organic growth. We opened 25 new branches in the Second Quarter and strengthened our retail services structure by hiring a now 1,600 new employees as I have already mentioned. As you can see if this impact were excluded our

administrative expense would have increased by 2.6% in the quarter and 14.3% over the same period of last year.

Slide 23, our administrative expense present a small increase of 1.2% in the quarter. The 17.3% increase in the first half, in comparison to the same period of last year, was compatible with the growth of our sales network and the consequence of (stirring) in the business (world).

Slide 24, this slide shows income from our insurance segment, which increased by 23.1% of the First Quarter. Basically, due to the life insurance and pension plans with 35.3% and auto and P&C with 21.8%. The six-month comparison, the 22% upturn was led by life and pension plans and saving bonds. Second quarter net income totalled BRL800 million helped by the 23.1% increase in the revenue, the maintenance of the claims ratio at the same level in the previous quarter and they prove administrative situation. In the 12 months comparison, the 11.2% upturn was primarily due to high revenue and reduction in the claims ratio.

Slide 25, this slide shows some of the main figures from our insurance activity. The combined ratio reported 85.8% in the Second Quarter, presented slight improvement in comparison to the previous three months chiefly due to, again, the increase in the revenue and maintenance of the claims ratio. Our financial assets totalled BRL103.80 billion while technical provisions stood at BRL93.9 billion, BRL82 billion of which are related to life and pension products.

Slide 26 shows economical department GDP, interest rate inflation and the exchange rate estimated for 2011, 2012, considering the currency inflationary pressure following a period of the strong GDP and credit expansion. Despite the more modest economic growth expected this year, we have good expectations for the recovery of these indicators in 2012.

Slide 27, this slide shows guidance for 2011. Basically, we are maintaining our original guidance with the exception of mortgage loans origination, which we are increasing to BRL14 billion and insurance premiums which perform exceptionally well in the first half. We have made no change to our guidance for operating expenses, although we believe it should be, it will close the year at a slightly higher level than originally predicted. Given that organic growth in the second half of the year, we will certainly accelerate due to our products to one -- our product to replace Banco Postal and two, to strengthen our services structuring in (dio Janeiro), given that we will restarting paying civil servants in this state as from next January.

Now, to conclude, we consider we had another quarter of good results. Despite the slight upturn in delinquency ratio, this quarter we kept a constant eye on the quality of our loan portfolio, the growth of which is found on a solid client base and is supported by our constant investment in technology, broader (non-serves) development and the expansion of our distribution network.

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As you can see, our results (indicator) remain sustainable, independently of the current domestic and global economic challenges. Certainly these results were generated by our broad business diversity and ample penetration enabling us to monitor all the business opportunities in the consumption and finance market -- financial market as well as in our additional segments

Despite the more moderate economic growth expected this year, we remain optimistic over the long term, thanks to upward social mobility and expansion of infrastructure, which will lead Brazil to a high level of social and economic growth. Thank you very much for your attention so far and we are now available to answer any questions you may have.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question-and-answer session. (Operators Instructions). Our first question comes from Mr. Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning everyone. I have two questions, if I may, the first one on margins. Mr. Abreu mentioned that margins contracted in the Second Quarter and have been slower, weaker than you guys anticipated initially and he mentioned the change in the asset mix, which we agree as a loan -- consumer loans are growing much lower than the overall portfolio and that has a negative impact on your margin mix.

How do you expect this to play out the rest of the year? Certainly, we're not expecting to see an acceleration of consumer lending. But rather the continuation of the same trends where consumers grow less than the overall portfolio. How do you think net interest margins are going to behave the rest of the year and therefore regarding your guidance, how do you get to your net interest income growth guidance of 18% to 22%, which is much higher than your volume guidance of 15% to 19%? That's the first question, I'll ask my second one later. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay Jorge, it's very difficult for us to give the direction in terms of margin. If you consider this, it's possible changing mix. The mix of growth of the portfolio is different. If you see in the credit, specifically, we are observing a growth in margin, in the spreads in all different line of business, all right? But if you notice this in this quarter that if you look only for the margin for credit you see that we have a growth in the margin.

In spite of we have been growing more in the high -- large corporate segments. But even though in the average the margin in client growth present an evolution this quarter. The difference this quarter was more linked to, for example we growth more in terms of -- in relative based in asset security. So it has a lower margin.

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So that is very difficult for us to give a net interest in margin direction. But to say that to be -- we can't consider it to be stable at 7.6% or even to give increase depending on the -- if you don't have any change in the mix very, very, very big change in the mix. But in terms of net interest income we are very -- you see that we have been growing around 19% so it's close to -- when compared half the semester, we are going 19% so, it's very in the middle is the title of the guidance. So we have no reason to believe that we won't be around there -- so even to increase going forward.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you. And my second question is on expenses, first half expenses, personal admin expenses are up 17% year-on-year, your guidance is 11 to 15. You did say at the end of your presentation that you think you're probably going to be above the -- the guidance.

Can you help understand the magnitude of what you're expecting for this year? Is it going to like stay in at the 17% level or because of the aggressive projects to replace Banco Postal and be ready to serve its government workers in 2012, you know can we think of you know, maybe expenses growing closer to 20%? I don't know I just wanted to get a bit -- a little bit of color on expectations for that line.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look Jorge. We -- as I mentioned, we don't have yet the -- we did in fact finalize our complete plans to expand or to replace Banco Postal. And investment that we need to go to -- to accelerating dio Janeire -- to grow in dio Janeire. We expect to have -- to be to give to the market more color in this sense as soon as we have completed the plans completely, it will be -- we plan to open this to the market. But in general terms of course, you can see that we need to open more branches that we have in mind.

We don't have yet exact numbers. And it will certainly demand more investment at this quart -- this second half of the year and more expense, because we need to add more people like to have that. We -- it's very difficult for us to give this. But assuming that we are growing 16.6%, if you consider the total administrative expense, not 17% as I mention, is only administrative expense 17%, all right? And consider the personal together it's 16.6%.

We understand it should be a little bit high -- we can -- I will take a risk to tell you that we are now, our guidance is for 15, depends again, depends on how -- really you have to -- but, what we know so far, I think it will be around 18% at the end, could be.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, great, thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Not 20%, I think 20% is too much. I think it will be around there. But it's important to emphasize that we have good expectation in terms of growth in the fee income too right? We are growing more than we have in our guidance and we have no reason to believe that we'll want to have gains in this process, that we cannot be more than we have now.

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Q - Jorge Kuri {BIO 3937764 <GO>}

Great. Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Daniel Abut from Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, Domingos, a quick question on the asset quality side, if I look at your guidance page on 27, you never incorporated there a formal guidance on the NPL ratio or provisions or anything like that. But I recall you saying in prior conference calls that your expectation was to the -- for the NPL ratio to remain pretty flattish throughout the year and we've seen that, although in the last quarter we started to see a minor, increase. I think it was 10 basis points quarter on quarter, a bit more than that in the individual's portfolio.

Bradesco has continued to perform better than the system and better than some other peers, what are you seeing now as the most likely outlook for the NPL ratio for the rest of the year and into 2012, is still flattish the correct assumption or as we stay a little more, that maybe with the lag you know Bradesco will reflect more what we have been seeing in other banks and in the system as a whole?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, Daniel, it's -- we understand that we keep this level around 3.7%, maybe you can reduce to 3.6% -- to go back to 3.6%. It is our expectation for 2011. We don't have -- we assume that the next year we will keep a very strong part -- let's say employment rates -- a very good employment rate in Brazil. We will continue to have that. There's no reason to believe to have a big change in this level right? We have -- we can assume that it will be relatively stable. It even depends of course that if you grow more in different portfolio of course, right?

If you grow more with expectation that you continue to grow more and in portfolio for corporates that will definitely -- we can have a relative reduction in the average NPL. But it doesn't mean that the situation in terms of delinquency is better for us just to have a change in the mix. But if you discount this, we -- if follow by line by line of business and different line of business segments, we understand that we can't -- we are working with -- that we will keep stable going forth.

Q - Daniel Abut {BIO 1505546 <GO>}

So you're saying that for the rest of the year, flattish NPL ratio measure 90 days over in the 3.3%, 3.7% range?

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A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. Around that. You can say around 3.6%, 3.7% is flat for us, yes.

Q - Daniel Abut {BIO 1505546 <GO>}

This consistent with what you've been saying all along. So I praise you for that and then into 2012 for what you know now and given that you seem to be optimistic on the economy I -- we saw that in your economy forecast reiterated in page 26, that's no reason to believe it should be worse or you know higher than that either. But it is a bit too early to give a more specific guidance on that.

On the provisioning side, therefore we should expect that provision should remain on the levels we've been seeing in recent quarters, no reason to increase them because you are comfortable with the coverage level that you have and you expect the NPL ratio to behave in the way you just have told us, right?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes, look its substantial to grow, following the growth in the portfolio of course, right? (inaudible) portfolio it's reasonable to expect that the delinquencies will remain flat. But in (necess) of provisions tends to follow the growth in the portfolio right?

We don't expect to have a big change in our portfolio and we don't want to have to change any policy. We understand the level that we have of cover ratio and the total provision is very good levels, right? We don't think we need to reinforce our provisions. But we don't think it's good for us to make any -- to revert part of the provision. I think it's important to keep a very high -- a good caution of provision to face if we have any change in this environment, let's say.

Q - Daniel Abut {BIO 1505546 <GO>}

And considering with this Domingos. And we've seen the official response, you know from the time that even -- even prepare a presentation when the topic of the (credit) bubble became very, very topical. And all the articles that we read and you have not changed your view right? With respect to -- and consistent with what we are seeing at your own bank, that there's no reason to really be worried about that. It is premature, we're talking about a credit bubble developed in Brazil.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, Dan it's good for your question. It's very important. We have a very good view of credit. We -- I think this (story) about the bubble in Brazil is there is no consistent. If you look inside what people are saying, there is no -- any argument that you can receive for any discussion.

We are very -- we know what we are doing here. We are growing. We know that we -- if you are growing (credits) because you have condition to grow that, because the economies growing, you have a good improvement. If you look at the impressive

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improvement on our unemployment rate in the last years, you seen that it explain a lot what we are going.

You see the high level of interest rate that we still have in Brazil, it's not created condition to imagine that we can create a bubble of (credit). If you assume that the, about more than 90% of our portfolio for individuals are fixed rate, there's no reason to imagine that we don't need to change the rate for the clients going forward unless we have a change. Again, we can have problems with delinquency if you change, revert the cycle, positive cycle, yes we can have. But not because we are creating bubble a thing like this.

I think there is many, many arguments that we can give you to explain why we are confident that while -- the -- really that there is no bubble at present. If there is no condition to create that, it's important to say. But to say, in terms of mortgage portfolio, know that in Brazil we have only 4% of GDP penetration. We have -- we are very consistent in the parts to approve rather than we are growing this portfolio, yes. But we are very, very conservative in the way that we are growing.

We are -- don't finance more than 80% of the price of the house, the market relative to the house. But in average, we -- what we are doing is 65%. So there is no -- it is not a comparable situation. Brazil, the situation that we have in other places, to assume that we are (clearly a temple), right?

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Domingos.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, gentlemen. Thanks for the opportunity. I actually have a couple of questions. The first one is related to the insurance business. You saw a pretty big bump in the level of premium sold in this quarter. I know you went through it and you increased your -- basically your outlook for the end of the year. Could you give us some more color on how that's going to come? If we're really going to continue to see the strong growth that we saw in premiums sold? Particularly on the life side, which increased 35% quarter-on-quarter?

The second question is related to the provisions on the civil litigation that were non-recurring once again. I was just wondering if we're close to an end to that, what's the expectation? I know the last planned -- the window for that closes soon. I was just wondering if you could give us some color?

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A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. Carlos, just a minute I need to have a brief discussion with our people for insurance to give an idea. I just talk about the provision, civil provision for civil -- for economic plans, I think we are now in the -- we just have some, let's say, some adjustments in provision. We don't have big movement. We don't expect to have a big movement going forward.

But you know that we are in the middle of the discussion in the courts, the high courts. And we have more, let's say, if you ask me now, if we have expectations to have deterioration in our situation in this process, I would say that we are more optimistic that we can have some good news in this front than bad news going forward.

Q - Carlos Macedo {BIO 15158925 <GO>}

Do you mean possibly reverting the provisions that have already been made? Or just stop making new provisions?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I would not say that. But it will depend, obviously. We have a rather -- a huge amount of provisions that you know that all the processes are, let's say, stopped, waiting for the decision in the courts. If the decision was in the good direction, yes, we can revert. But again, we don't -- what's important to say that we don't expect to have more discussion going forward. Not other -- more people came to complain about that because we are at the finish, the time of our people to complain. The time to complain. Just a minute, Carlos, about insurance, for now.

Okay, Carlos. I will try to tell what everything they've told me. Looking what they see is a very, very good perspective in the market, better than they have, in all different segments. We see that we are growing in all the different segments that we are present. And we also tell just one reason why we have this -- we have this ongoing and relatively good way.

We have SMEs company that has developed, that really created a new market for insurance business, that we are taking advantage of this. Of -- it's always important to emphasize, a very strong structure of, let's say, sales force that we have in insurance. That is really -- very really -- that has been presented very good -- they are performing very well. So we are, let's say, comfortable to increase the guidance that we gave. That's why. That's why.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. But there is no specific line that you would say -- I mean, are we --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

No, no, no.

Q - Carlos Macedo {BIO 15158925 <GO>}

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So we shouldn't expect the same kind of growth quarter-on-quarter next quarter, on life, for instance? But we should see there is significant -- very substantial growth.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Carlos Macedo {BIO 15158925 <GO>}

For the second half of the year?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

What is important to say this fantastic mobility -- social mobility that we have faced in Brazil. So this really has been creating a lot of opportunities in this business.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. This is still on the life side. And has it been in large part the mass products or are we seeing greater sophistication in terms of the product sold?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

That's mass. More in the mass products.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Because of small tickets and the very good markets.

Q - Carlos Macedo {BIO 15158925 <GO>}

And would you be all right?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes, yes.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

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Excuse me, our next question comes from Mr. Saul Martinez from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Thanks for taking my call -- my question. A couple of questions, more big picture, Domingos. First, can you -- I -- can you comment a little bit about Bradesco's M&A strategy? Obviously there -- you have been linked recently to specific things in the press and obviously you can't comment on specific items. But there has been talk that the Central Bank would like some of the small -- smaller banks, who may have issues around liquidity and may have issues around changing accounting and capital requirements to sell and to link up with larger banks. Can you talk a little bit about your strategy with regards to M&A and potential non-organic growth opportunities you may see?

Then secondly, on monetary policy -- just your views on monetary policies and the possibility of more macro prudential measures relate to banks, since the -- with inflationary pressures still there and the currency as strong as it is, the moves yesterday on derivatives. I'm just curious if you have an update in terms of what you -- how you're seeing the regulators look at the possibility of using macro prudential policies as a way to ensure financial stability and potentially even for monetary policy reasons?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Saul thanks for the question. Okay. We have a strategy to grow and our main strategy is to grow organically, of course. But if we have opportunities of growth in Brazil, we are being awake to see that. We'll be -- we will understand that we will have opportunities to continue to have the new partnership with retailers, for example, in the dividends for the credit card business. But we'll be awake for these opportunities.

We have these opportunities like we had last -- to buy, for example, some payroll fund stakes, like we had in (Pernon Bucu), the last few -- last year and Rio de Janeiro now. So some opportunities that we have. It is a combination of a kind of M&A and organic growth, because when we buy a payroll, we need to sometimes to reinforce some basis and to grow in these places organically too. But we will be awake for this situation.

We don't see -- what to say about small banks? Unless -- when we see these opportunities, we see that -- we see -- we can add more scale for us, it's good. These are good reasons to see. Or we still have -- you are -- let's if you buy a new, let's say, expertise in different business, that we are not there. We cannot see any -- want to analyze the small banks for our perspective. We don't see any of these situations that can give us some, let's say, positions that we can imagine. We are not seeing any opportunities on this front us. Right?

In terms of monetary policy, let's say that what we are observing, that our economy is in the way that the Central Bank wants it to be going. We have a deceleration in the growth, in the growth prospects. You have -- we understand that there is no need of the other market potential measures. Because exactly -- I think we are observing some coverages to the inflation, to the next year. The -- what the Central Bank is looking for.

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There is no need or there is. But again, with -- we cannot say that we won't have. It will depend on the evolution of the data that we have. For what we are seeing in our economy, we don't see any direction. The macro that we mentioned is that we had yesterday, it was another direction. The markets are in a different direction, not only to -- in order to deal with inflation. But in order to deal with the FX rate. I think there is a concern in the government that our FX rate is -- the real is too strong, when compared to dollars, for example. And could give some industry.

Brazil is losing their competitive conditions. So they are looking for that. So it is a different matter, market rate. And it is important to separate macro prudential for like we had in the last -- at the end of last year, that they -- for example, when they increased the reserve requirements and they required more capital for different lines of business. This matter that we had yesterday was in other directions, right?

So think about a macro prudential in the sense of macro prudential that is to avoid the creation of any possible bubble like that. We are not seeing the necessity to have. And to control inflation, we are not seeing, at the moment, any reason to have a new one. Right?

Q - Saul Martinez {BIO 5811266 <GO>}

Is there any indirect impact of the moves yesterday, either in your prop desk or in terms of making it more expensive to hedge your foreign currency risk of the higher tax on derivatives?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We'll, of course, we need to see all the different angles of the matter. We understand -- and peaks. but in general, in terms of equity that we are not so, let's say. So exposure in FX rate. Normally we have -- we know that we have costs of -- to rather position like that. It can change a little bit fast.

But we other alternatives to be made gradual, that will be analyzed. That is why it is difficult for us to give as that. In general terms, I'd say that it's not, for our -- for us, for Bradesco, it's not for our clients, all right? For us, I don't think we have a significant impact in our numbers.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Mario Pierry from Deutsche Bank.

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Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Good morning, everybody. Let me ask you two questions, Abreu. Let me go back, also, to the asset quality a little bit more. First, we're clearly seeing, right, bank growing slower than the industry on the individual loan portfolio.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

So I would like to understand, why -- what are you seeing that the rest of the market is not seeing? And if you have been tightening your credit granting standards, in individual loans, if you can give us an idea what is your approval rating today? What it was, let's say, six months ago or one year ago? Then the second question, I think you mentioned, during your presentation, that you made a change in credit card delinquency criteria.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

I would like to understand that and to understand if that is at all related with the increasing in renegotiations in credit card loans? I think we were doing some calculations here, we were estimating you were renegotiating about 4.5% of your credit card loans. And about a year ago, you were renegotiating 3%. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I'm not sure if I understood your last point. But let me tell you about our checking to have approval. I don't -- I wouldn't take a risk to say that we are seeing things different than the market is seeing, Mario. But we are -- we continue -- you know that we don't have a specific movement and say now we need to tighten our model like that because of that. We -- our policy is improve our models every day.

We understand that, with credit, we are not in the way that we -- now we can be -- to release more models or not, all right? We are, all the times, we are looking. We need to expect, even though we have considered individuals on long-term commitments, we need to be conservative all the time, all right? We -- let me check if we have the approval rates. Today? No.

Okay. We are sorry, we don't have the approvals. But certainly it's reduced. But not because we are different. It's probably once we have increased interest rates, it's normal that we have the base of possible clients stands to have deterioration because the mass of good clients tends to be out of the market, during a period when you have high interest rates. That's why it's normal to have a reduction in approval. Right?

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I don't know if I answered your question correctly. But for this, we don't have this number. We will check if we have that. We can give the number later. In terms of the credit card change, I don't know if I understood your point, the last point. But I'll tell you what we did, right? Remember that in the end -- at the end of last year, we had a migration of card portfolio to another system. Right?

Our previous system, we wouldn't be able to -- wouldn't have, for example, cards when you have -- you know that we have some side business in the cards, when people buy, for example, in ten installments on the cards, right?

In the previous program, or the previous system that we have, it was -- it wasn't the -- we couldn't see when we have, for example, you stopped paying the first installment. We just considered this one installment. We didn't consider the nine that we have together because we didn't have position in the system to have that. The new system, we are able to have that. So that's why the difference that we have now. When you have a situation like that, if you stop paying, we consider all the commitments that we have, with me -- and not only the one that you have done.

This makes this -- we understand we have -- we're going to have this portfolio in cards. We see that we have the only portfolio that we have a growth in delinquencies. That's why we saw that we expand this, it is not only because we have deterioration in the situation, in terms of delinquencies. But we have this change in the model.

Two, I'll try to resume what is the impact of this, to have an idea before. It used to take, let's say, eight months -- 18 months to have a total provision in one credit like that. Now we have 12 months to have that. So we reduced the time that we will have. In other words, we are having, capturing, the delinquency ahead, right? We didn't change any parts in terms of negotiation of credit cards, anything. It's just things that we are -- the way that we are capturing.

Q - Mario Pierry {BIO 1505554 <GO>}

Yes. No. That's very clear. So you're being more conservative.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes, much more conservative.

Q - Mario Pierry {BIO 1505554 <GO>}

When it comes to credit service?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

This one, to be honest, let's say it's more -- it's, let's say, it's -- let's say it's more correct. If you ask me why we didn't this before, I'd say this is a business that has been growing in the market. We are in the process to build the new system. So there is no reason to change one system, while you are building another one. So we have an expectation really

to have this improvement sooner, that's why we didn't have that. But to be honest now we are more correct, let's say. If we did that.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then what about the --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

But that's a bit more conservative than we had before. Yes. So.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And what about the credit card renegotiations? Are you seeing an increase -- a pick-up in renegotiations of credit card balances?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

No. No, no, no.

Q - Mario Pierry {BIO 1505554 <GO>}

No.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

But other credit cards. And with -- as I mentioned, we didn't change any policy in terms of negotiation and anything. And we are, as I mentioned too, we saw all the portfolio that we have in terms of the (delinquency). We know that it a matter that is -- there is concern on everyone. And we saw -- all the lines of business, you see any change in terms of delinquency and low, low (inaudible) -- the short-term delinquency in the more than 90 days.

We see any changes in lines like normally the market likes to see, like (inaudible) overdraft for example. But we didn't see -- the only portfolio, again, that we observe a deterioration of delinquency was in credit cards. And we understand the biggest part of this (operation) was because of changes in the model, not because we are seeing any different movements.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Great, Abreu. Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. But we have -- we have expectation that we can have a new movement of delinquency to increase the links here because -- in credit cards, because we have increased the payment growth going forward. So it certainly will bring a new change in the delinquency level for credit cards. But again, it's something that you would have in the future that you will bring back -- bring to the present, let's say. We are accelerating this process. But that being that we are -- in other words, the prospect of losses continued the

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same. But maybe you see it in a different moment of the -- we are accelerating the process, let's say.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Perfect.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay?

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Good morning. And. Good morning, Abreu. Good morning, everyone.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good morning, Marcelo.

Q - Marcelo Telles {BIO 3560829 <GO>}

Most of my questions have been answered. But I want to talk about Basel III regulation. How -- do you have any update that you could share with us, regarding any new developments between the conversations you might have had, with the Central Bank, regarding the guidelines that were published in February of this year?

I understand -- you still offered questions regarding the treatment of the insurance business. I think you had previously indicated about the BRL6 billion impact. Has that changed and also do you see any, let's say, upside -- versus the guidelines that were provided in February in terms of the treatment of tax credits? For instance, if you could give us some color on that, I would appreciate it. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Marcelo, we didn't have any changes. The only thing that we have is that Central Bank direction that they gave us, the schedule that they have. We didn't have any change on that. I want to give that, let's say, exercise in February, last February. We understand that it was the worst scenario that we could have. We have -- we didn't have any direction from

the Central Bank yet. But for what we are seeing in the global environment, then we will see the -- what they want to plan in the Basel III.

We have expectations to have some release here too, right? So we cannot, we cannot, to that number -- we didn't change any assumption in that exercise that we made. Because it was, again, we understood it was the worse scenario that we could have, to have -- from that we, personally, have expectations to have more release than to have more tightening in this process, we understand. But again, we don't have any, to be direct to your point, since then, we didn't have any direction, any movement.

Q - Marcelo Telles {BIO 3560829 <GO>}

Perfect. And I -- thank you.

And just to go on to one more question.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes?

Q - Marcelo Telles {BIO 3560829 <GO>}

Regarding your SME strategy, did you feel the need lately, to be a little bit more conservative in, let's say, in the lower end of the SME segment? And maybe focus a little bit on the high-end? We've heard from some of your competitors that they might be -- they were a little bit worried about the low-end side and tried to focus on not such small businesses. Is that the case for you? Or business as usual? Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, we are, as I always like to mention, that we are conservative and we are, let's say, if I can put that also, carefully, with the (cards) and the press, all the times, right?

In SME segment, it's important in so far as we know that we are making improvements in our segmentation process. And the way to understand it, you have space to capture more that we have capturing so far in this market, right? That's why we have been able to grow the same -- keep the same level of risk. We are not seeing any movement. So it's a market that we work with certainly the biggest part of the portfolio to have some collateral. We work all the time. So that's why we are comfortable to continue to work in the same business as usual.

Q - Marcelo Telles {BIO 3560829 <GO>}

Perfect.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

All right.

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Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Ms. Regina Sanchez from Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Good morning, everybody. My question is, again, about asset quality. We are noting that some differences between -- the NPL ratio trend among the large cap banks. What would you consider the reasons to see a better trend after this? Because I think it would be the lower mix or a good underwriting policy or geographical position to capture better asset quality clients?

Then more specific, on slide number 16 of the presentation, you showed an increase in the 15 to 90-days NPL ratio for companies of 30 basis points differently from the system, which showed a decline of 10 basis points. I know this is consistent, it is not the overall portfolio, consistent with what the Central Bank released. But what could justify this difference? The lower mix in the corporate segment is changing inside Bradesco. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thanks for the question, Regina, because it -- we really need to explain that. First of all, it's very difficult for us to compare or -- with our competitors. Because it is very difficult to -- for us to see exactly where they are going more. So we understand this is more kind of mix for us.

We know that we are improving our models for the times that we are having good models for developing our business, that we are improving our operation, yes. We know that. But I assume that they are doing the same. All right? We can -- we must -- the -- we tend to think that the difference is exactly the mix. Maybe they are growing more in more risky portfolios, that is why they have this -- they would have this change.

In our case, in particular, the corporates, this is just one single -- one thing about delinquency for 15 to 90 days. Sometimes we have a big client, a large corporate, that was -- just want to have a specific client, that we have sometimes, we have -- they keep -- you have -- need to replace some contracts like that. Sometimes we have this situation.

But let's say it is not something that will be the -- if you discount only this one single case that we mentioned, our rating should be a mix exercise, a mix exercise, a ratio to be 2.8%. In other words, to be staying at the same level. That we don't have these changes. That today is not to be all about this.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you, Abreu.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, ladies and gentlemen. since there are no further questions, I would like to invite Mr. Domingos Figueiredo de Abreu to proceed with his closing statements. Please, sir, go ahead.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. I'd like to thank, once more, to everyone, for -- to attend this conference. I'd say that the -- to remind any further questions, please feel free to call Paulo Faustino and his team, who will be available for -- to answer any questions you may have. Thank you very much.

Operator

Thank you. That does concluded the Banco Bradesco's audio conference call for today. Thank you very much for your participation and have a good day.

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