# Q1 2020 Earnings Call

## Company Participants

- Carlos Firetti, Market Relations Director and Head of Investor Relations
- Leandro de Miranda Araujo, Executive Deputy Officer and Investor Relations Officer
- Octavio de Lazari, Chief Executive Officer
- Vinicius Jose De Almeida Albernaz, Chief Executive Officer of Bradesco Seguros

## Other Participants

- Henrique Navarro
- Jason Mollin
- Marcelo Telles
- Mario Pierry
- Thiago Batista
- Tito Labarta

## Presentation

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Bradesco's First Quarter 2020 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 Instruction)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events, and therefore depend on circumstances that may or may not occur in the future.

Investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

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

## Carlos Firetti {BIO 2489005 <GO>}

Hello, everybody. Welcome to our conference call for discussing our first quarter 2020 results.

We have today with us our CEO, Octavio de Lazari Jr.; our CFO, Andre Rodrigues Cano; the CEO of Bradesco Seguros Group, Vinicius Albernaz; and our Executive Director and IRO, Leandro Miranda.

After the presentation, we will run our question-and-answer session, where you're going to be able to post your questions.

Now, I turn the presentation to Leandro.

## Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you very much, Firetti. Good morning, everyone. I hope you and your families are well, and I welcome you in our conference call.

Today, we will discuss the results from the first quarter of 2020 and once again, talk about our position during this rather difficult time. This quarter has wound up quite different from what was taking place up to mid-March and when we were performing very strongly in a number of lines even above our guidance as you may see ahead.

The scenario was radically altered by the worsening of the COVID crisis in the second half of March. Nonetheless, we highlighted our balance sheet remains very strong. From the moment that the crisis rose to the scale that it is today, our priorities have changed completely. We focus on maintaining our services to our customers and keeping the bank fully operational along with the wellbeing of our employees. And we are committed to supporting society in overcoming this crisis. All stakeholders are on-board and we keep a very keen eye on each one of them.

I'm proud to state that through the efforts of our entire team, the Bank adapted quickly, above expectations indeed, and continue to operate in such extreme conditions while always accounting for the sake of our people and customers as a primary parameter.

To give you a reference, today, more than 90% of our staff that normally work in our offices are now working from home and 50% of the teams from our branch network, which are -- we consider as an essential service, are at home. We are also striving to resolve any critical issues our customer today experiencing by initiating a process for going over that that is maturing for at least 60 days for small companies and individuals, and opening a direct line of negotiation with large companies.

We have also been working jointly with other banks and the Central Bank as well as on BNDES on restructuring loan to finance small business payrolls, and we have discussed with other measures with the Central Bank and Fibra bank as well.

As mentioned before, Bradesco and all other banks have every interest and duty to help customers emerge from this very difficult time with the capacity to fulfill their commitments and resume their lives without facing financial ruin. We also like to mention in our COVID call differently from previous crisis in which the financial sector was the main sponsor for the crisis. This time, in particular, as our CEO has been telling over and over again, we are an important part of the solution, and we embrace this responsibility.

In view of the uncertainty inherent to any projection at this time, especially considering that we still don't know for sure when the shutdown will end and how the pace of the resumption will be, we have decided to suspend our guidance for 2020. We will outline the new guidance when we have a sufficient clarity of the situation, and our administration will decide on that.

Meanwhile, we should stress that we do not see our ability to generate sustainable returns fundamentally altered. The operations are sound and rich. In addition to the return on revenues and resolving loan issues, which will take place with the recovery of the economy and a return to normality, one of the ways to recoup our return is through an essential adjustment in costs, and we have done it very promptly.

We have already performed quite well this quarter, thanks to the initiatives we took at the beginning of this year to control costs throughout 2020, as well as in March due to the effect of the crisis in some lines. Nevertheless, our new experiences in managing the Bank during this period should allow us to accelerate cost adjustments. We see even greater opportunity for adjustments in the branch network through the use of new smaller formats, as well as lower costs. The primary focus on conducting business and providing consultation to our -- and providing advisors to our customers, we seek to the harness and train our talents in a new way to serve our customer base.

Another key focus during this time was on risk management. In order to provide support to the country at this time and to our society as a whole, which was important keep the Bank liquid and very well capitalized. We headed into the crisis with strong capital position and elevated liquidity levers. We ended the first quarter 2020, which already reflects the period of market stress with a comfortable 11.4% Tier 1 ratio. Furthermore, we saw an increase of 6% in deposits and customer funds, a clear attractive quality.

Our expanded loan portfolio had a strong growth, posting an increase of 5.1% over the quarter and 17% for the last 12 months. Part of this expansion can be explained by the effect of exchange rates and part of this approach is due to a strong increase in demand, mainly from our companies at the beginning of the crisis. Our delinquency grew by 40 bps.

We believe that we are preparing ourselves quite well in terms of credit provisions to face the impacts of the deferral that will be treated by the crisis. We have increased our excess provision this quarter, posting a provision of BRL5.1 billion in our balance sheet to face the consequence of the pandemic of the credit. Our objective is to preserve our balance sheet with similar measures taken by other global banks, especially the largest U.S. and European banks such as ourselves.

As for our first quarter results, we posted an income of BRL3.8 billion, a decrease of nearly 40% over the 12 months and 45% in the quarter, with a return on equity in the quarter of 11.7%. Income and return for the quarter was less adversely impacted by the excess loan loss provision that we made this quarter along with other effects related to market conditions.

Now, we turn to Slide 4, related to the suspension of our guidance for the year. Although it's not usual in order to be more transparent, we included in the tabular column with our performance in the month of January and February. I'd like to remind you that in the first two months of the year, we didn't have our full capacity as 60% of our general managers, account managers, investment advisors, bankers are on vacation. You can see that we have very strong numbers, even better than the guidance except for the insurance business, mainly due to the financial results. Until February, the credit portfolio was growing 14.4%; NII, 11.7%; fees by 3.6%; costs on the other hand was roughly 0.1%, and we had a good performance in loan loss provisions.

We decided to suspend the guidance without presenting a new one because pretty much we do not have clarity and vision of all the effects that this virus may have over the economy. The outlook remains rather uncertain, and there is no cure for the virus nor a precise definition on the time of recovery for the economy. We'll establish a new guidance when we have a better capacity to provide an outlook and our administration says so.

Moving ahead, following through Slide 5, regarding the provision and credit risk. You can see that when the scenario was becoming stressed, especially in the second half of March, we evolved several areas of the Bank in carrying out an in-depth study of the possible and uncertain future scenarios. As it was clear that the recent upsized growth would slow down and the delinquency speed up, and in fact, increasing numerator and decreasing denominator. Two (inaudible) will perform, one composed by the (inaudible) recovery teams and the other one by the risk and economic teams. They both study past crisis, submitting the future impacts in delinquency and revenues, both in retail and corporate credit. Despite of using different methodologies, the results were pretty much the same, and it's guided us in our provisioning measures to face the COVID crisis.

Now, turning to Slide 6; we map the behavior of the mass market credit NPL in the global crisis of 2008 and the Brazilian crisis of 2016, and we projected a very uncertain scenario for this COVID crisis, which affects all sectors in different scale. Our perception that booking additional excess provisions to face future credit loss was necessary also as confirmed by the other banks that we use their earnings, especially in U.S. and Europe.

Now, turning to Slide 7, regarding to the provisions that we took in order to deal with this adverse economic scenario. In light of this study, we have already set up an excess provision of 4.9% -- BRL4.9 billion, a total of BRL5.1 billion to cope up with the effects of the pandemic in our credit portfolio, and we shall use it through the crisis. We believe this provision is suitable at this particular time and reflects information we have at this moment.

We'll continually be evaluating the need of provision for this crisis as we monitor the evolution of the economy as a whole and especially the health issues that we have here. The provision includes a BRL2.4 billion related to what we refer to (inaudible) the provision for an adverse economic situation, which is part of our previously existing supplementary provision and will be used throughout the crisis. New supplementary provisions for an adverse economic situation of BRL2.5 billion in this quarter and BRL200 million of required provisions carry out this quarter due to the effect of the crisis.

Moving on next slide, Slide 8; you can see that we rapidly provided our customers as individuals and as small business with access to credit installments do their extensions through our digital channels, call centers, and through our managers. We use all of our network to help our clients. We also use the first -- we were also the first Bank to provide access to payroll 24 hours clients. We have already expanded more than 1 million transactions with installments in the amount of BRL1.4 billion. We are -- we have been constantly evaluating the financial situation of our customers and offering the best solutions for each one of them, either a credit extension or a restructuring of the entire batch.

It's worth to highlight that among the measures announced by the Central Bank, we had BRL24.1 billion of reserve requirements release, but although the number of BRL24.1 billion, we are able to originate BRL57 billion in new loans between March 16 and April 23, almost double -- more than double than we had in reserve requirement release.

Now, turning to Slide 9; we have already spoken about our priorities at the beginning of the crisis, taking care of our people, keeping our services, running smoothly, assisting to overcome the crisis and managing the risk that the new scenario have imposed on us and keeping the Bank capitalized and liquid. We can say that we have been successful in all of the three pillars of this initial phase, and we continue to work hard and we are confident that we are going to continue to be successful in our missions. We have set up two more operation in order to turn our business into a primarily home office-based activity. We have a small scale structure in place, but we are able to expand it very, very quickly.

Today, as I stated before, more than 90% of our employees that did not work at our branches are now working from home. We have to thank all of the teams involved in this process, our senior management and especially our technology and system staff and also our branch teams for continue to serve our customers in this essential activity for the population.

Now, moving to the financial results, we find here on Page 11, to discuss the figures of the quarter, in which we have already experienced a major impact from these unfortunate events in -- in March as well as the society as a whole worldwide. Our net income was BRL3.8 billion, a decrease of 39.8% over the last 12 months. Some of the factors that contributed to that drop included a supplementary provision for loan losses of BRL2.5 billion to address the COVID facts and loans, BRL200 million of required provision due to the crisis, a reduction of our margin with the market due to the effects of the price in the market and the mark-to-market facts, a decrease in the performance of our insurance company, primarily due to the lower financial results, consequence of provisions in equity and the mismatch of inflation -- in the index inflations, namely IPCA and IGP-M among others; lower tax benefits due to a reduced provision for interest and capital in this quarter.

Now, turning to Slide 12; our ROE in this quarter posted a significant reduction, settling at a 11.7% as a result of everything that I have just presented to you, and the same fact can be seen in our ROA. Our shareholders' equity was reduced by 3.1% in the quarter due to the negative impact of mark-to-market of assets. So, as the economy evolves in the market that less volatile, we shall have also recovered of the shareholder equity due to the mark-to-market of the assets.

Now, turning to Slide 13; the loan portfolio registered an expected growth of 17% year-on-year and 5.1% in the quarter with 2.6% in individuals, 7.6% in large companies and 4.4% in SMEs. Part of this growth can be explained by the effect of exchange rate fluctuations on the loan portion in dollars, meaning the large companies' portfolio. Excluding the effects of exchange rate variations, our portfolio would have grown by 3.4%.

In addition, there was a strong increase in demand for loan by large companies in March, notably in the second half. Companies start to set up a liquidity buffer at the time, but the situation has returned to normal. In individuals and SMEs, the growth in the quarter largely reflects the strong performance we had been posting up to February. We expected a low slowdown in growth in the coming quarters, but it's still very difficult to foresee the size of the reduced demand for long.

On Slide 14, we can see that the total NII decreased by 6% in the quarter and increased by 2.9% year-on-year. The reduction in the quarter is related to the performance of the margin with the market. The margin with clients increased by 8.4% over 12 months, primarily as a result of the increasing loan volume, which more than offset the negative impact, the regulatory cap and overdraft limit interest rates. The margin of the market decreased 37%, especially due to the impact of market volatility and in the full-year referring to market of our trading portfolio.

Turning to Slide 15; we have an increasing NPL creation this quarter, already reflecting impact of the pandemic of the loan portfolio and in the end of March, any specific places in our corporate segment as well as the growth of the loan portfolio, and the shift in the mix. It's worth mentioning that the NPL creation in the third and fourth quarter were already affected by a large corporate credit that became due and was later renegotiated for which we already fully provisioned. It's much easier to make a comparison if you make those adjustments.

Our expanded loan provision amounted to BRL6.7 billion, including the impact of the supplementary provisions of BRL2.5 billion and the required provisions of BRL200 million.

They were pretty much done with the effects of the crisis and credits. The provision in relation to the portfolio that we refer as cost of risk, which stood at 4.1%.

Moving to Slide 16, regarding to the delinquency ratio we announced today, pretty much received -- increased by 40 bps. The reasons are the same as the ones we gave for the progression of the NPL creation.

On the following slide, you can see that the 90-day NPL coverage ratio was 228% in the quarter. As we mentioned before, we have a provision -- we had a provision of BRL5.1 billion for the adverse economic scenario. We shall consume these provisions throughout the crisis, that may reduce our coverage ratio in the following quarters. In addition to the consumption of the provisional (inaudible) we will constantly adjust our scenarios to evaluate the necessity of new provisions.

Now, on the Slide 18, we refer to the fee income that we have in our different lines of business. As you can see, the fees decreased in the quarter by 6.2%, and increased over the 12 month period of -- by 2.6%. We have experienced negative impacts on current income, which reduced by 7.1% quarter-over-quarter and 2.4% year-on-year, mainly impacted by CLO and interchange fees. We also had negative impact in the lines of asset management and loan operations.

The checking accounts, on the other hand, performed very well, growing 7% year-on-year, mainly due to the increase of customer base. Custody and brokerage services was positively impacted by the growth in volume in both institutional, trading, as well as the individual trading to Agora, our investment house.

We'd like to highlight the evaluation we had in Agora, Bradesco's investment house, which has a complete portfolio of projects with a redesigned platform, which is very user-friendly and a careful selection of the best investment products in the market to each kind of investor profile. In addition, customers have access to specialized investment advisors, content provided by Agora research teams and now the largest JV regarding to financial content with Grupo Estado, for the investor channel and also recommendation by market analysts, who support and taken by decisions and investing. By the end of first quarter 2020, we reached 416,000 clients, a growth of 13.4% compared to the last quarter, but a strong growth of more than 246% in active transaction volume in the same periods.

Operating expenses in -- on the following slide, Slide 19, you can see that we operate very, very well in terms of operating expenses with a reduction of 0.4% over the last 12 months. As our CEO has repeatedly said, we are aimed at having a 0% growth in 2020 as far as operating expenses are concerned. We saw a sharp slowdown in annual growth related to administrative and in personnel expenses and strong reductions in both lines for the quarter. This performance is mainly due to the measures we have taken to reduce costs at the beginning of the year. Although our guidance for 2020 is from 0% to 4%, our goal, as I mentioned, was 0% growth. Additionally, the reduction of operating volumes in March has already had an impact on our administrative expenses. We reduced 78 branches in the first quarter with the expectations of closing more than 300 branches in 2020 and a reduction in the number of employees due to the voluntary dismissal program.

As we mentioned earlier, the experiences we have in the environment of the COVID crisis such as home office (inaudible) self-service by customers and remote customer service have opened a space for a profound restructuring of the way we operate. We see room to expedite the conversion of branches into customer service points and cut back on traditional branches. For our staff that does not work in the branches, this is an opportunity to continue using home office and reducing the amount of occupied space.

Now, finally, moving to insurance, pension plans and capitalization bonds in our last slide here. You can see that there was a major impact on the financial performance due to the effect of market volatility on the portfolios, especially some equity portfolio and (inaudible) investment funds. In addition, we had the effects of the lower Selic and negative impact of the mismatch of IGP-M that collects our liabilities and IPCA that collects part of our guaranteed assets, which should affect our ALM.

On the one side, we know that the financial results will be a challenge. On the other side, we continue to see an important improvement in terms of operating performance, with a reduction in the loss ratio compared to fourth quarter 2019, which resulted in the improvement of the combined ratio. The insurance group has been monitoring the economy, and business effects caused by the new pandemic effects.

We understand that the importance of our product as an instrument to help and support the resumption of the families that may essentially be victimized. Several actions were taken to ensure that the best service and securities and adjusted to the reality presented. Through an exclusive call center, adjustment of the operation of the primary care clinics that since the beginning of the pandemic have been operating at expanded hours and even in the weekends from Sunday to Sunday. So, this initiative also serves to relieve the demand for emergency care when emerges with the beginning of the social measures we try to observe.

Changes in the behavior of events and activities, for example, if on the one hand, there was a slight reduction in the elective procedures; on the other hand, it was possible to see a gradual growth in emergency and hospitalizations due to the new virus. It's worth mentioning that this elective procedure should be received ahead, extensive isolation is needed.

Although it's premature to make any kind of projection at this time regarding the future of the behavior of the events, it's estimated that their effects would tend to get worse in the coming periods. And we were cautious to make provisions on that.

In auto insurance, the decrease in urban circulation caused a momentary change in the frequency of claim notice, motivated by the closing of repair workshop as well as the beginning of the drop in the sale of new vehicles, reflecting the sale of new insurance, directing the product installments, policy renewals.

Having said that, we open for the Q&A session, and we remain at your disposal. Thank you for your attention.

# Questions And Answers

## Operator

(Question And Answer)

Thank you. We will now initiate the questions-and-answers section. (Operator Instruction) Our first question comes from Mr.Mario Pierry with Bank of America. You may you may proceed.

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

Good afternoon everybody. Thank you for your presentation. Let me ask two questions, Leandro. You mentioned that you expect I think in this call that you guys expect the NPLs in this cycle to be higher than in the 2016 cycle. At the same time, the amount of provisions that you took this quarter of BRL2.5 billion, you think that's enough to cover these -- some of these expected increase. But I'm just trying to put in perspective this BRL2.5 billion, right, because it doesn't seem like that much given the size of the crisis. And if you are trying to anticipate some of the losses, why not take a bigger provision this quarter? So, that's my first question. Like is this BRL2.5 billion enough and why don't you take more?

And then my second question is related to your slides on Page 26. We see that NPL Creation in the SME segment more than doubled in one quarter. So, I wanted to understand, why are we seeing such an increase in NPL creation before the crisis even hit? And if there are any specific sectors or regions where you're seeing this big pickup in NPL creation in the SME segment? Thank you.



## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Okay. Hi, Mario. First of all, the provision that we consider is not BRL2.5 billion, that BRL5.1 billion. Because we had previous provisions that were added to this. Otherwise, we'd have increased even more. We believe that this new crisis, we have never experienced anything like that. And so in this sense, we have been discussing with analysts, employees, and clients as a whole. And there is a common sense that no one knows when it's going to be managed, when it's going to be finished and what could be the total shots in the economy, because we do not know when they recover, before recover it shall happen.

If we have a clear scenario that would be even worse than 2008, we should do exactly what we have said. On the other hand, according to the information that we have today, according to the lock-up cancelling, that's about to happen, we believe that BRL5.1 billion is adequate at this point in time.

But that's the reason why, in the Portuguese conference with our CEO, Mr.Octavio said that we are prepared to continue to provision as we get more information on the outlook of the clients if it's necessary.

Regarding to SME, NPL criteria -- creation in which you have seen a stronger growth than the rest, a couple of things to point out. First of all, we still haven't seen a full program for all the SMEs that we have seen in the past. We have taken care of payroll for individuals. We have made the refinancing of all of our clients for 60 days. But the SMEs did have less liquidity than the large companies, and that's the reason why you see a faster NPL creation here.

I do not know if any of my colleagues want to complement on that.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. Just on the NPL creation for SMEs, adding to Leandro what I said in the Portuguese call, basically, this quarter, we had about BRL500 million in new NPL in these large SMEs. We have the -- in the exact SME portfolio, SMEs up to BRL30 million, that is the retail part of the business that basically is running smoothly. But in the other part that goes up to BRL500 million in annual -- in revenues, basically, we had three cases, one of them amounting BRL300 million that moved to 90-day delinquents, all of them fully provisioned. And this is basically the main reason for this jump.

The fourth quarter actually was lower, mostly given the realization of some SME loans at the quarter. So, the base is low, probably the fair base for this SME portfolio is more like the third quarter and before. So, basically the answer is this, the jump is mostly related to the BRL500 million and also reflects what Leandro said.

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

Okay. Let me -- just one follow-up then. When we look at the provisioning level, right, your amount of provisions, they were lower than the NPL creation and I get it, you had some previous NPLs that you had already provisioned for; they were not officially NPLs, I get it. But if we look at your reserve coverage today of about 229%, if you go back to the 2015-'16 crisis in Brazil, your coverage ratio was running at about 190%. Is that the level that you think should be appropriate in the cycle to maintain a coverage ratio of 190% or given that this is a worst cycle that you'll be more prudent, to be more conservative and maintain the coverage ratio well above 200%?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Mario, as we always say, in your question, there is a wrong assumption that we manage the coverage ratio. The coverage ratio is much more than us put of our provisioning methodology. So basically, we're not going to do anything different because the coverage ratio moved to a level. That said, in the cycles, basically, you have normally a consumption of coverage in the sense that in the normal process of provisioning, you end up writing off part of your provisions. And in that process, let's say, the output of coverage tends to get lower.

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

All right, guys. Thank you very much.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you, Mario. Take care.

## Operator

Our next question comes from Mr.Tito Labarta with Goldman Sachs. You may proceed.

## Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good afternoon, everyone. Thank you for the call. A couple of questions also; following up just on the NPLs, just to understand a little bit more, given first quarter was really just the last two weeks of March that were impacted by the crisis. Is it fair to assume that this increase in NPLs should get even worse as you see more of the impact of the crisis? Just to understand sort of the magnitude related to, I guess, to the one-offs that you mentioned and the increase in NPLs? I mean, is it fair that that's going to continue to deteriorate at sort of a similar pace or even higher? I guess, that's the first question.

And then my second question is on capital. We saw a significant reduction in the core Tier 1. I know part of that was FX and mark-to-market and the growth in the portfolio. But if you can help us just think about that, I mean, your capital is okay now. But if you have another 200 basis points reduction in the core Tier 1, then it's maybe a different conversation. So given the level of growth that we saw in the quarter, the level of ROE, if you can just help us think about how you're thinking about your capital base, given all these moving parts? Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Okay. Tito, let me start from here and then Firetti would like to give his two cents.

Well, first of all, it's very unusual to make comments on the second quarter that is just starting, and we have a crisis that we -- all over the world we have never faced before. So, it's very difficult to tell you how we see the behavior from now on. But the good part of the second quarter is that, we shall start seeing the cancellation of lockdown by several states, and we'll start to see some clients getting back to the game again. So, that will be the most appropriate time to understand how we shall see the behavior of the NPL creation from now on. So, we are not in a position to give a very good and clear answer regarding how it's going to be the behavior of the NPL creation from this point on.

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

Tito, just to complement, basically, we've had (inaudible) said that basically we believe this crisis may be in terms of NPL worse than the 2015-'16 crisis. That implies actually that the -- to reach that NPL view, continue to increase for some more time. Basically, the NPL, what I'm saying about the specific cases, there is this BRL500 million already provisioned in SMEs. There is also something around BRL500 million also fully provisioned that moves through NPL this quarter in corporate. So, we have about BRL1 billion for which we already have provisions. And as you know, we have built provisions even in the fourth quarter last year. So this is the kind of changed -- made the acceleration in NPLs faster this quarter, probably than it would be the normal pace otherwise. But probably the NPL at the end of the cycle should really be higher than this.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

And the second part of your question regarding to our capital structure, an effect on shareholders' equity. It's important to highlight that a significant part of this reduction in the shareholders' equity was due to mark-to-market effects on the strategies that we have. So, as we get a better environment from now on, we shall see a recovery there as well. We do not plan to make any sort of capital increase. We do not plan to make any sort of capital shares buyback. So, we believe that as the normal business get back, we shall have the appropriate composition of our caps in the previous levels as we are profitable. And we just are about to distribute the minimum dividends according to the Central Bank provisions, and we shall keep it for quite a while.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. On top of that, we also should consume the tax credit from the hedging generated this quarter; as frankly as pointed, we have profitability for that. And also, the loan growth should go down. Basically, the size of loan growth we had this quarter is a mix of the good performance that we were presenting until February in terms of loan growth, plus the extra demand we brought from corporate. This level of growth certainly is going to be lower for the rest of the year as we have a correction in loan demand.

## Q - Tito Labarta {BIO 20837559 <GO>}

Great. Thank you. That's very helpful. Yeah. No. That's very helpful. I mean, just one follow-up, I guess, on the first one. I understand the uncertainty in trying to predict where the NPLs will end up. But you have another month now since the end of the first quarter. So, I guess, I was also thinking in terms of the evolution from just the last two weeks of March and into April and how sort of the NPL formation -- I don't know if you can give any color at this point, but how that may have evolved or gotten worse or maybe rolled off at some point.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. At this point, we prefer to not comment on the more recent trends. It's basically, it is -- again, you know we have the renegotiations of loans for 60 days. This is providing a relief on the delinquent, given that you roll in this five -- don't go to NPLs. We also are working on all clients to provide them the best solution possible to be able to meet their obligations. And so, I think it's an ongoing process that somehow mitigates the evolution of NPLs. But I think it's still to open to step-up.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

But, Tito, as Octavio has previously said, if clients need, we are open to support them in providing additional review of six days or even to restructure their debt in a way that we can preserve their health and have a long-term relationship with our clients. So, this is something that we are wide open to help clients and society as a whole.

## Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thank you very much.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you, Tito.

## Operator

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

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

Hello. Thank you very much. My question is somewhat of a follow-up on the provisioning levels made in the quarter. When you show on Page 7 of your presentation that you had BRL2.4 billion in pre-existing provisions for adverse economic scenarios that you created BRL200 million in provisions that would be required under traditional regulations that my understanding is that the regulator would have allowed you not to make those because of restructuring in the quarter plus this BRL2.5 billion that you've been discussing in new supplementary provisions.

Now, I guess, I'm trying to understand the decision-making process here. I understand it's not, as you've said many times, about reserve coverage, et cetera. But can you talk about making this decision? What are the implications for taxes, creating deferred tax assets, implications for dividend payments? Obviously, you reported a much lower bottom line. But in my view, this is a prudent conservative approach going into a crisis, where we don't really know the real losses, what they're going to be. And what are the implications for just reversing these going forward? Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you very much for your question, Jason.

I guess, we totally share your view regarding to the behavior in a crisis like that. We do have to be conservative to preserve our capital in order to serve our clients adequately. And there is a Central Bank ruling saying that the banks are not allowed to distribute dividends higher than the minimum amount required. The law says that the minimum amount required is 25%, but bylaws can say differently. Our bylaws say 30%. And we'll keep up with behaving and respecting the regulation. So, we shall not expect a dividend higher than 30%.

We have no internal discussions on reducing the dividends. We believe that we shall have to live this new environment, this new scenario, to make adjustments in our provision as the case may be. The capital restructure is extreme, is very, very strong. We remain confident that we can help our clients to get back to the liquidity levels they need in order to get back to their basic activities.

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

I mean, maybe I can ask -- I mean, again, it's not a metric. I know this is not how you make provisions or any bank does, but it's an interesting reflection of what's going on. If you look at the loan loss provisions created in the quarter, I think it was something like 46% of the way I calculate the NII, net interest income was provisioned away. You had been running at around 25%. I looked in my model, and I think at the peak levels that I've seen probably in the last 15 years was something like 55% in one quarter, but really doesn't get much above where you provisioned this quarter. So, is this kind of a limit when you look at -- of course, it's based on what happens in the economy and the ability -- the likelihood of your clients paying and their payment performance. But does this seem like -- when you look at that kind of metric that this is just -- this is extraordinary? And a level that is not --

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Well, first of all, you have to consider that we have established last quarter a provision for adverse market conditions. We did not expected to use it so soon. But fortunately, we were, with a very good protection for that. So, the way that it seems that you do have to take into account the whole BRL5.1 billion package, because that was the -- some of the protections that we face, all the delinquencies and losses that we may have from now on. But of course, this amount was, as you have pointed out, the result of the analysis of two different things here, the credit, as well as the risk and our economic teams that have put together with our senior management, we decided that this is the adequate provision at this time according to the information and vision that we have over the economy as a whole.

So, we do not take into a measure, specifically the way that the NPL creation in the last fortnight, because pretty much it's extremely soon to say that. But if it prove to be right, we're going to keep it this way. If we have to be even stronger in terms of capital management and provisions, we are prepared to do so. But keep in mind that we have previously provisions for adverse market conditions such as this.

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

Thank you very much for the context and color. Much appreciated.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Take care. Jason, thank you for your question.

## Operator

Our next question comes from Mr.Thiago Batista with UBS.

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

Yeah. Hi, guys. I had just one follow-up question about the capital position of the Bank. If not wrong, the Bank was targeting in the past a Tier 1 ratio close to 13% or something around this level. It's fair to say that do they continue with this, I think, informal target or with this target of Tier 1 capital of around 13%. And if the Bank -- if you start to say that the Bank capital ratio will be close to medium until, say, capital return to this level?

And the second question --

## A - Octavio de Lazari {BIO 17539074 <GO>}

Thiago -- oh, sorry. Go ahead.

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

Sorry. And the second question is very small one. Can you comment a little bit, how challenging is nowadays for Bradesco to sell insurance in the branch and also to sell fees? So, how important are the flow of the individuals in the branch that's for sure, right now, you don't have this flow of individuals?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Maybe we can start with the second and then answer the --

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Why don't we invite Vinicius?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. Regarding that, Vinicius to answer the second one.

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

Hi, Thiago. Vinicius here.

The branches are importantly -- very important mostly for the sale of pension-related products, capitalization products, and life, okay? They are very important. We have, of course, for life and for auto insurance, the presence of our insurance brokers in the -- in our branches. And what we've been seeing, I mean, in March, we didn't see because we have a full month almost of normal operation. We have gradual decrease in business in the end of March. But what we did see -- been going through right now, is to be able to give our branch managers, sales people, financial advisors, as well as our insurance brokers, all the tools necessary for them to operate fully on a home office base, okay? So, we've been seeing that this gradual improvement in sales of our sales force of our different channels from home office, okay? But there is a considerable investment right now in digital, in CRM tools in order to do support to these sales force.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Thiago, regarding your first question on capital, basically, I think the level of capital is constantly being evaluated by the Bank. As you know, the regulator reduced recently the minimum capital requirement by 125 bps. Any consideration regarding what is the optimum capital surely takes into account the regulatory requirements in terms of minimum capital. On top of that, we have to consider that we are getting to a cycle, where actually loan growth should be, for some time, much weaker than it was so far. So, it allowed us -- actually, we should use less capital going forward.

And on top of that, we do believe we're going to consume relatively quickly the tax credits we have generated and are one of the main negative impacts in our capital this quarter. And also, we believe that part of the mark-to-market should be reversed. So in that situation, we -- in that scenario, we think we are in a very good position in terms of capital. We don't have project targets on capital. We haven't been discussed on those terms for some time. But again, I think given what I said, we are, in our view, in a very, very good position.

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

Okay. Thank you for taking the question and thanks, Leandro.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you, Thiago.

## Operator

Our next question is coming from Mr.Marcelo Telles with Credit Suisse. You may proceed.

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

Hi. Hello, everyone, and thanks for the opportunity. Most of my questions have been answered, but I want to understand (inaudible) what is the risk that you see in the large corporate sector at this point? I know you've been focusing a lot on the SME and individuals. And also, what -- I just had a chance to see (inaudible) that the Central Bank published yesterday, and -- which was significant in terms if you compare to others, the stress test, in terms of the results, right, that Central Bank did. In your case, I mean, I wonder if you could share -- if you have done any stress test in light of the situation, if you could share with us what your capital position will be in a very, let's say, harsh scenario or in terms of the impact of provisions as well your cost of risk, that will be helpful.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Marcelo, really, I'm not sure I understood quite well your question, given that your voice was not very clear. But I understand you asked about the health of the corporate loan book, and the stress test that the Central Bank have run on the financial stability report yesterday. Those are -- were the questions basically, right?

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

Yes.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Okay.

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

Yeah. Yeah. And my question related to the stress test is, whether you have conducted a stress test as well, and could it be possible to share with us what the results would be in terms of your capital position, what would be the scenario for increase in provisions or anything like that?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. Unfortunately, we have -- we constantly run our stress tests, not only in crisis environment, but basically constantly. But we don't hear that. What I can say is, our view that we are in a very comfortable position regarding the capital position is related to our stress test. We see, for sure -- at this moment, when we don't even know when the economy will be up and running again; it's always hard. But basically, our base case stress test really show that we are in a comfortable position.

In terms of corporate, I don't know if you would like -- okay. In terms of corporate, we see the corporate book in a much better position at this time. What we saw was a run for liquidity in the beginning of the crisis. But companies were -- are mostly held with a leverage. They haven't been investing too much. Some of them surely will face difficulties in terms of having their results or revenues cut. But on -- in here, I would say, companies with the appropriate amount of liquidity are going to be able to make it through the crisis.

And basically, even the most complicated cases, for Lava Jato, actually have already been fully provisioned. Most of them we have even written off from our books. It's always possible we find some cases more -- in a more difficult situation during the period of the crisis. But I would say, it's -- this time it's not going to be a large number as in the other crisis. And in that sense, we are prepared to help them to renegotiate to try to improve our positions in terms of collaterals. I think it's fair to say that the most difficult segment at this time doesn't seem to be the corporate segment.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

And just to add to what Octavio is saying, it's much more like an opportunity for us. Basically, the corporate was being financed by the capital markets. And therefore, we saw as an opportunity because we are able to charge overspreads and to rebalance our portfolio risk as a whole. Thank you.

## Operator

Our next question is coming from Mr.Henrique Navarro with Santander. You may proceed.

## Q - Henrique Navarro {BIO 16188960 <GO>}

Hi. Thank you very much for the opportunity. My question is on fees and commission. This revenue line is directly linked to the sale of the banking products in both traditional channels and the digital channels. So, I would like to hear from you how -- the number of branches that are closed right now, when do you expect to reopen the branches? From February to March, how was the impact in sales of banking products on traditional channels? And what was the positive impact on higher sales on digital channels? So, anything you could shed a light and help us to understand the impact of the coronavirus on this 6% decline in the commissions on the first quarter? And then maybe you can try to understand what could be the impact for the next quarter. That's it. Thank you.

## A - Octavio de Lazari {BIO 17539074 <GO>}

In terms of branches, Henrique, actually, we didn't close branch -- any branches. We are -- as you know, during the coronavirus crisis. We -- only the branches in the malls and -- the ones that we could have opened, we kept all of them open and in the places we could. So, we operate with different -- with half of the people in the branches in terms of staff and replace this staff every week.

In terms of reduction in numbers of branches in the first quarter, we closed 78 branches that actually will be definitively closed. We expect to close this year more than 300 branches.

In terms of digital channels, in our case, we had already a very high level of penetration of digital channels. I think we had about 17 million clients that were clients either of mobile or Internet bank. And it's a very high level of usage. Due to the characteristics of the crisis with the economy really slowing down, we noticed actually that even though we see more clients using the digital channels than usually Internet or mobile, number of transactions actually reduced. Basically, people are buying less and people have transferred less money in business and payments, et cetera. So, that's kind of the trend we are seeing. I don't know, I may have lost part of your question.

## Q - Henrique Navarro {BIO 16188960 <GO>}

No, that's it. Just -- it's still on my question, the 6% decline in fees and commission income quarter-over-quarter, how much of that you believe is related to the coronavirus?

## A - Octavio de Lazari {BIO 17539074 <GO>}

I would say, the reduction in credit card is pretty much related to coronavirus. It is the impact of the lower retail sales on Cielo in our exchange in our interchange revenues that is basically based on sales. The consortium operation may have some impact. Investment bank, we were expecting a good quarter. Actually, there was -- the performance was not as good as expected, even though it was much better than last year. So, maybe more clearly on credit cards and maybe investment bank. Maybe a little bit also on asset management.

## Q - Henrique Navarro {BIO 16188960 <GO>}

Okay. Thank you very much.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you. Well, thank you all for your participation. I guess, we finish the Q&A session.

## Operator

Since there are no further questions, I would like to invite the speakers for the closing remarks.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Okay. Thank you all for your participation in our Q&A session, and for making the time to join us in our conference for this first quarter. Have a great day.

## Operator

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