

Transcript of the Conference Call
Portuguese
2Q19 Results
July 25th, 2019

Announcer:

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco's second quarter of 2019 earnings conference call.

This call is being broadcasted simultaneously on the Internet, at the investor relations website of Bradesco: banco.bradesco/ir, where you may find the presentation available for download. We would like to inform you that there is simultaneous translation into English.

All participants will be in listen only mode during the company's presentation. Afterwards, there will be a Question & Answer session, when further instructions will be given. Should you need assistance during the call, please press *0 to reach the operator. Before proceeding, we would like to mention that forward-looking statements that might be made during this call in relation to the company's business perspectives, and operating and financial projections and targets are beliefs and assumptions of Bradesco's management, as well as information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions, as they relate to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of Banco Bradesco and may cause results to differ materially from those expressed in such forward-looking statements. Now, I would like to turn the floor over to Mr. Carlos Firetti, market relations director.

Carlos Firetti:

Good morning, everyone. Welcome to our call to discuss the results of our second quarter of 2019. We are very pleased to have our CEO, Octavio de Lazari Jr, our vice-president and CFO of the bank, André Cano, the CEO of Bradesco Seguros, Vinicius Albernaz, our investor relations officer, Leandro Miranda. Now, I would like to give the floor to Octavio.

Octavio de Lazari Jr:

Thank you very much, Firetti. Good morning, everybody. Thank you for your participation in our conference, where we will be talking about the second quarter of 2019 earnings. We are very pleased to continue to share our strategy and our results. We believe that, once again, we have delivered sound results in second quarter of 2019. And we'd like to thank the joint effort of all our employees, for delivering such good results, although the economy was not quite as we expected, and this shows that we are on the right track.

The economic environment in which we operated in this quarter, once again, was not exactly what we would like to have. The economy is weaker than we expected, and this led us to review our GDP growth expectation of the economy for 2019, again revising it down. In spite of the short term scenario not being what we expected, we are bullish about the future. The approval of the social security reform at Congress, already voted and approved in the first shift, should allow entrepreneurs to finally start thinking about the long term without the fiscal uncertainty on our heads. Therefore, we believe that there will be a resumption of investments and growth in the next few months.

Our good performance in the quarter is due to the results of measures that we developed over the last few years, and that allowed a good growth of credit, in spite of the economy, a strong performance of credit quality, costs under control, and an excellent performance of our insurance company. In the quarter, we reached a net income of 6.5 billion, a growth of 25.2% year-on-year. Our operating income increased 11.1% year-on-year, and our ROE, 20.6%, an expansion of 220 bps, in spite of the strong expansion of our net shareholders equity in the period that we will talk a little further.

Our expanded credit portfolio grew 2.2 in the quarter and 8.7% year-on-year, highlighting the individual portfolio growing 14.8% year-on-year. Credit quality continued to improve with delinquency over ninety days plus two dropping 4 bps. And finally our capital index shows 15% Tier 1, a growth of 60 bps in the quarter, and 360 bps in the last 12 months.

On the next page, we show you some highlights and initiatives. The first one is a strong growth of our individual credit portfolio, I already commented that it grew up practically 15.0% in the last 12 months. We have been gaining Market Share in several lines, highlighting the personal credit, payroll deductible loans, mortgage and vehicles, exactly what was according to our strategy. And, as important as growth, the vantages originated have been delivering a very good performance in terms of credit quality. This comes from the motivation of our teams, on one hand, and the evolution of our processes, models, credit score, ultimately.

And the second highlight is that at the beginning of the second quarter we announced to everyone the acquisition of BAC Florida Bank, Bradesco American Company Florida, for 500 million dollars. Our objective is to improve our high-income position offering our clients checking accounts and many services abroad. And the close of the operation pends the approval of the regulators on both sides. We also launched the digital MEI account to cater to our clients. We were the first bank to launch the opening of a digital account for this segment. In over slightly 60 days, we have already opened 14 thousand accounts by mobile and internet, with a very good growth expectation, not only in the number of accounts, but also in the businesses originated. We have been delivering accelerated growth in credit origination on mobile and the internet. In the first half of 2019, we grew 53% in origination for credit for individuals, and 44% for corporations. Our client base continues to expand, and in the last 12 months, we grew 1.1 million accounts, and in the second quarter alone, 400 thousand accounts. Finally, we can say that Next reached 1.1 million accounts in this quarter.

On the next two slides, we will be talking about our digital operations. And, as I said, Next reached 1.1 million accounts, and of these, 77% were not clients of Bradesco before, and we should reach, by the end of this year, around 1.5 million accounts, but we believe that we could reach 2 million

by the end of December, only in Next. The number of digital checking accounts clients was 16.4 million, an expansion of almost 2 million in 12 months. Besides Next, we have the App of the traditional bank, the traditional banks, Bradesco's App. Just to give you an idea, Next opens 8 thousand accounts per day, this is why we have the expectation of reaching about 2 million accounts by the end of the year. And our App, one month ago, we did some work with Gabriel Medina, our champion surfer, and we averaged 1,000 accounts per APP at the bank outside Next, and we passed that average to 2,500 accounts per day. So, this gives us a very strong conviction of oxygenation capacity and to bring new accounts to our organization besides the work of the branches and service points, like Bradesco Express, for example.

On the next page. We hit 100, now talking about BIA, we hit 144 million interactions with BIA and besides, 1.4 million clients already interact with BIA via WhatsApp. The originations of credit in digital channels without needing any human interference reached 12 billion in the first half of 2019, growing by 53% year-on-year. In the legal entities case, we originated 14 billion in the half year, growing by 44% year-on-year. This figure shows that our clients of the traditional banks are adding, or adhering rapidly to the use of digital channels also in the use of credit.

On the next page, of course we must mention the social work that we do with Fundação Bradesco, maybe one of the biggest educational projects in the world. I would dare even say that if we look at kindergarten and elementary school, continuing work over many year may be the largest education work in the world at world level.

And on the last page of our highlights, almost 33 billion in the half year, 30% were paid to several levels of the government, and 29% represented compensation of our payroll.

Now going to the results of the second quarter of 2019, talking about our recurrent results. The growth in our NII, as you can see, 7.1 in the year and 5.6 in the half year, close to the guidance.

Expanded ALL fell 3.2 in the quarter to 3.5 billion, so in the upper bracket of our guidance, as we had said. We are very good at insurance operations growing by 17% and 16.9. And our net income growing by 23.7% in the half year, operating income 13.3%, as we will be detailing in the next few slides.

On the next page, talking about ROE and ROA. Our ROE went up again, reaching 20.6%; this is the fourth quarter in a row of expansion of this return, in spite of the shareholders' equity having a strong expansion of 18.2% in the last 12 months. We believe that we can maintain the ROE at this level for some time, or even go up a little bit more. And our ROA was 1.85%.

On the next page, talking about expanded credit portfolio. Expanded credit portfolio growing by 2.2% in the quarter, growing by 8.7% in the year. There was a deceleration of the annual growth in credit, many due to a strong comparison base, which was in the second quarter of 2018. I'd like to remind you that, in the second quarter of 2018, there was a strong increase in the corporate portfolio due to the devaluation of the exchange rate, that is to say 16% in that quarter, and also our loan operation in the quarter of almost 5 billion Reais.

We highlight the good performance of the individual portfolio, growing by 15%. Highlighting the personal credit loan, growing by 29.2%. Payroll growing 23%, auto 17.4%, and mortgage 15.9%. The good performance in individuals is due to our market position, of course, improvements and

processes, the evolution of our credit use, as well as the intensive use of data, and data management, information, as also the strength of our distribution network, which is highly motivated. In the company's portfolio, besides the effects that I mentioned, the operation has been suffering with a low investment of companies, which is only natural, because of the fact that the economy has not picked up as we believed, and we believe that this credit should pick up with the recovery of the economy. And there's an important highlight here that I'd like to remind you: the growth rate of the SMEs, was affected by a reallocation of credit towards the corporate portfolio due to the new segmentation that we implemented in the first quarter of 2019, of about 6.7 billion. Because of that, there was an increase in the corporate portfolio and the reduction in the SMEs portfolio.

On the next one, origination of credit per business day. It continues to evolve quite well, individuals growing by 17.3% in the quarter, 39.6% growth year-on-year, and companies' performance was also good, growing by 15.4% in the quarter, 21.9% year-on-year.

On the next page, talking about the NII growing 2.7% in the quarter, 7.1 year-on-year. The highlight for the market margin, that grew 7.3% in the quarter, 25.9% year-on-year. The annual comparison was benefited by the weak second quarter of 2018. Clients NII growing by 1.9% in the quarter, 4.2% annually. This evolution of the client NII was helped by the expansion of the credit volume that mixes a product and the number of days. These effects were negatively offset or partially offset by the reduction in the average spread of the portfolio in the quarter, which was expected due to the reduction in interest rates. We believe that our NII from clients will continue to be positive, growing in the credit portfolio in spite of the downward trend of spread; and we see the growth of NII with clients accelerating in the second half of the year.

On the next on, now talking about delinquency. The credit quality of our portfolio continues to evolve positively, and we had an improvement in the delinquency rate over 90 days plus two in our segment, in line with what we had already expected. We see possibility of some additional improvement, but we are at the end of the process of normalizing the cycle, of the past credit cycle, and the growth of credit is led by the individual portfolio and reduces the space for improvements, but this is a positive aspect.

On the next page, NPL creation, we had an increase in NPL in the quarter, mainly for individuals of corporate, and in the case of individuals, well; this is related mainly to the growth of the portfolio. And expanded ALL expenses improved, going down to 3.5 billion in the quarter, 2.5% of the credit, as this is the lowest level of our historical series. And we still see room for the reduction of provisions for the portfolio in the next quarter. The strong growth of credit volume for individuals decreases the room for a drop in provisions, but offset by the positive effect on the margins.

Now talking about revenues. The income growing by 2.6% in the quarter, 1.3% year-on-year. We positively highlight here, the checking account growing by 9.5% year-on-year, benefiting by the increase in the client base and the evolution of our segmentation process in the bank. The pressure on the performance of the income is due to three factors: the first one is the behavior of the credit line, pressured by the competitive scenario in the acquiring operation and reduction of interchanging debit card. The second point is the asset management line pressured by the reduction of the management fees due to a lower scenario, which is very natural.

And the third is the credit operation due to a reduction that we saw in sureties. We believe that 2019 is the year of adjustments on this line and that we'll be able to go back to grow, we see income in 2020 with a better economy and with the revenue base already adjusted.

Operating expenses on the next page. We are running above our guidance, 6.2% increase on an annual base in the quarter, in the half year. There is an important factor here, if we look at administrative expenses, we had a great performance. Growth of 3.3 in the year and 2.2 considering only the second quarter. And it would have been better if it were not the prepayment of some expenses based on the discounts obtained. This was an opportunity that we had of a large company in IT, and we have a lot in contract and therefore a substantial discount in the price, and it was rather attractive and we understood that we should really accept that. This is the reason for this bigger impact. Payroll expenses growing 9.1% in the half year, whatever it is non-structural and the main pressure came from the non-structural components, highlighting the provisions for the variable compensation, which we call PVE. This is the first year that we implement this program, and so we do not have a history yet in terms of need for disbursement, and we wanted to be conservative, that is to say provisioning as much as possible considering a major part of our employees integrating or deserving this variable compensation program. And, on the other hand, this is very good, because the bank will have better results and also, we already expected the growth of our expenses with labor claims, just to give you an idea. Every half year, we had about 4 thousand new labor claims, and with the advent of the program, we went to ten 10,500, which has an impact on expenses. And we had another event that was now at the end of last year an agreement that was made with bankers on 7th and 8th grades, 7th and 8th hours better said. That the labor cases had dropped to 2,000 cases per semester went to nearly 5,000, but have now returned in the first half of 2019 to 2,000 cases per semester

So, these are the expenses that we can control, we knew that they were going to happen, so this is not something that could cause any degree of concern. Just to give you an idea, without the effect of that prepayment and the provisions for variable compensation, extraordinary compensation, the total cost would have been up 4.6%, and not 6.2.

On the next page, we talk about our insurance operations. We had another excellent performance, with the results of our operations growing by 16.9% in the half year, 11.6% in the quarter. The Bradesco Seguros net income in the quarter was 1.83 billion, with a growth of 1% in the quarter and 15.9% year-on-year. The insurance premiums in the quarter grew 3.3%, highlighting health, which also delivered growth in the number of clients. The technical provisions of the insurance company reached 265 billion, with an inflation of 5.2%.

On the half-year comparison, we see a growth of 16% of net income increase, ROE reaching 23.6 that is to say with a positive situation for the corporation. In the second quarter, an increase in the total clients ratio of Bradesco Seguros, 72.5%, but lower than in the same period in 2018. The main impact was the total client's ratio coming from health. But we should highlight that the first quarter has been very low due to the calendar effect, such as holidays and Carnival by the end of the quarter, and the second quarter has more business days. I'd like to mention, mainly considering the half year, that for analysis of the insurance company, the total clients ratio drops by 74.4% in the first half of 2018, going to 70.5% in the first half of 2019. We trust that the client's ratio in 2019 will be better vis-à-vis 2018.

Now, talking about the BIS ratio, it continues to have a positive evolution with the organic generation of capital via retained earnings and the core equity of the company grew 60 bps in the quarter, the same value of the expansions of Tier 1 core capital.

And now, talking about the guidance, on the last page, we keep our guidance unaltered, unchanged. We believe that it will remain unaltered, and we believe that we will be according to the guidance for credit portfolio, NII, expanded ALL and fee income, we should be higher than the top of the guidance for the results of the insurance, growing well higher 9%, and for operating expenses. We should be slightly higher than the top of the guidance, growing a little bit over 4% of the initial guidance. Overall, we see that the initial return objectives are reflected in our guidance and they are unchanged.

With this, my friends, in spite of being cautious, this scenario brings us some optimism, and the results of Bradesco represent the convergence of our efforts in this challenging environment lived by Brazil in the first few months of the year, and we know it wasn't the one we would like. The health of our balance sheet was preserved, we focused on discipline, in the diversification, in the identification of the dynamic business of the economy. Our credit portfolio growing more than the market average, and delinquency ratio going down, we see possibilities of having a more vigorous credit cycle in the next few quarters. Fee income remain robust and the evolution has to do with the increase in the client base, a lot of new products and the opening of market niches.

Constitutional reforms and liberalizing measures anticipate the construction of a new, lighter and more favorable business environment. The stock market record above 100,000 points, and the investment-grade country risk rate anticipate trends. There are still many challenges, but we also see reasons for a positive outlook. There are some good news also. The IBCBR, after four months of drop, went up in May in focus interrupted a sequence of over 20 weeks of projections of drop in the GDP, with possibility to reduce the Selic and new compulsory banking policy. The Ministry of Economy announced new shorter measures that rise consumption, such as the release of the Guarantee Fund. The demand for credit is increasing as the data of the Central Bank review both for individuals and corporations.

Economy gives signals that the situation will be better in the next few quarters, and in this scenario, keeping the rigor in our balance sheet, and the soundness of our balance sheet is fundamental. We are a bank that knows Brazil, the Brazilian reality, the potentials and the demands. The reform of the social security has already given great strides and it should be approved in the next quarter. This is an important part of eliminating a tax blind spot that made it difficult for us to navigate. This allows to start a new growth cycle. Our trust is based on the Selic of 6.5 with a downward trend. I have been working in the financial market for 40 years and I do not remember being able to work at such low interest rates, low inflation and stable exchanges rates. If prices are well anchored, the fiscal point goes ahead, and in spite of all the difficulties, we have to be optimistic about the future of our country. So, thank you all very much for your attention, and we are now available to answer any questions that you might have.

Announcer:

Now we would like to start the Q&A session. Participants in the conference with audio in Portuguese will be able to ask questions, and the other participants will remain in listening mode. In order to ask a question, please press *1. In order to remove your question from the queue, please press *2. Our first question comes from Mr. Eduardo Rosman from BTG Pactual. You may proceed.

Eduardo Rosman:

Good morning, everybody. I have two questions, and the first one is the following: I would like to understand the evolution of the bank's ROE. Octavio mentioned during the presentation that you believe that the ROE could be or remain at these levels, or maybe have a slight increase, and I have been seeing many investors very concerned with the lower Selic, competition and technological changes, but on the other hand, we see the end of one cycle, the beginning of the other, public banks or government banks losing market share, private credit growing back. So, I want to know, how do you see this transition, this credit recovery, or the private credit, more individuals, more SMEs? Would that be enough to allow your ROE to remain that high level for a longer time? This is my first question. And the second question has to do with Next. The company is delivering an accelerated growth, but we saw the opening of accounts in the second quarter decelerating. Was there anything specific regarding this, or is this part of the normal volatility of the business? And could you give us some more color where do you want to go? In the newspapers, we read that you intended to bring a partner, and maybe separate or spin the company off Bradesco... and could you give us some more color about that, please?

Octavio de Lazari Jr:

Hi, Eduardo. This is Octavio. Thank you for the question. With relation to the ROE, as we said, we're comfortable in the sense that we will probably see this stable or even going up.

And on the one hand, we see growth in our client base, 2 million per year... Those new customers who have business, they have a need, so you can do business with that customer, make credit products and services, and this gives us a very good expectation. On the other hand, with the social security reform making strides, and there's an expectation of it being approved in the second round in the chamber and the senate, the expectation that we see for Brazil with all the trips that we have made, our contacts with entrepreneurs, there are very good projects, many good projects for investment in Brazil, in infrastructure and many other things that have to be done in the country. And to get with that, we see a deceleration of public banks, government banks that should lose some space in credit that was over 50% and this participation should be reduced. And the private banks, Bradesco mainly, we are very big players in these operations. We are very well prepared and aligned, whether in investment banks, or in our commercial portfolios to absorb this growth, and even doing the much-contested operations, we had at the end of last year and this first half the Bank ended up succeeding and leading these operations.

The growth of the BNDES that once had 400 billion Reais, and now slowing down, going under 70 billion Reais. It means, the private initiatives or private institutions should be bigger players in meeting these credit demands, Brazil is a country, a community that needs a lot of investments. And all this gives us a high degree of confidence because after the social security reform is

approved, we will have others that will come in the wake, and this will benefit the competitiveness of the Brazilian market and Brazilian companies. So the scenario, as I said, in spite of our being cautious, we believe we should be bullish, because I believe that we can be players, in the sense of meeting the needs of our clients, Brazilian companies, in what refers to investments and working capital as well. And this is the reason why we keep our balance sheet very strong, with a strong BIS ratio, a strong shareholders' equity as well, in order for us to cope with, or in order to face this new needs and that we are very hopeful about that. So, everything that we have done in the last few years, also an extraordinary compensation program, the adjustments of our head count and the segmentation, wholesale, retail bank, high income, investment bank etc. Because of that, we are relatively comfortable and we are very well anchored in order to tap into the growth of the Brazilian economy. So these are the factors that make us confident. We believe we will be able to increase the ROE.

Regarding Next, you are correct. In the second quarter there was a slight slowdown, but this was due to an adjustment of expenditures that we did at Next, and it has already bounced back, going to eight thousand accounts, new accounts being opened, and we have a lot of confidence and the expectation is 1.5 million accounts, but yesterday, our people at Next has already decided that we could reach 2 million, and this is very important, a very important business for our business. It's already treated as a separate business and we'll be studying good alternatives. We'll be doing whatever is best, what generates more attractiveness for our clients, for people within Next, be it with partnership with an international company, for instance, that could bring about value, competence, synergy, efficiency to Next. Or keeping it in the bank, however with its own team, its own head, its own technology, its own human resources, so that Next may have, may maintain its growth regardless of the bank itself. So, we have no problem whatsoever regarding having win-win partnerships so that we may have a digital bank that grows, not geometrically, but grows quite exponentially in the coming years.

Eduardo Rosman:

Extremely clear. Thank you very much, Octavio.

Announcer:

Our next question comes from Mr. Olavo Arthur from Banco Santander. Mr. Olavo, you can proceed.

Olavo Artuso:

Good morning, everybody, thank you for the questions. I have one question, related to the operating results with the guidance for the year. In the release, you always show targets for the quarter, and this is outside what we have seen... Like revenues, fee and commission income and operating expenses. And I'd like to highlight operating expenses and ALL that reached half of the top of the guidance. And we know that the second half is seasonally stronger in terms of ALL. So, my question is the following: would it be possible to have a review of the guidance in the second half? And if the answer is no, for some lines you have already said to be really out... but what actions would the bank take in order to offset whatever was different from the expectations? And

regarding the ALL, it was said that it is becoming stable and not improving in the future. Thank you for the question.

Octavio de Lazari Jr:

Olavo, thank you for your question. We are not going to review our guidance, mainly regarding ALL. Regarding ALL, if you look historically, there is no acceleration in our ALL. What you might have seen in the last five years is that there was a situation of credit in the economy, some companies were impacted, and in some companies, the impact was higher but these were, like, you know, one-off situations, and this is why we can restate that we will keep our guidance. Delinquency is going down, and the new vantages, mainly individuals that had a fastest growth, come with a lower delinquency rate than the one that we have not seen, so we are very comfortable in terms of keeping our guidance. And I think you may remember that our guidance is rather aggressive. We are rather aggressive for 2019, so we were sure that we would be able to do this, to deliver this, because of the study of the last vantages.

And considering the whole process of negative impacts on credit, we have already turned the page on that, so major provisions should not happen. There was only one, and we were very well provisioned preventively not to have any problems, as I said in my presentation, so we have no expectation regarding an increase in provision for the second half of 2019. So, we are rather comfortable about that.

Regarding the fees that you said were out of the guidance, as I said, mainly due to our one-off situation in acquiring, which is a market that suffered a lot, and has been suffering a lot of competition and decreased, and you can see that cash generation of Cielo was impacted, and now it is about half of what generated in the past. But we knew that this was coming, and we keep our focus on this market, and there was also the aspect of the funds, because you have to decrease your management fees because 6.5 are interest rates, and people say that it could go down to 5.5.

At the end of the year, management fees will have to be consistent with this new interest rate prevailing in the country, so this is only natural, this is business as usual, and we like to talk about it, because everything here is summarized into a scale, gaining scale, and we are gaining scale. We are growing credit much more than the market and in many lines you can see the number of new clients that we are bringing onboard, although we have a decrease in fees, in acquiring, or in investments... The scale brings about fees in credit operations, fees in capital market operations that should speed up, fees in M&A operations, in IPOs, which should intensify in the second half as well. So this capacity of the Brazilian economy of generating scale and that rules certainly come, and Bradesco will be a major player in this new moment of the Brazilian economy, makes us sure that we will be working, if not at the top of the guidance, within the Guidance median also in service revenue.

Carlos Firetti:

Olavo, I want to complete one thing in relation to the Guidance. As Octavio said, the review is not necessary and only talking about the other lines: NII, we should be about the half, or maybe slightly higher than the half of the guidance. In credit portfolio, a deceleration, mainly because of Corporate, but we believe this will bounce back, it will bounce back to the middle of the guidance; Operating expenses... Octavio has already mentioned it, it should be slightly higher than the top of the guidance, and in insurance as well. We don't see the dynamics running away from it.

Olavo Artuso:

Thank you, Octavio. Thank you, Firetti.

Announcer:

Our next question comes from Mr. Jörg Friedman from Citibank. Mr. Jörg Friedman, you can proceed.

Jörg Friedman:

Thank you for the opportunity, I have two questions. The first one has to do with capital or equity, as Tier 1 went up 70 basis points. It is 13.7, if I'm not mistaken, this is the highest level among the major banks, the larger banks. And I ask myself: in your opinion, is this more than optimal, or do you still see a potential growth in the future, and will you maintain this level and beyond this level, because with earnings and the interest rates that you expect for the future, probably this level will continue to go up.

Because with a moment of earnings, probably, and with falling interests rates that was expected, as you also mentioned in the call. I think it is expected to continue to increase that level. So, I would like to understand: the payout of the bank was lower than what it was in the last few years? So, could you talk about dividend payout, or supplementary or additional dividend payout, or are you going to keep your dividend policy as it is?

And the second question, along the same lines of the previous questions, of one of the previous questions, could you give us some more color and economics of the Next? What about the progression in terms of the use of the product? Can you share some information about the average balance of the main deposit of the clients? So, we'd like to better understand the development of the operation, and talking about digital, I noticed in the M&A, in the credit contracting through digital contracts, it's almost 26 billion already in this quarter. How much does this represent in terms of your overall credit, and how is it working to hire mortgage loans via APP? Thank you.

Octavio de Lazari Jr:

Ok, let me see if I do not forget anything. Thanks for the questions. Regarding equity, we cannot be, or we must not be inconsistent, or having a contradiction with our convictions. We have been

repeating ever since last year that we believe that the country will resume growth. And as the social security reform, and the tax reform and other measures that will follow through, so we cannot have a contradiction with our beliefs. So, the figures that we intend to deliver in 2019 and what we intend to do for 2020 are based on that assumptions that the country will resume growth and we will be needing capital for that. And because we believe in this possibility, and we know that we must be major players in this growth that we expect will happen in the Brazilian market, so, we can't be contradictory.

This is the reason why we keep this capital level, high growth of Shareholder's Equity, which presented more than 18% in the last year... And a strong BIS ratio. Because economic cycles have not been revoked, they still exist. We are living a very bad moment, maybe the last or the worst crisis that we have ever seen in the history of our country in the last five years, and now we should see growth, and should this be true, we must have the necessary capital. And as this is the reason, why we intend to keep our capital robust.

Regarding Next, I do not have individual information about Next. It is a platform that has just started as a startup, and as a startup, it's gaining scale, opening 8,000 accounts per day. We already have 1.1 million, our expectation was 1.5, now the expectation is almost two... we already have clients that do loans, that do financial investments, some others are doing insurance, so the portfolio is growing, but it's a startup. So, what we focus on right now is the growth in the number of clients. Of course this is not a very profitable operation for the banks. It is more and more a break-even situation, but this is not very important because this is marginal, and we should place our bets on this business because it is important for the organization. So, individual figures of the Next – no, we don't have them to share, and now what we want is to deliver the best possible journey of a digital bank for our clients, the best that a client can have in the Brazilian market, and make this company grow very well adjusted, very lean, very low cost and very efficient in the businesses. Regarding mortgage by app, we place our bets... We have been placing our bets on mortgage for many years already, and we have been growing consistently, and this year we had the biggest disbursement among these loans in the Brazilian market, and then Caixa resumed.

We knew that it wouldn't be sustainable, because Caixa has the guaranteed fund, and we knew that Caixa would react, and this is what happened, we are the second largest financial institution in mortgage loans. We sold one billion in mortgage loans for individuals per month, and the app is very well adjusted. The whole journey of the client in order to achieve mortgage loans is done via app, and the bureaucracy is not on our side. It is the preparation of documents and send it to the notary, this is what the client has to do, but what we mean is that the journey and the tracking of the situation of the client can be done through the app. We are very well adjusted there, and the figures show you a growth of almost 16% in mortgage loans, and this is evidence that this business is very well adjusted.

Regarding the digital channel, I will take the example of the personal loan. We are growing 26% in the personal loans, just to give an idea of this portfolio, 52% of the whole personal loans originated by the bank, 52% come from mobile, from internet, from BDN. So, due to the work that we have been doing in CRM, data management, database, we have these pre-approved clients and the credit operation is taken according to the clients' convenience, whenever they

want. This is a business we are very careful about, because it represents a percentage of the bank's volume around 30% of the individual businesses via digital.

Jörg Friedman:

Very cool. And you showed on the slide that... personal loans and payroll loans. In personal loans, do you include auto loans, or they are not via app?

Octavio de Lazari Jr:

No. In vehicles, we do have the auto app, but the numbers of contract through it is very low, both in Bradesco and Bradesco Financiamento. At Bradesco Financiamento difficulties are even bigger because you have the business of making the transmission of the good, the fiduciary alienation of the good, make the gravame, and this has to be done still in a manual way in the DETRAN of each city, then there are DETRAN that is more adjusted technologically, so you can do this, and others still have to do it manually, so here on personal credit is just pure personal credit.

Carlos Firetti:

Just fix something that I gave the wrong hint here. So, in personal loans, we are talking about straight 29% growth.

Octavio de Lazari Jr:

The guys gave a hint and gave it wrong <smiles>, see Jörg?

Jörg Friedman:

No problem, thank you very much.

Announcer:

Our next question comes from Mr. Otávio Tanganelli from Credit Suisse. Mr. Otávio Tanganelli, you can proceed.

Otávio Tanganelli:

Good morning, thank you for the opportunity. I would like to better understand, in your fees, in assets, you have already repriced all the funds? And from now on, we should work with an average level of a stable management fee, or do you still have some funds that will be repriced, and should we see this accelerating throughout the year? Thank you.

Octavio de Lazari Jr:

Xará (who has the same name), it is Otávio. Your observation is good, it is exactly what you had said. We have already worked with the repricing of the funds that had higher pricing, and because otherwise this would migrate for other institutions and other gestors, so, today our portfolio is more well balanced. And now with the launch of new products, mainly equity and multimarket,

the trend now is to improve our fee situation, because of the gains of scale that we intend to have.

BRAM, our asset management company, is very well tuned or streamlined to face competent competition, and we have reached the end of our adjustments. From now on, these will be flattered, but our expectation is to go growing, that is, the country enriching, enriching people, there will be an improvement in the fees.

Octavio de Lazari Jr:

Very clear, thank you very much.

Announcer:

Our next question comes from Mr. Marcelo Telles, from Credit Suisse. Mr. Marcelo, you can proceed.

Marcelo Telles:

Hello, Octavio. Good morning, good morning, everyone, thank you for the question. I have two questions. The first one, in relation to what you said, that the bank could keep or increase ROE in the future. I would like to understand if this expectation, Octavio, already considers the increase of the CSLL as of 2020. And the second question is about the repricing of the back book, 300 million per quarter; this is what we have been seeing in your repricing... in fact, this is the reprecification of the portfolio as spread, but could the yield of the portfolio, correct? And... when do you expect this to go down, because at some point in time, the portfolio will have a lower interest rate, we'll be running at a lower rate, and what would be the impact, what is your idea for each 100 basis points of decreasing the Selic, what would be the impact in the next, so to say 12 months, of a reduction in the Selic rate? Thank you.

Octavio de Lazari Jr:

I would like to start with the repricing question. We have already made great strides, as you know, in the spreads, and even in the last few months, they are not dropping so much in some lines, but if you look at two years-time, there's a significant drop. So, the effect of this repricing is on the credit originated two years ago, or the average term of the corporate portfolio. Today, I would say that maybe we still have about 30% of repricing, 25%-30% of repricing to be done in the corporate portfolio. This portfolio, in spite of the low spread, this is a portfolio where the magnitude of the drop in this credit will take the credit originated two years ago, and now it is very big. So this is a very important effect. In terms of impact of the drop in interest rate on NII, at the beginning of the year, we made a mandatory disclosure showing this sensitivity, and that disclosure shows the impact for 400 bps if I'm not mistaken, proportionally to 100 bps. So, considering a parallel movement of the interest rate cost, followed by a drop in the Selic of the same magnitude. There would be a positive effect of 900 million Reais for each 100 bps of drop in a 12 months period. Considering, of course, everything remaining constant. So this exercise was done at the close of the balance sheet of 2018, reminding you that the positions are always

dynamic. The idea of the ROE maintained – yes, and we are considering this. Yes, this has been in input.

Marcelo Telles:

I did not understand. Does it consider or not?

Octavio de Lazari Jr:

Yes.

Marcelo Telles:

Very good. Thank you very much.

Announcer:

Our next question comes from Ms. Karina Martins, from Credit Suisse. Ms. Karina you can proceed.

Karina Martins:

Hello, good morning, thank you for the opportunity. I would like to ask a question about the co-branded operations with Cielo. What about the performance at the branches prepared for the Cielo terminals, and what are the incentives that you are giving both to the clients and to your sales people in order to encourage the sale through terminals, or if you have a goal that you can share?

Octavio de Lazari Jr:

Karina, thank you for the question. This is Octavio. The sale of the terminals of the machine is the sale that happens inside Cielo, is the one that happens within our network of agencies. We call “Bradesquinha”. This sale continues at a fast pace, since the year 2019, we made more or less 130,000 machines of Stelo and more 8,000 machines of “Bradesquinha”. And in addition, we commerciate in the form of rent more 71,000 and 500 machines of that “Bradesquinha”. It means, giving a total of almost 80,000 machines and our expectation is to stay in these machineries around 150,000 terminals, only in Bradesquinhas, and machines of Stelo superior to 200 thousand.

Karina Martins:

You mean, by the end of this year?

Octavio de Lazari Jr:

Yes.

Karina Martins:

Ok, thank you very much.

Announcer:

Our next question comes from Mr. Yuri Fernandes, from J.P. Morgan. Mr. Yuri, you can proceed.

Yuri Fernandes:

Thank you guys for the opportunity. I have a question about checking account fees, which was one of the positive highlights. It is growing 9.5 and I think the explanation is the growth of the customer base, 1 million more customers.

One explanation is the growth of the client base, but you need 3% to 4% in decrease, and this is important in terms of repricing or the change of mix. How should we consider this in the future, due to the pressure of digital banks and many banks with many attractive proposals? This line is very important, it represents 20%, 25% of your total fees. Could you be more aggressive in the future, in case you have a drop in the number or exit of clients? This is to try to understand the future and how the strategy has been. What did you learn from Cielo's case? This is the first question. And the second question is about Cielo as well. How does the bank see Cielo in the credit market, starting with checking accounts and digital? How do you see this? If it is a complementary issue for Cielo to compete with other players. You know that it will compete with you... must we do that or does it create a conflict of interest? So, I would like to know your position about that.

Octavio de Lazari Jr:

Thank you for the questions. Regarding the checking account fees, we must keep in mind that the work that we have been doing over time. Clients have a profile for some packages of products and services, so you cannot offer a package of services inconsistent with that client, a low income client, for instance, and with an exclusive package, for instance, like the private, because this could create a conflict with the client, as well as problems with the Central Bank. So, our concern has been to adapt the packages to the profile of each one of our clients, and this is what we do. And you will see that there is no silver bullet in order to improve the fees. It has to do with the whole series of actions. We have a major buyer of payroll from the public sector; we are as well in the private sector. In the public sector, just to give an idea, 70% of all sectors were won by Bradesco.

So, we adjust the tariffs in order to attract these clients that had no fees, or low fees that had to be adjusted, and some others in the private initiative that you can adjust the fee according to the profile of each one of these clients. Besides all the new clients that we are bringing onboard, via digital, digital channel Next, well, the fee is zero when the client is admitted, but when the client has a higher need of products and services, then you offer a package of services according to the profile. But, we have to oxygenate the client base, nearly 2 million, new customers accounts, that will be bringing fees to us, so there's a whole array of actions that are implemented over time so that you may breathe this growth in fees, because this is an important revenue for the organization. So, this should continue to grow, but always considering these situations.

Regarding Cielo, Cielo is a company that has participation. We bring the gain from there by equivalence. Cielo suffers very strong competition due to changes in legislation, regulation, the

regulator and others due to the forces of its own competition, so, you have other players in the market like PagSeguro, Stone, Rede and so many others that are entering this market. It has to continue generating results and this means that this has to adapt to the products and services that the other competitors, the other players, have been offering so that it may compete.

So, regardless of anything, Cielo has its management and we respect what they have been developing. Caffarelli has been doing a very good work, they released earnings yesterday, and growing market share, so Cielo continues to do what it should, and in order to compete with its peers.

Yuri Fernandes:

Thank you, Octavio. About checking account, it has to do with segmentation, just going back to that. And so it depends on the level of income, then you adapt the packages just with different pricing?

Octavio de Lazari Jr:

Yes, this is our daily routine; this is what we do every day.

Yuri Fernandes:

Thank you.

Announcer:

Our next question comes from Mr. Kaio Prayo, from UBS. Mr. Kaio, you can proceed.

Kaio Prato:

Hello, good morning, thank you for the question. I have two questions. The first one has to do with the income tax rate, which came lower in the last quarter and in the last year, and the second question is about the increase in your labor provisions that we saw in the quarter. I want to understand these two lines and what do you expect for the remainder of the year. Thank you.

Carlos Firetti:

Kaio, in relation to the income tax rate, we believe that it is going to be slightly lower. It should be around 30, and we might think, we could be there between 28 and 30. I think it will be a little lower than the initial nomination for the whole year. For income tax, you could keep this in mind. And regarding the labor provisions, the labor provisions has to do with an increase in the number of agreements. You could see this as having a negative impact on the quarter, but potentially a positive impact in the long run. This increase in agreement is going above what we had anticipated. However, this has an effect in terms of economic gains. I would say that this could be quite relevant, and this is the reason why we decided to do it.

Kaio Prato:

Thank you.

Announcer:

As there are no more questions, we would like to give the floor back to the company for the closing remarks.

Octavio de Lazari Jr:

Thank you very much for your attention, it is always great to be able to present to you our figures and the strategy of Bradesco. We thank you very much for your attention and wish you all a very good afternoon. Thank you.

Announcer:

Bradesco's conference call is closed. Thank you very much for participating and we wish you a very good day. Thank you.