

**Operator:**

Good afternoon, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco's 3Q16 Earnings Result Conference Call. This call is being broadcasted simultaneously through the website [www.bradesco.com.br/ir](http://www.bradesco.com.br/ir). In that address you can also find the presentation available for download.

We inform that all participants will only be able to listen to Conference Call during the Company's presentation. After the presentation, there will be a question-and-answer session, when further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

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

Now I will turn the conference over to Mr. Carlos Firetti, Market Relations Department Director.

**Carlos Firetti:**

Hi, everybody. Welcome to our 3Q16 Earnings Conference Call. We have today with us participating in the call our Executive Vice-President, Alexandre Da Silva Gluher; our Executive Manager Director and Investor Relations Officer, Luiz Carlos Angelotti; the CEO of our insurance Company – Bradesco Seguros – Randal Zanetti. I will turn the presentation now to Luiz Angelotti for him to start.

**Luiz Carlos Angelotti:**

Welcome, everybody. Thank you for staying with us in our Conference Call about the 3Q16. In this quarter we had the effect of the acquisition of HSBC, then we will try to give you better information about the effect about the incorporation of HSBC in our balance sheet. Then, alongside, I will try to detail all movements.

We have, in October, after the acquisition, the effect of the immigration of all operations to the Bradesco platform and we are very optimistic with the benefits of synergies and opportunities that we will get next year with the acquisition, that will give us some additional profitability, which is our objective with this investment.

I will start on slide two, with the highlights. Our adjusted net income in the quarter was R\$ 4.462 billion. Compared to the 2Q16, we had an increase of 22%; a decrease when you compare it to the same period of 2016. This decrease is related to the increase in the delinquency ratio during this period.

Our Annualized Return on Equity is 17.6%. We have, in total assets this quarter, R\$ 1.270 trillion – R\$ 161 billion came from the HSBC acquisition. Our expanded loan portfolio is R\$ 521 billion – an increase of 10%, considering the acquisition of HSBC; but excluding the HSBC effect, we had a decrease in our loan portfolio of around 6.8% because of the lower demands in the operation.

Our operations deficiency ratio: we have now 38.2%; the increase that we have compared to the period before is related to HSBC effects. Our expectation is that this number will be running next to 41% after the acquisition of HSBC and our objective is, in two or three years, to return to the same level that we had, which is around 37%, that by getting the benefits of the synergies and improving the opportunities to offer more products for HSBC clients.

Our Basel Ratio had a decrease due to the effect of the HSBC acquisition. We will have a slide with more details over the next pages. Now I will pass the floor to Carlos Firetti, who will explain the next slides of the presentation.

**Carlos Firetti:**

Thank you, Luiz. Now we are going to give you more details on the results. On slide number three we had the main adjustments we had in our net earnings this quarter. There was a series of adjustments related to the incorporation of HSBC. Basically, these adjustments are the ones that went through the P&L.

Besides that, before the incorporation of HSBC, we made some adjustments in HSBC related to the adjustment of ratings of their credit portfolio, aligning it with ours. Also additional provisions of about R\$1 billion in HSBC and also some contingency provisions. All of this did not go through the P&L. This is reflected in the reduction of the book value of HSBC and it is incorporated in the goodwill. We will amortize it going forward.

In Bradesco, basically, we have the following adjustments: the impact of the alignment of ratings in the Bradesco side – basically, downgrading ratings of loans in the Bradesco portfolio to the level of clients that have lower ratings in HSBC. The impact of that, net of taxes, was R\$716 million.

Also, we made, this quarter, an increase in technical provisions in our insurance company, mostly related to provisions for individual health insurance plans, which impacted our results in R\$592 million, net of taxes. We returned that as non-recurrent.

We also had, this quarter, the final decision in a court case related to the contribution of Social Security on self-employed service providers. This is a discussion that has been going on for a few years and we had a positive decision on that. We reversed the provisions and that impacted positively our results in R\$575 million. We also removed that as non-recurrent.

We adjusted as non-recurring the goodwill amortization expenses, net of the tax benefits. The gross goodwill amortization expense was R\$427 million – our decision was to adjust only the portion net of the tax benefits – and we also adjusted as non-recurring expenses related to a lump sum bonus payment related to the collective bargain that was closed in the 3Q – R\$191 million.

With that, the adjusted net income for Bradesco, consolidated, was R\$ 4.462 billion. On page four, basically we have the evolution of our adjusted net income, incorporating HSBC. Basically, incorporating HSBC, earnings grew 7.2% quarter-on-quarter. Without HSBC, earnings grew 3.7% quarter-on-quarter. The contribution of HSBC toward our earnings was R\$ 148 million this quarter. In the 9M, earnings incorporating HSBC dropped 4.3% and without HSBC dropped 5.4%.

There you have the impact on net earnings. Only to draw attention to the fact that this is the last quarter you will be able to see the numbers of Bradesco standalone and HSBC isolatedly.

Starting in the 4Q, we will be able to show only consolidated numbers, since after the integration we completed in early October we have actually disconnected the IT and all systems related to HSBC, so we only have the accounting in consolidated terms.

On page five, we have the breakdown of our net earnings. We always highlight the diversification of our results. Insurance represented, in the 3Q, 34% of our earnings. The banking operations represented 66% of our earnings and fees represented 28%.

On page six, we have information related to our total assets returns; basically, our total assets grew, year-on-year, 20.9% including HSBC. HSBC added R\$ 161 million to our total assets. That amounted to R\$ 1.27 trillion. HSBC assets represent roughly 13% of total assets. Our equity grew, year-on-year, 14.3% and return on equity, including HSBC, 17.6%; only Bradesco, 17.4%.

In the chart below, we have our operations coverage ratio and efficiency ratio. The coverage ratio, that is, fees divided by cost, dropped to 78% when we consider the consolidated number. Without HSBC it would be at 80%. The efficiency ratio in the quarter, already considering the incorporation of HSBC, reached 41%. We believe we will be able to return the efficiency ratios to the past levels with the adjustments we will be able to do over the next three years.

On page seven we have details on our Net Interest Income. Basically, our total Net Interest Income, with HSBC, was R\$16.9 billion; and without HSBC R\$14.5 billion. Total NII grew without HSBC 5.4% year-on-year in the quarter, isolatedly; and with HSBC, 23.3%. Our Treasury Results dropped a little bit, from 179 in the 2Q to 101 in the 3Q, without HSBC.

On page eight we have the breakdown of our net interest income, the interest earning portion. Basically, we have some comments on this. Basically, focusing on Bradesco standalone, credit intermediation grew 8.5% year on year, but dropped 1.3%, quarter-on-quarter, mostly due to the impact on volumes. The insurance NII grew 7.8% year-on-year – 3% quarter-on-quarter.

In Securities & Others, there was a drop of 15.6% quarter-on-quarter, growing 10.2% year-on-year. On this slide specifically, this drop quarter-on-quarter is related to the fact that we had in this quarter lower interest revenues from the IPCA inflation. We have bonds that are indexed to the IPCA – the IPCA inflation dropped in the quarter something like 7 bps and this lead to our lower financial revenues, and also dividends from some operations in the portfolio of our investments bank.

On page nine we have the Credit Intermediation information. Basically, here we can see that the spreads in our portfolio continue to increase, reaching 12.5%. This is basically due to the repricing of the portfolio, considering the increase of spreads.

We have seen, in the past months, basically, that it is still growing nicely. We believe there is still some room for seeing this reprice impacting the credit intermediation margin a little bit ahead.

On page 10 we have the information about our capitalization ratios. Basically, considering the phase-in, our Tier I ratio reached 11.9% in September, dropping from 13.7%. The Core Capital dropped to 11.1%. We added during this quarter 0.8% from the approval by the Central Bank of a subordinated debt that was Tier I Capital Compliant.

In terms of fully-loaded, basically we have a ratio of 11.3%, considering core capital, plus 0.8% in terms of Tier I, amounting to a total Tier I capital of 12.1%. We see this as very comfortable. We should add more capital organically in the coming quarters, coming from the retention of earnings. We believe we can add even more than 100 bps per year through earnings retention.

Going to page 11, our expanded loan portfolio, basically, focusing here on the portfolio without HSBC: without HSBC, our loan book dropped 6.8% year-on-year, this is also impacted by the FX depreciation. In the quarter, the drop was 1.2%. The SMEs book: the Company portfolio dropped 10.8% with large corporates dropping 7.6% and SMEs dropping 17.1%.

Individuals is doing better, growing 2.1%. The best growth comes from the Real Estate financing portfolio that is growing 20.2% year-on-year. Payroll loans grew 8.1% and Credit Cards 12.3%. HSBC added R\$ 80 billion to our expanded loan book. That amounted to R\$ 422 billion including HSBC.

On page 12 we have our delinquency ratios. Basically, we have marked the information we should focus on during the analysis. In terms of total NPL, basically it grew from 4.64 to 5.35, also impacted by the fact that the portfolio, as a whole, is shrinking. Considering adjusted numbers, excluding HSBC and the impact of the specific client that impacted our 90-day NPL this quarter, the NPL would be 4.87.

Basically, this big increase in the NPL is mostly related to this specific case that is going to be written off already in the 4Q and is already fully provisioned. We believe that the trends of assets quality is under control. We believe that the peak of NPL can be in the 4Q, as we have been saying. And we should probably see more meaning drops in NPL ration by the end of 2017.

In terms of short-term delinquency ratios, we had a pretty good performance in companies and we had some increase in individuals. We believe this might be related to the strike, which kept most of our branches closed at the end of the quarter. Anyway, even considering this small increase in individuals, in short-term delinquency we do not see any different trends and I think we are also close to the peak of NPLs for individuals.

On page 13 we have the NPL Creation and Allowance for Loan Losses. Basically, we think there is good news here in the NPL creation, which dropped from R\$ 5.4 billion in

the 2Q to R\$ 5.2 billion, excluding HSBC and the specific client. We have been making provisions covering the formation consistently over our history. You can see that since the 4Q14 we have been covering 100% or more in every quarter.

So we believe that leaves us at very good levels of provisions and a very consistent provisioning methodology. In terms of provisions, we had during this quarter, excluding the effect of HSBC, R\$ 4.553 billion, which is a reduction, excluding the specific client in the 2Q. We believe that the peak of provisions this year might be already in the past – probably 1Q16.

We are still running at a high level of provision in the quarterly ratio. Last quarter it was at 12.44%. The best level in the chart was 0.87%. We believe we can go back to that at some point, maybe in 2018.

Going to page 14, we have the composition of our portfolio – basically, the breakdown between Corporates, SMEs and individuals. SMEs represented 21% of our loan book – a decrease in stake over the last few years. Corporate represented 46% and individuals close to 33%.

In individuals, basically a big migration from higher-risk credit lines to lower-risk ones. Today, payroll loans and mortgage represent about 41% of our total loan book. We believe this is behind our capacity to fight the severity of the crisis, keeping our NPL ratios, especially individuals actually doing relatively well.

On page 15, we have our provision in ratios. Basically, total provisions represented 10.1% of our loan book. We have an excess of provisions over the minimum requirement by the Central Bank of R\$ 7.5 billion and an excess of provision over the net charts of R\$ 22 million.

On the chart below you can see the coverage ratio. Basically, excluding HSBC and the specific case, our corporate ratio remained close to 200% – 198.1% for 90-day NPLs and 162% for 60-day NPLs.

On the renegotiated portfolio, we added this quarter the renegotiations from HSBC, which pushed up the total renegotiations to 15.8%, but excluding HSBC the number would be 14.4%.

We keep very high levels of provisions on this portfolio – 65% provisions to the renegotiated portfolio – and the NPL ratio has been consistently around 27%, 26%. Only remembering that this renegotiated portfolio are renegotiations for loans that got into debt too long, at least one day late, and this is already part of our total loan book and NPL ratios.

We have, on page 16, fees. Basically, fees are growing for Bradesco standalone 8.4% year-on-year, cards growing 5.6%, checking accounts 18.2%. We believe we are doing quite well, considering the environment and we think we should keep the good performance going forward.

In expenses, we have our total expenses on page 17 growing 8.1% year-on-year, comparing the 9M and 3.5% quarter on quarter. Only in the 3Q, expenses grew 5.6%, which shows already a margin deceleration compared to the level we are still growing in the year – the 8%.

Considering our guidance for Bradesco standalone, which we are reviewing this quarter, we think we would be consistent with the middle of it – the 6% growth. Basically, we HSBC added, this quarter, R\$ 1.8 billion in expenses. With HSBC, expenses grew 25.9% quarter-on-quarter.

We believe we can capture at least 30% synergies on HSBC's original expenses, with synergies on the administrative expenses coming faster and basically on the personnel expenses taking up to three years and it should be kept mostly based on the turnover.

On page 18 we have the numbers for our insurance company. Basically, with HSBC the results for Bradesco Seguros was R\$ 1.502 billion, with an ROE of 25.6%. Focusing specifically on Bradesco standalone, the earnings for Bradesco Seguros was R\$ 1.439 billion with a 4.7% ROE.

Premiums grew 8.8% year-on-year. Looking at the quarter, isolatedly, premiums grew 12.5%. The recoveries results for Bradesco Seguros is related to the fact that we did not have expenses related to the liabilities debt during last quarter. We have to do it for insurance companies every half year. We had an impact of about R\$ 556 million in expenses due to this in the 2Q. We did not have in this quarter.

Also, we had some recoveries from the lost ratio in the health insurance business, mostly due to some reductions in frequency. Despite that, the claims in the health insurances are still relatively high, but we saw some improvement.

Going to page 19 we have the technical provisions and financial assets for the insurance Company. With HSBC they amounted to R\$ 198 million. Only comparing Bradesco standalone's technical provisions grew 17.6% year-on-year. Financial assets, basically, for Bradesco standalone, grew 17.7% year-on-year and amounted to HSBC's, R\$ 231 million.

We have here on page 20 our guidance for 2016. We had to revise it, considering we added HSBC and we will not be able to provide Bradesco's standalone anymore. Basically, the only revision in Bradesco's guidance standalone would be in the loan growth.

Basically, our portfolio is dropping 6.8% year-on-year and when we revise the guidance we also changed the number for loan growth and our expectations for HSBC. For the other numbers, we basically maintained the guidance for Bradesco. We think we are mostly in line with those numbers, adding the expectations for HSBC in the 2H. Considering this, we can provide some positioning in guidance, how we see things progressing.

In terms of NII, the interest earning portion of growth, including HSBC in the 2H is 13-17%. It will probably be in the mid-high portion of this guidance and in terms of costs, 12-16%; we are probably going to be in the middle of this guidance. And in terms of loan loss provision expenses (20-22%) we would be in the middle. We also provide this guidance in the format of *proforma*, but it is basically the same thing.

To wrap it up, in October we completed the integration of HSBC – on the weekend of October 8 and 9. We believe integration was a success. We integrated all systems – all operations of HSBC are already running on Bradesco's systems. We have already

turned off HSBC's previous systems. It was a huge operation. It involved a lot of logistics and people and we believe it was a success.

Now I turn the presentation to Luiz for his final considerations.

**Luiz Carlos Angelotti:**

In our opinion, I think we had a very good profit in the quarter, considering the environment. One important thing is that we started to see the deceleration of the delinquency ratio and we are very close to the peak. And with the incorporation of HSBC I think we have now a lot of opportunities with synergy and with sales.

Our expectations are to improve all sorts of products for HSBC clients and we understand that HSBC will probably start to add value – it will be accretive – not this next quarter, but in 2017.

We understand that we will get the benefits of the acquisition faster and, as for the synergies probably in two or three years we will have a minimum of 30%. Our expectation is that it will be more than this number, because we see a lot of benefits with the acquisition.

And with the migration that Firetti explained, now all operations are in the same platform as Bradesco's, then we will be much more efficient to get the synergies and opportunities. Thank you for participating in our Conference Call and now we are open for all questions about our numbers and aspects of the quarter. We may start the Q&A.

**Jorge Kuri, Morgan Stanley:**

Hi. Good morning, everyone. I have two questions please. The first one is on HSBC: if I look at the disclosures you provided on page 34 of your presentation, the book value that you recognize following different adjustments for HSBC was R\$7.7 billion. On top of that, you took a charge of R\$1.2 billion in Bradesco's numbers. That puts the total money you invested to get that asset at around R\$8.8 billion.

Over the shareholders equity you got about 2.4x the book. You obviously will have some benefits from the goodwill amortization, so if you do the net profit value you are roughly at 2x or 2.1x the book. I am just wondering how you are going to make this acquisition accretive when you guys are trading at 1.6x the book, Itaú is running at 2x the book.

Best-in-class bank for trading at is well below what you paid for HSBC, which, again, as you provided on page 35, does not really make any money. How do you make this accretive? Can you just help us go through the map on how this makes sense and what exactly are those returns that you are expecting? Just as specific as possible so that we can understand what is the rationale because the map does not really help.

**Luiz Carlos Angelotti:**

Thank you, Curtis, for your question. We are very comfortable with the acquisition. The goodwill that we have now is around R\$ 10 billion. Probably, with the amortization, in five years we will recover part of the price with the liquidity of the goodwill. But we

expect to recover the majority of the price. We are very comfortable with the valuation, with the synergies and with the opportunities that we have to offer products.

We did the analysis of the client base – it is a very client base – and the network of branches so that we have a complementation. Now we are in a better position in the Brazilian market.

When you talk about multiples, we understand that the prices that we have now on the market do not reflect the correct multiples. Probably, with the recovery of the Brazilian market, multiples will return to better levels. Our expectation is that probably in 2018 or 2019 we will have better numbers.

The acquisition we did is looking toward the future. It was the last opportunity in the Brazilian market and in next quarter we will probably reap some benefits from the acquisition, recovering part of the synergies that will start to benefit profit, after the migration we had.

But the greatest benefits will come in 2017, when we will work in a single platform. Administrative costs will drop faster than the first time and in terms of personnel costs, with the turnover that we have in the bank – only using the turnover – we can adjust the structure of employees in two or maximum three years, so we are very comfortable with the acquisition and the ROE will probably start benefiting or improving with the additional profitability that will come from HSBC's benefits, from synergies and improving of sales.

We are very comfortable with the numbers and the acquisition. What we have now is more volatility on the market, so sometimes the multiples do not reflect the correct benefits that we see in the acquisition.

**Carlos Firetti:**

Only complementing, we have provided, when we announced the deal, a map saying that in the first year it would be neutral and in the second year it would be accretive. Basically, in a very simple way, we lose the interbank rate on the R\$ 18 billion and, considering the earnings from HSBC plus synergies we will be able to latch what we lost, probably with the SELIC rate during the first year.

That makes, in a simple way – I know – the deal, in terms of EPS, neutral in the first year. And, considering the amortization of goodwill and considering the path of absorption of synergies, even though we believe three years is the full period for synergies, probably in two years we will have already gotten a good chunk of it done. We believe it will be, at least in terms of EPS, accretive for us.

**Jorge Kuri:**

Thank you. My second question is on your outlook – I know you have not provided to a 2017 guidance, but just on qualitative stage, your view – on NII for next year in the context of a still weak volume environment, falling rates; and loan loss provisions – how much can they fall when you continue to see unemployment go up and overall economic activity being revised down across the board. How do you think the math adds up, particularly in terms of NII and provisions for next year?

**Luiz Carlos Angelotti:**

About provision expenses, allowance for loan losses, our expectations is that probably next year – and this is not the final guidance, it is our expectations nowadays considering what we can hear about economic expectations for 2017 – we will have stability in allowance for loan losses, but we can probably have a decrease at the end of the year. We do not expect any increase.

Most probably, we can have some decrease in expenses at the end of the year, because of the environment in the economy – we expect a 1% growth in GDP –, delinquency ratio will probably start to stabilize. Only in 2018 we see a better decrease in the expenses. This is what we expect.

In terms of margins, NII, we do not have any guidance now. What we can see is that what will help the margins next year is that we will probably recover some volumes in the loan portfolio – we expect some increase. The total market will probably grow close to 5% and our expectation is to grow in a similar way.

We have the SELIC effect. Our expectation is that it will probably decrease. Our central bank is likely to decrease the SELIC in faster way next year and we will probably get some benefits in our fixed portfolio and some addition profitability will come to our NII from this portfolio.

When we talk about HSBC, some of benefits we will have is that the funding of HSBC have higher cost when you compare it Bradesco. We have started to better manage the cost of funding of HSBC – clients that we will start reducing. This is another effect that we will improve our NII next year.

We do not have a number, but we expect some growth, probably something around the loan portfolio growth. This is the main benefit that we expect for next year in terms of NII.

**George Curtis, Morgan Stanley:**

Thank you very much.

**Luiz Carlos Angelotti:**

Thank you.

**Jason Mollin, Scotiabank:**

Thank you very much. My question is related to lending in the Individuals segment, in the consumer segment. Bradesco reported an increase in NPLs for early delinquency – 15-90 days – and for the 90 days. Some of the statements mentioned that this may be partially attributed to the strike, but maybe you could provide some color there and maybe some details looking at, let us say, credit cards.

What portion of the usage of cards in the quarter actually became revolving loans or credit and how is that number evolving? Are more people utilizing the cards as a source of credit or are more people paying their bills in full every month?

**Luiz Carlos Angelotti:**

Thank you, Jason, for your question. When we talk specifically about the Credit Card portfolio, in the volumes of operations we started having a deceleration in increase. We had a reduction in one part of the credit card numbers – individuals. But we can see a slightly higher delinquency ratio when we talk about non-clients; as for our Bradesco clients, we see a slightly better behavior in the delinquency ratio.

Our expectation is that this portfolio of credit cards will probably stabilize its delinquency ratio in the next quarter. In our portfolio of credit cards – in the loan portfolio – it is normal to have an increase in the utilization of credit cards closer to the end of the year. We see a normal movement. This movement will probably continue until the end of the year.

I think it is normal in our portfolio for clients to pay their operations in installments. What we have is that we are trying to reduce revolving operations. It is not interesting for us to have clients in revolving operations for too long, so we try to offer them some better rates or another operation that they will have better capacity to pay, but we normally cut their limits when we transfer them to this new portfolio.

This is a normal management that we do in the portfolio, but we see the increase as a normal movement when we are closer to the end of the year. I think that in a short period a part of the delinquency ratio of 15-90 days, one part of the delinquency ratio related to credit cards or auto loans is more related to some non-clients or clients who do not have automatic payment – they pay using tickets on cashiers.

Because of the strikes here in September, we believe that one part of the delinquency ratio in the short period is related to the strike. But we do not see any additional risk in the portfolio or any movement.

Our new operations or our new clients, when we renew their limits, we are selecting clients better and using our systems and models to have a better new origination in the operations. Only for you to have an idea, 25 of our branches were closed during the strikes for a big part of the day and it caused some effects on delinquency ratios, in fees – growth of fees is one part of the problem. But now everything is normal and returning to normal levels.

**Jason Mollin:**

OK, this is helpful. Thank you very much for that.

**Luiz Carlos Angelotti:**

Thank you, Jason.

**Domingos Falavina, JP Morgan:**

Hi. Good morning. Thank you for taking the question. I have two questions. The first one is regarding the hedge you used to have for floating versus fixed. I understand that you used to have, historically, a hedge of about R\$ 20 billion and you have one that is lower than R\$ 1 billion. And it seems that you are going back to R\$ 20 billion and my

question is, sort of going back to the NII in the 4Q, given the recent skipping on the SELIC curve.

Should we expect some kind of negative impact on equity? If you could provide any details as to the magnitude of that – every 50 b.p. or 100 b.p. increase in one-year curve or two-year curve. What can we expect? Because it seems that your outlook for the reference rate decrease into the next year seems to be a little bit more aggressive than unwinding as the result of the electoral outlook here in the US.

**Luiz Carlos Angelotti:**

Thank you, Domingos. Probably, with the volatility of the USD and the rates, we could have some impacts on capital ratio, but we do not expect a huge impact. After the HSBC acquisition, we understand that we have a very comfortable number. We had additional improvements in the ratio with the new subordinate debt Level I – we had an additional 0.8% in our index.

We will probably have some impacts, but I think less than we had in the 3Q16, but we are very comfortable with the ratios that we had. We do not expect too much, in fact, because of this movement.

**Domingos Falavina:**

Remind me again: I think that quarter you mentioned was the quarter when you had about R\$ 6 billion of negative impact that the bank reclassified as available for sales, most of it securities.

**Luiz Carlos Angelotti:**

No, I think the only effect we had last year with the volatility was the market-to-market effect in the equity. This is a one-off effect, because the rate variation was the market-to-market in the equity. Another effect is: with the USD increase here in Brazil, we had some increase in the tax credit. When you do the calculation for the Basel Rate, we had an improvement in the deduction of tax credit.

But the total movement last year was 1.1% or 1.2% and the variation of the USD was 35% I think. We do not expect a similar level of variation. What we see is an impact that we will have, but less than what we had last year.

**Domingos Falavina:**

And my second question is more on the SMEs side. We see a lot of filings for bankruptcy, actually a very resilient, even growing margin, but the NPLs for you, if you adjust it to the shrinkage of the loan book, just started stabilizing. I mean, you are deteriorating at a slower pace.

My question is: in your view, when should we see the peak in the NPLs for the SMEs – when should we start to see it actually coming down?

**Luiz Carlos Angelotti:**

The SMEs, I think, is the only portfolio that has a slightly higher delinquency ratio, probably because small companies were more affected by lower consumption in the Brazilian market. We understand that we are probably very close to the peak. If it is not in the next quarter, it will be in the 1Q17. We are working hard trying to improve the quality of our models. We are working to move our portfolio for a lower-risk portfolio.

Now, all new origination of loans have a lower delinquency ratio and we are probably very close to the peak, when we talk about SMEs; and as for the old portfolio, which has a slightly higher delinquency ratio, probably the worst operations will continue to migrate to write-offs and the rest of the portfolio has better quality.

Our expectation is to continue reaching the peak, probably at the end of the year now or in the beginning of next year, when you talk only about SMEs. When you talk about total ratio, we understand that at the end of the year we will be very close to the peak. We are comfortable. Our guidance for allowance of loan expenses, considering HSBC numbers, will probably end the year close to the middle of the guidance; we do not see too many new risks in our portfolio.

**Domingos Falavina:**

Perfect. Thank you very much.

**Henrique Navarro, Santander:**

Hi. Thank you for taking my question. My question is actually on your acquiring Company – the company in which you have a relevant stake, which is Cielo. Cielo has been losing market share and points of sales, so we are basically talking about fewer merchants and SMEs to which Bradesco is selling banking products.

My question is: how uncomfortable is Bradesco with this situation? And is there any strategy trying to reverse this situation? Thank you.

**Luiz Carlos Angelotti:**

Thank you, Navarro. I think Cielo is an independent Company. OK, we have participation in the company, but we compete in the market with Cielo. I think that, in our case, the strategy is the relationship with the client. When we are closer to the client we have a lot of other operations with the client, then we try to offer packages and attract the client with our total relationship in financial terms. This is the way we are working our clients. I think we are having success, but we compete in a normal way with Cielo.

I think Cielo is an important market, but I think we are closer to clients, so it is not only a relationship about a single product or pricing. We try to show to our clients the total benefits of the relationship, the banking benefits in the operations and I think we are have success in these processes.

**Henrique Navarro:**

I understood. So far, there is no acquiring initiative from Bradesco other than Cielo – Cielo is the only and sole vehicle for Bradesco?

**Luiz Carlos Angelotti:**

Cielo continues doing their movement. We work for Cielo to improve their participation in the market, in the acquiring operations, but we compete with Cielo in other operations. But we do not have any strategy to create a new company to compete with Cielo.

Cielo is our main investment when you talk about acquiring – it is the most important and we are working for Cielo to continue growing, but in some situations we are competitors of Cielo. This is a normal situation when you have open Companies working on the market and both Companies are independent.

**Henrique Navarro:**

OK, crystal clear. Thank you.

**Luiz Carlos Angelotti:**

Thank you.

**Tiago Batista, Itaú BBA:**

Hi, guys. Thanks for the opportunity. I have just one question on the capital side: in your calculation of the core capital Tier I, after turnover and after the adjustments, after the tax effects and goodwill amortization, you calculate an increase in the capital of 0.9%. This is mainly from the goodwill of HSBC and also from synergies. So I have two questions on this.

The first one is: the goodwill is the amount of goodwill that you believe you will be able to amortize until the end of 2018? And what are the synergies of HSBC that you mentioned in this ....

**Luiz Carlos Angelotti:**

It is not benefits from synergies, it is only goodwill amortization. I think it is wrong to interpret it as synergies. It is only goodwill and intangible assets amortization, until the final implementation of Basel III.

**Tiago Batista:**

Thank you for the clarification.

**Luiz Carlos Angelotti:**

Thank you.

**Operator:**

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

**Carlos Firetti:**



Thanks everybody for participating in our call. The Market Relations department is open to receive further questions you may have. Thank you very much.

**Operator:**

That does conclude the Banco Bradesco's Earnings Conference for today. Thank you very much for your participation and have a good day.