Operator:

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco first quarter 2017 Earnings Results conference call. This call is being broadcasted simultaneously through the internet, in the website banco.bradesco/ir. In that address, you can also find the presentation available for download. We inform you 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. 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 correctly 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. It could cause results to defer naturally from those expressed in such forward-looking statements.

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

Carlos Firetti:

Good morning, everyone. Welcome to our conference call for discussing this first Q17 results and also our strategy. We have today with us Mr. Alexandre Glüher, the Executive Vice-President and Investor Relations Officer, and Mr. Luis Carlos Angelotti, Executive Director of Banco Bradesco.

I turn now the presentation to Alexandre Glüher.

Alexandre Glüher:

Good morning, everyone. Thanks for joining our conference call today. We start discussing the main highlights of our results and, later, Firetti will bring more details on the discussion. Before entering into the discussion about the quarter, we would like to briefly talk about the Brazilian economy outlook, which we understand is currently experiencing an inflection point.

There are clear signs that our economy is regaining momentum and has returned to grow in the first quarter. Our expectation is that the growth trend will continue to accelerate towards the second half of the year. Unemployment is reaching its peak and will probably start to reduce gradually later in the year. We are going through one of the most important and sustainable interest rate cutting cycles ever seen in Brazil, which should consolidate our economic recovery. We believe Brazil is close to conclude an important cycle of reforms. In this context, we have a positive view for the future.

Now, regarding our results, this quarter, we have already observed a reduction in our delinquency ratio, as a consequence of our actions to improve credit quality and also due to the natural dynamic of our loan book. We haven´t observed a recovery in loan growth so far, mainly due to low credit demands. However, we have already seen improvements in credit origination for some portfolios in the individual segment. We believe the demand for loans will continue growing as the confidence in the economy builds up.

In slide 2, we present the main highlights of our results. Net earnings in the first quarter was BR$4.6 billion, a growth of 13% year-on-year, with our RoE expanding to 18.3%. The main reasons for the improvement in our results were the reduction in long lost provision expenses and our effective cost control, which, compared to the previous quarter, presented a reduction of 12 and 7.7% respectively.

This improvement was partially offset by a drop in net interest income, which is still under pressure due to lower credit volumes. The scenario for loan growth is still complex. Our expanded loan book grew 8.5% in the last 12 months, but reduced 2.4% quarter on quarter, pressuring our net interest income, which reduced 5% in the quarter. We expect a better outlook for NII in the second half, as the credit portfolio grows again.

As we expect, the total NPL seems to have peaked in the fourth quarter and shows improvement in the first quarter, when adjusted by the NPL of a corporate client that degraded to 9 days of delinquency and was already fully provisioned. We had, in the quarter, significant improvements in our NPL ratio for individuals and SMEs with reductions of 28 and 36 percentage points respectively. The NPL Creation also presented improvement in individuals and SMEs. We believe that both NPL ratio and NPL Creation will keep improvement through the following quarters, and may go back to lower levels in 2018.

In this context, credit provision expenses dropped 12% quarter on quarter. We believe, at this moment, that our guidance for this line seems conservative, but we prefer not to change it for now. We had a good evolution in cost control, with a reduction in expenses of 7.7%, quarter-on-quarter, and a drop of 2.8% year on year pro-forma. This good performance is due to the rollout of our efficiency initiatives, as well as synergy related to the integration of our acquisition. We should fully capture the synergies until the end of 2018.

Fees and commissions income were impacted by the difficult moment that the Brazilian economy is going through, and reduced to 1.5% quarter on quarter, although still increasing 16% year on year. We also had a good performance on the insurance business, which presented 18.2% year on year growth in premiums. Our equity maintained its positive evolution, growing 12% year on year.

Regarding our capital, we continued to expand it organically. Our BIS 321 ratio remained robust at 12% despite the increase in regulatory deductions from 60 to 80%. On a fully-loaded basis, our capital increased 8 bits in the quarter. Now I turn the presentation to Firetti, who will bring you more details of our numbers.

Carlos Firetti:

Okay. Thank you, Alexandre. So going into more details in the presentation, we are in slide 3, where we have the main adjustments in our net income to reach the adjusted net income. The main adjustment we made is the elimination has no recurrent of the goodwill amortization expense, that amounted BR$554 million in the quarter. Only reminding, we expect to amortize BR$2.4 billion in 2017.

In slide 4, we have the main items of our PNL. Basically, net interest income presented a Q-on-Q drop of 0.3% this quarter, focused on the pro-forma variations -8.7% year on year. Basically, NII was negatively impacted by NIIs from interest, especially the credit intermediation portion. And also, the impairment of assets, we had impairment of BR$420 million this quarter. I will go into more details on this item later in the presentation. The positive highlight of the quarter was allowing for loan losses expenses, which dropped 12% in the quarter and 27.3% year on year pro-forma. We had good performance in terms of operating expenses, we reduced them 1.5% year on year, quarter on quarter, and we had a reduction of 7% in expenses, quarter on quarter, and reduced 2.8% year on year on a pro-forma basis. Our fees in the quarter dropped 1.5 and grew 2.9 year on year. We also will go into more details in these items. Our net income in the quarter grew 6%, and year on year, 13%.Our equity expanded 4.1% in the quarter and 12 year on year. With that, our return on equity reached 18.3%, expanding from 17.6% in the previous quarter, while our return on assets remained at 1.4%.

In slide 5, we have the breakdown of our earnings by segment. Insurance represented 30% of our earnings in the quarter, service revenues, 29%, and credit intermediation, 33%, basically due to the reduction in provision expenses. Our earnings per share increased to BR$3.19 in the quarter.

In slide 6, we have information about our NII. In the quarter, our total net interest income reached BR$16.6 billion, almost flat Q-on-Q. This quarter, we had impairment of assets again, basically the impairment in our bond portfolio. As we said in the fourth quarter conference call, we started to do this impairment on a quarterly basis. We believe, for a full year 17, the total impairment should be slightly less than what we had in full year 16.

In slide 7, we have the breakdown of our net interest income from interest. This line dropped 5% Q-on-Q, and dropped 5.7% year on year on a pro-forma basis. The main driver for this performance was the credit intermediation that dropped 7.7% year on year. The impact here is due to lower volumes that impacted negatively the revenues, but also specifically on the Q-on-Q comparison, also somehow, affecting the year on year comparison, we had the negative impact of a calendar effect. We had less total days in the quarter, so we accrued less revenues, and we had more business days, so we accrued more interest expenses. That resulted in a reduction in our NII from interest of about BR$350 million in the quarter. It explains partially the impact in credit intermediation revenues. In insurance, basically, the margin was almost flat in the quarter and year on year. We had there the impacts of lower interest rates, compensated by volumes. In securities and others, we have the results of the investments of the bank's capital and also the asset liability management. We had a reduction Q-on-Q in this line of 09 and 4.5% higher year on year. Here, we have the benefit of the reduction in interest rates in our asset liability management. We have a fixed rate position against floating rate fund, but that gain was partially offset by other effects related to lower interest rates. We believe we still can meet our guidance for this line, that is a reduction of -4% to a stability, and we believe this will be helped by the recovering volumes we expect in the second half of the year.

In slide 8, we have our net interest margin from credit on a 12-month accumulated basis, still increased 13.2%. Specifically on the quarter, it reduced, mostly affected by the calendar effect I mentioned before. Considering the margin after provisions, we have a bigger increase due to the reduction in provisions expenses in the quarter.

Slide 9, we have our loan book. Our loan book still dropped in the quarter, 2.4% reduction. We also had a reduction of 8.5% pro-forma year on year. Basically, the company segment is still under pressure with a reduction pro-forma year on year of 12.9%, and the small companies is the segment in the company segment that is still suffering more, while for individuals, year on year, we have a 1% growth. In terms of portfolios, we are doing better in individuals, that was almost flat Q-on-Q with a better performance in payroll loans that grew 2.9% Q-on-Q, and mortgage, that grew 0.9. As I mentioned, the portfolio that is still more under pressure, mostly due to lower demands, is the SME portfolio with a reduction of 5.9% Q-on-Q. Our guidance for loan growth is 125, we mentioned, last quarter, we would be in the bottom of this guidance. We keep this guidance for now.

In page 10, we have our mix in the loan book, basically, as we have been mentioning, we have been migrating to lower risk; now, in the individuals' portfolio, payroll loans and mortgage represents 42.2% of the total.

In page 11, we have our credit quality data. We have very good news on this front. This quarter mark the beginning of an improvement in credit quality indicators. We have the NPL for SMEs, that was increasing more sharply, reducing in the quarter, despite the drop in the portfolio from 8.62% the fourth Q to 8.26. Also, for individuals, we had a reduction from 6.94 to 6.66. We believe, for these portfolios, we should continue to see improvements going forward. We think we probably reached the peak and we can expect further improvements going forward. In the corporate segment, as we mentioned in the fourth quarter, we were hit by a corporate case, it was a BR$1-billion default that was already hitting our 15-90- days NPL in the fourth quarter. With that, our NPL for corporates increased. Adjusting for that, it would be also increased, but less. We have this corporate case with a 100% provision since the end of 2015, so this case didn't impact our provision expenses and we expect to write and we will write off this company, this case, in the second quarter, what will make the total NPL to be closer to be in line with the adjusted one. Total NPL adjusted for this case, dropped 30 bits to 5.21. As I said, also for total NPLs, we expect a positive trend going forward, we believe the deterioration in credit quality reached the peak in the fourth quarter.

Slide 12, also good news in the short-term delinquency, improvement in the company segment, with a reduction to 299. Still an increase in individuals, but, as you can see, there is a seasonal increase every first quarter. This year, or this quarter, specifically, the increase was lower than last year. The total 15-90 days presented a reduction.

In page 13, we have our NPL Creation versus provision expenses. We adjusted for the corporate case I mentioned. We made provisions that represent 105% of the creation. Total NPL creation dropped in the quarter, and adjusted, it dropped even more. Our provision expenses are presenting downward trends, reaching 5.09% in the first Q. We believe we can reach the bottoms of this series probably at some point in the second half 2018. Our guidance for provision expenses between BR$21 and BR$24 billion, as Alexandre mentioned, now seems conservative, but we prefer to, for now, keep it unchanged.

Page 14, we have more details in the NPL Creation. You guys can see we also had important improvements in the NPL Creation for SMEs, individuals, less for corporates, but we believe we should continue with a positive trend in NPL Creation going forward.

Page 15, we have our provision in ratios. Our coverage ratio reached, in the quarter, 182%. If we adjust for the corporate case we mentioned before, this ratio would be 186%, so better than, actually, the current number. This coverage ratio should improve in the second quarter as we do the write off of this credit. Our excess provisions were BR$6.9 billion at the end of the first quarter. This quarter, we made the final provisions for letters of credit and guarantees following the resolution from the Central Bank issued at the end of 16 that regulates there. With that, we re-allocated part of our additional provisions for this purpose. This will not reduce additional provisions anymore.

Page 16, we have our renegotiated portfolio. The renegotiated loans increased this quarter, but less than previous quarter, reminding you that sides renegotiate their loans after they become past-due. We also include, in this renegotiated portfolio, recovered credits that had already been written off. Basically, those credits that we recover with new loans. The provisions for this renegotiated portfolio increased to 75.3%. This doesn´t have any impact in results, it is only due to a change in the way we allocate, among our credits, our additional provision. We changed the way we do that this quarter, but it was more an internal change than any more specific impact.

In page 17, we have our fees and commissions. Our fees grew pro-forma year on year 2.9%. We believe we should improve our performance in fees throughout the year, as we start to see the maturity of some measures we have been taking to capture synergies from HSBC client base, and also new initiatives in terms of segmentation on our old base, and also the improvement in the economy we expect for, especially, the second half of the year.

In page 18, we have a slide about our operating expenses. We have pretty good news on that front. We had a reduction in operating expenses of 7.7%, Q-on-Q, in the first quarter. Our expenses, year on year pro-forma, are reducing 2.8%, what is below our guidance that goes between -1% and 3%. We had a pretty good performance in administrative expenses, that is probably the line we are ahead, in terms of capturing synergies from our acquisition. We had a reduction of 7.1%, year on year pro-forma, and for personnel, we had an increase, year on year pro-forma, of 1.9%. Basically, the number of employees presented a reduction of 2%, Q-on-Q, going to 106,600 people. We also had a reduction of 192 branches in the quarter due to the rationalization of our branch network, something that we always do and we should continue doing that throughout the year.

In the slide 19, we have our efficiency ratio. We already had an improvement in the efficiency ratio in the quarter to 40.6% from 43.2 in the fourth quarter.

In the slide 20, we have our information about insurance. We had a very good performance in terms of insurance premiums, which grew 12.8% year on year, with special highlights for life and pensions, with an expansion of 19.3%. Health presented an increase in premiums of 10.6%. The net turnings of our insurance company remained almost flat, year on year, mostly impacted by higher claims, especially in the health insurance segment. The RoE reduced to 20.2%, however, this is mostly due to the increase in gains from market to market in the equity, and also the fact that our insurance company didn't do the internal distribution of dividends in the first quarter.

Finally, in the slide 21, we have our capital ratios. Our capital remained in a very strong position, despite the increase in the deductions from capital that expanded from 60% to 80% this quarter in the phasing process of the AF3. Fully loaded, our capital ratio reached 11.2%. Considering this fully loaded, our capital ratio increased 80 bits in the quarter, mostly due earnings retention. The reduction in risk weighted assets and also consumption of tax credits. In the fully loaded, including the estimates of tax credits and goodwill amortization, we reached 12.4% in the quarter.
So this concludes the presentation, and now we can open for the question and answer session.

Operator:

Ladies and gentlemen, we will now initiate the question and answer section. If you would like to ask a question, please dial *1. If at any point your question has been answered, you may remove your question from the queue by pressing the *2 key.

Our first question comes from Mr. Jorge Friedmann from Citi. You may proceed.

Jorge Friedmann:

Thank you very much, gentlemen, I have two questions. In the Portuguese call, you have mentioned that you believe that you should achieve the bottom of the guidance for net interest income. That implies, as mentioned during this presentation, a drop on the pro-forma basis year over year. The new revelations for credit cards, which banks cannot maintain clients the revolving lines for after 30 days, became effective in April first, would it be reasonable to assume that, at some extent, this more conservative guidance embeds this pressure and that would already hit the numbers for the second quarter? This is the first question.

The second question, you mentioned, also during this presentation, the strong performance on the operating expenses side, and you claimed that the good progression in the administrative expenses was also related to the normal rationalization of branches. You closed 192 branches during this quarter. But you know, I was looking into the historical figures and, with the reduction of branches in this quarter, actually, you have done more than you have individually done in each of the last 10 years. So, is this really a normal rationalization, is this related, maybe, to the HSBC integration, or a digital strategy? I would like to have some more color, if you could. Thank you very much.

Carlos Firetti:

Thank you, Jorge. Regarding your first question on the credit cards and the impact on margins, our guidance for NII already implied the impact of the new credit card regulation. Basically, we mentioned that probably the impact will be around BR$500 million, pre-tax, for full year 17. So we expect this new regulation bring a negative impact, starting in the second half, but it is already considered in this guidance. The pressure in NII, as we mentioned, this quarter, specifically, is related to this calendar effect, or it is helped by this calendar effect, but we have been suffering the impact from volumes. I think this really is one of the main impacts we have in the NII.

Regarding branches, you are right. We have done more this quarter. Part of this reduction was the migration for points of service - or *ponto de atendimento* in Portuguese. It is something we have been saying we would do. we have this format that is, basically, smaller, it perfectly serves some regions and we can replace some branches with low cost for this. But, basically, we are really looking into details in our branch network. We always do this and, in an environment where we have all the trends on digitalization etc., we may eventually have room for changing habits. We may have room, if necessary, to do more adjustments like this.

Jorge Friedmann:

Okay. Just a quick follow-up on that last answer, Firetti. You still have, I think, the biggest branch network in the country, so you just integrated a very big bank with a strong capillarity also in the South and Midwest, so would it be reasonable to assume that, ahead of this rationalization, you could continue doing additional closure during the upcoming quarters, and capturing additional synergies with HSBC on top of it??

Thank you.

Carlos Firetti:

It's a fair comment. We haven't closed specifically branches from our acquisition. Most of what we have done in this quarter is basically look into Bradesco´s own network, and we always did that, and you're right, now we have a bigger branch network, we have all these changes, in terms of habits of banking customers, we have the new digital strategy and we will be cautiously looking into that. And also, whenever necessary and whenever makes sense, switching from a full branch to a point of service, that really is a very good tool for continue servicing our clients, having a presence at a lower cost for us.

Jorge Friedmann:

That´s perfect, thank you very much.

Operator:

Our next question is coming from Olavo Artuso of Santander. You may proceed.

Olavo Artuso:

Hi, good morning, everybody, and thank you for the questions. I would like to talk about the asset quality of the bank. The early delinquency accelerated in this quarter in individual segment, while in the others it fell. And looking at the previous years for the same period, this movement of this quarter has shown to be a little different. So, could you please describe to us a little about the behavior of this arrears based on the effect of unemployment should persist throughout the semester. Thank you.

Carlos Firetti:

Thank you , Olavo, for your question. I´m not really sure what you mean about being different. We see this increase in the 15 to 90 days delinquency as smaller than last year. Basically, we also see, when we look to our internal data, on vintages. The vintages are doing pretty well, still performing better than the current delinquency, so there is nothing that we see different in the early delinquency. Actually, what I just mentioned on the behavior of the vintage, etc. is what is behind our view that there is room for continuing improving the delinquency.

Olavo Artuso:

Okay, and you guys still feel comfortable with the scenario of increased unemployment rates until the end of the semester?

Carlos Firetti:

We are comfortable that this seems to be the trend for the rest of the year.

Olavo Artuso:

Okay, thank you.

Operator:

Our next question is coming from Mario Pierry of Bank of America. You may proceed.

Mario Pierry:

Good morning, everybody, congratulations on the quarter. Two questions as well. First one is related to asset quality. It is clear, looking at your presentation, that you feel very comfortable with asset quality, especially in the SME and individual segments, however, large corporates still seems to be lumpy. I would like to hear from you what is the outlook for large corporates, do you think we could still see other specific cases throughout the year? Or do you think that the NPL for large corporates should start to come down as well as the year progresses?

Related to asset quality, if we analyze your provision charges this quarter, we get to a number, BR$19.4 billion below your guidance. I was just wondering; why not change your guidance for provision charges?

And then the final question is related to… you made some statements at the beginning of the presentation, saying that the economy is at an inflection point. You show that you are well capitalized, just wondering… when does the risk appetite for landing returns? What are you waiting for before you get more aggressive in landing? One of your competitors is already more aggressive in the market. I was just wondering what is it going to take for you to increase your appetite for landing again? Thank you.

Carlos Firetti:

Mario, regarding large corporates, basically, we don´t see other cases like this. This was kind of almost like a very special case in the sense that we already had full provisions for it, since the end of 15. And for specific contract reasons, it only migrated to default in October, and now to 90 days delinquency. So we don´t see things like this anymore. Basically, in most of the credits we have, for each bank, different positions in the sense how they are positioning the clients, in which part of the operations of each client they are positioned, guarantees, etc. So, we most likely don´t see a case like this repeating in the year.

Regarding our guidance, you are right. Our guidance, as Alexandre mentioned, looks conservative. We normally don't revise our guidance before the middle of the year, and we think, as I said, it is conservative, but we prefer, now, really not change, let´s see the evolution in the coming quarters. In terms of risk appetite, we haven't changed much our risk appetite. For sure, we have made some changes in the models, in some lines we are requiring more collaterals than in the past, but we were observing, the past few days, our approval rates in many portfolios, and actually, we didn't reduce much the approval rates. In some specific lines for individuals, we had some slight improvement more recently, but looking historically, it was not really a big reduction in the approval rates. What we had is a reduction of the number of proposals, the reduction in demand, the clients, with lower confidence, are demanding less credit. We know that we are already seeing the improvement in origination in some lines, especially for individuals. We think individuals probably is going to be the first one to have this demand improving even more. The portfolio actually is not dropping; still flattish and probably will return to grow, but the real improvement in growth will come as the economy improves, as the unemployment peaks, as demand increase. We don't think there is much we can do just to originate more, only from our side. We really need more and better demand.

Mario Pierry:

Okay, so it is clear the problem then is more on the demand side rather than the supply. If we can go back to the specific large corporate, without mentioning the names, can you just tell us in what segments of the economy it was related to?

Carlos Firetti:

We are not disclosing that. As I said, it is a company that is already fully provisioned for a long time.

Mario Pierry:

Okay, and then you will write it off in the second quarter?

Carlos Firetti:

Second quarter.

Mario Pierry:

Okay, thank you very much.

Operator:

Our next question is coming from Domingos Falavina, of JP Morgan. You may proceed.

Domingos Falavina:

Thank you, everyone. Hi, Firetti and team. Just on loan growth, we noticed this sort of shrinking a little bit, I guess I have to agree with the previous question too that loan loss provision is running low versus guidance, and it seems loan growth is also a little bit shy of the tracking for the year. So do you expect a bit more like rebounding in the second Q, third Q, just to get a sense on loan growth resuming.

Carlos Firetti:

Thank you, Domingos, for the question. As I said, we are seeing already some increase in origination for the individual segment. And we believe, in the second half, as the economy continues improving, will be better. So we think growth can return in the second half. Our guidance, since the beginning, 125, is sadly expected more to the bottom of the guidance, the 1%, so we think this level, or around it, is still feasible.

Domingos Falavina:

It is pretty clear, thank you very much.

Operator:

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

Alexandre Glüher:

Hi, guys. We would like to thank you for the participation and questions. Mr. Firetti and I are available for additional questions, if necessary, whenever you want. Thank you and have a good day.

Operator:

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