Operator:
Good afternoon ladies and gentlemen, thank you for waiting. We would like to welcome everyone to Banco Bradesco's second quarter 2018 Earnings Results conference call. This call is being broadcasted simultaneously through the internet on the website banco.bradesco/ir-en. In that address, you can also find the presentation available for download. We inform that all participants will only be able to listen to the conference call during the companies' presentation. After the presentation, there will be a question and answer session, when further instructions will be given. Should any participants 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 the general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco and could cause results to defer materially from those expressed in such forward-looking statements.

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

Carlos Firetti:
Good afternoon everybody, welcome to our conference call to discuss our second quarter results. We have today with us our Chief Executive Officer, Mr Octavio de Lazari, our Executive Vice President André Cano, our Executive Director and Investor Relations Officer, Denise Pavarina, and the CEO of Bradesco Seguros, Vinicius Albernaz, I turn now, the presentation, to Denise.

Denise Pavarina:
Good afternoon everyone and thank you for participating in this call. I´ll comment on some highlights for the quarter and then Firetti will present the figures in more detail. We start on the screen no. 2, the net income reached R$ 5.2 billion in the second quarter, a growth of 1.2% if we compare it to the previous quarter and 9.7% compared to the second quarter and also to the first half of 2018. The operational results had a very solid growth of more than 25%, if we compare annually and the return on shareholders' equity in the quarter was 18.4%, in the first half, 18.5%.

These results reflect, in part, the economy's improvement, but more than that the adjustments that we made in our operation in spite of the market volatility, that we had in late May/ June.

The Expanded Credit Portfolio presented a growth of 6% in the quarter and 4,5% in the annual comparison, a very good performance in both Individuals and Corporate segments. In the Corporate Segment the growth was 7.5% in the quarter favored by some specific operations in the segment of Large Corporate. In the Individuals segment we had growth in virtually all lines, with emphasis on the mass market portfolios of Retail and Prime that are growing 9.5% in the year.

As we have already anticipated in previous calls we highlight the positive evolution that we had in credit quality. Delinquency ratios are decreasing and we can observe a reduction of 50 bps in the quarter and 100 bps in relation to the same period last year.

As a consequence, the Expanded Loan Loss Provision Expenses had a further reduction, with a drop of 11.7% in the quarter and 36.1% if we compare annually. It is worth mentioning that the expenses for both the Loan Loss Provision and the Impairment showed reduction.

The improvement in the last two quarters allowed us to reduce our Guidance for Loan Loss Provision Expenses and Impairment that ranges now from R$13 billion to R$16 billion. We believe that at the end of the second half our delinquency ratios will be back to the pre-crisis levels.

Operating Expenses continue performing well in comparison with the first half of the previous year, despite the inflation that we had during the period and the wages increase, a reflection of the adjustments that we made in our operation and our discipline regarding costs.

As you know, we are always trying to optimize our operations and seeking for cost reductions and this is done mainly through the use of technology. The physical presence optimization takes into consideration the convenience for our clients and the necessity of each location, resulting in adaptation or reduction of our units. We intend to reduce this year a total of 200 branches.

Fees and Commissions Income presented a growth of 3.7% in the quarter and 6.9% in the six-month comparison, reflecting the revenue synergies initiatives and a greater offer of products to our customer base. I Think this shows that we had done a very important work on expenses in the past and now we can see the synergies in revenues starting to come.

The Insurance Operation will becommented by Vinicius Albernaz right after my presentation and will leave to him.

Regarding our Capital index, we had a reduction of 100bps in this quarter due to the volatility of the markets, which impacted our Shareholders Equity in the mark to market of available for sale. Firetti will explain in details this later.

These were the main topics related to the results and I would like now to bring to your attention some of the initiatives we are putting our focus now that will boost our customer base and our business:

There will be 4 of them:

First of all, the individual micro entrepreneur initiative: in this segment we are providing a new platform to our customers, we just launched a website called MEI which stands for individual micro entrepreneur, in addition to the sales efforts related to Stelo the acquirer machine that is provided by Cielo.

Next – Next as you know is a digital bank that focus on the customers that seek a full digital and differentiated experience. We are very happy with the results, this quarter Next has reached already 180 thousand current accounts and the target for this year is to reach 400 thousand new accounts.

Bradesco POS – We distribute the Bradesco POS to our acquiring customers with a differentiated package of services that merges banking and other services provided by Cielo.

Something that is very interesting that we are focused on is the creation of what we call the Non Current Account Holders Department – actually they are clients in many products that we provide but don't have cash account with us. We are giving a different focus on this and this Department is going to develop many efforts to explore and to attend better those clients, they have at least one of our products…. Of the Group as a hole.

In a nutshell, the results show the robustness of our operation and, considering these projects, that we just mentioned, we expect a very interesting future as the economy puts the crisis period behind.

Now I would change to Firetti to provide detailed information on the figures.

Carlos Firetti:
Thank you, Denise. Starting on slide no. 3, the adjustments of our recurring net earnings basically the main adjustment as in the previous quarter was the goodwill amortization. We amortized R$ 613 million, our expectation for the year is R$ 2 billion therefore we expect a reduction in the level of amortization in the second half.

In slide 4, only a few comments on this slide then we'll go into details in the lines on the following slides. Basically, a return on equity of 18.4% in the quarter, our operating income show a strong growth of 25.7% , recurring earnings grew 9.7, basically, as you can see, we had a higher tax rate this quarter, this is related to the creation of tax credit due to the tax variation. This reduced our ability to consume tax credit that was previously constituted at 40% and had this impact on the tax rate. We can discuss that more in details in the Q&A, if you wish.

Going to slide no. 5, our net earnings as I said grew 9.7%, 32% of the results in the first half came from insurance.

In slide 6, we have some details on our net interest income. Our net interest income in the first half had a reduction of 3.8%, in the quarter we had a reduction of 3.3%. We have a nice increase in credit intermediation, already reflecting the increase in volumes in our loan book, and also overall favorable mix, mostly coming from loans in the retail operations that have better margins. In the insurance margin, we had a reduction in NII from insurance mostly due to the differential of indexation ratios in our asset liability management for the insurance company. Basically we have a very high wholesale inflation that corrects our liabilities while our assets have mostly bonds indexed to retail inflations. This differential represents a higher cost for us that reduces the margin for insurance. We can say this is a temporary impact, provided, as normally is the case, retail inflation comes higher than wholesale. Basically, we don't have this impact that is normally the case.

In the asset liability management, another line, basically, we had the impact from results in the bond portfolio. I will talk a little bit more about mark-to-market when I talk about capital. We had this quarter, looking to the quarter isolatedly a growth in the credit margin. Basically, as I said, reflecting mostly the better mix.

In slide 7, we have our loan book, focused on the bottom parts of this slide, expenses loan book by segment. You can see that we are growing above 9% in the retail portfolios, basically retail and prime, while we had a pick up in growth for corporate. This is, as Denise mentioned, mostly due to FX, It explains a small part of this and also due to some specific operations in the corporate segment we originated this quarter and helped growth. We didn't change our view that corporate probably will not grow that much in the short-term, mostly because companies still didn't start an investment cycle so we remain with the same view: we believe retail should do better than corporate loans going forward. We had the first quarterly growth in the middle market portfolio for some time, this quarter. So basically, we had an increase of 6% in our expanded loan book in the quarter, 4.5% year on year.

On slide 8, we have our expanded loan book, where you can see that the lines that are growing more continue to be payroll loans where we have a big strength coming from the origination of payroll loans in our own branches and also getting stronger in private sector payroll loans and real estate-financing, car loans. So we have mostly this quarter an increase in all individual lines in the portfolio.

In slide 9, we have the origination per business day, grew 23% in the quarter in the annual comparison. For companies, we have an increase of 35.6%.

In slide 10, we have our delinquency ratios as one of the big highlights of the quarter, has been one of the highlights for the previous year. The delinquency ratio 90 days dropped almost 40-bps this quarter. We had improvements in SMEs that, despite the big improvement, still remains above the bottoms we have seen in the past. We believe we may see still a gradual improvement there. Individuals, we are getting closer to historical bottoms but remember that we change the mix, so it is possible to see some improvements there. And corporate loans, despite the improvements, is still high, probably it will take a little bit more time to see the delinquency ratio there going back to the bottoms that historically were around 0.5, mostly because the segment tends to be impacted by specific cases or a few specific cases even though most of the portfolio is in a much better shape.

In slide 11, we have our gross provisions without considering impairment and recoveries compared to the NPL formation. Our new provisions represented 112% of the NPL formations, denoting the consistence in our provision. In the lower part of the slide, we have our expanded loan book in relation to the portfolio. We reached a ratio of 2.7%, it's very low-level and it's basically, in our view, the provision expenses will remain very well behaved.

In slide 12, the NPL creation per segment, the total NPL creation continued reducing. This quarter, we have reductions in corporate, NPL creation, SMEs, for individuals it remained stable this quarter.

In slide 13, we have our coverage ratio, we've reached 230% coverage over the 90 days NPL, a very healthy level. We believe this coverage will go down with growth in our portfolio. We don't intend to reverse additional provisions we have constituted in the past at this moment.

Page 14, we have our renegotiated portfolio, We had an increase in the total renegotiated portfolio by R$ 700 million this quarter, this is more like, not a one-off, but it's driven mostly by the renegotiation of a few corporate loans and it's not a trend. These loans already had provisions so basically it doesn't impact it all the dynamics for the expanded provision expenses in our portfolio and also it doesn't change the trends for NPL.

In slide 15, we have our fees and commissions, our fees grew on a year-on-year basis in the second quarter, at a rate of 8.3%. Good performance from checking accounts, asset management from brokerage and also investment bank that is clearly one of the bigger highlights in the quarter. The checking accounts, the performance, growing 8% in the first half shows we have been able to capture more synergies from our acquisition, especially in the current account fees.

In slide 16, our total costs grew in the quarter, year-on-year, 0.6%, for the first half, 0.1. We had a slightly higher increase in administrative expenses mostly related to the concentration of marketing expenses in the quarter, but also some impact from third party services. And also we had this quarter, a reduction, year-on-year, in personal expenses, 0.8, but actually the structural part of the personal expenses dropped 4.1, while the non-structural grew 13.9. The main reason behind that are the very high level of provisions for labor lawsuits. This has been high because of the higher numbers of lawsuits filed against us due to the reduction in the number of employees we had recently also the average provision we have been making for each case is still on a higher level. We already see a lower flow of new lawsuits and we believe, as time goes by, since provisions are made on a moving average also the provision per lawsuits will be lower. So we will believe in the second half, provisions for labor lawsuits can be materially lower, and that should help the personal expenses. We continue, in terms of branch network, we had a small reduction of 8 branches. We continue with our target of closing around 200 branches in 2018. The efficiency ratio, 40.8% this quarter. The coverage ratio, that is basically fee revenues divided by cost, reached 80.3%. This is the best level we had for many quarters.

Now I turn the presentation to Vinicius to comment on the insurance.

Vinicius Albernaz:
Thank you Firetti and good afternoon everyone.

The first half of the 2018 figures show that the Brazilian Insurance market is still feeling the effects of the general economic environment, which grew well below its potential. Despite this challenging scenario, the delinquency performance indicators of Grupo Bradesco Seguros in the first half were positive.

Our claims ratio showed an improvement of 70 basis points in the first half of the year, in comparison to the same period last year, reaching 74.4%. In a similar manner, our commissions ratio improved by 100 basis points, reaching 8.9%. Our efficiency index, which completed its 9th consecutive quarter around 4%, has remained at the best of the market along the large insurers in Brazil reflecting a strict control of our direct costs. As a result, our combined ratio has also shown an evolution of 100 basis points, reaching 85%. In the same direction, in spite of a lower SELIC rate and an increasing market volatility, our first half financial results exceeded approximately 5%, the one observed in the same period of 2017. This strong operational performance has allowed the insurance group's net income, which totaled R$ 3.145 billion in the first half, to grow by 19% in comparison with the same period last year. The adjusted return on shareholders' equity was 19.6%. Our technical provisions exceeded R$ 252 billion, corresponding to around 27% of total provisions of the Brazilian insurance market, the total financial assets reaching 280 billion. The total amount paid in indemnities and benefits reached 29 billion, corresponding to more than 230 million per working day.

These figures translate the strength of Bradesco Seguros, whose revenue has maintained our market share around 25%. With the state of the insurance market is undergoing, major changes, both in Brazil and the rest of the world. Changes that range from the demographic profile of the population to the introduction of new technologies, in forms of relationship with the clients, in addition to the lives of a hyper-connected generation with very specific perspectives. We have been working with special focus in improving our internal processes, aiming not only at the development of new products, but also the continuous improvement of our pricing models, acceptance in management of claims, and in other key aspects essential to the insurance activity. Therefore, in spite of the challenges, we still have the confidence we had at the beginning of the year. If, on the one hand, the reduction of the SELIC rate, challenges our market concerning financial results, which are an integral part of the insurance business. On the other hand, the marginal recovery of the economy, shown in the first half, tends to create favorable conditions in support of operating results going forward. We will continue to pursue gains of scale, and this spirit of efficiency, while maintaining excellence in our services. And also, promote the continuous evolution of our multi-product distribution channels. Our ambition is to have a strong presence in all channels ensuring complete insurance solutions to all our generations of clients throughout their lifetime and professional needs. Thank you very much.

Carlos Firetti:
Thank you Vinicius. So jumping to slide 19, we have our Basel ratio, we have this quarter, a variation in our capital by 100-bps, basically as you can see, the main causes, the main drivers for these variations were the mark-to-market in our available for sale securities portfolio that are mostly securities from our asset liability management and in prudential adjustments that means basically tax credits that we generated this quarter. On mark-to-market, only a remark here basically, the duration of our positions in this asset liability management for the bank are very short. Basically, they are limited to the horizon of the monetary policy. So our focus here is to earn the accrual of interest from the positions. So basically, as we get closer to the maturities of those securities and considering that SELIC didn't change, we continue with a positive accrual and actually the mark-to-market naturally reduces for these securities. So basically, this should very soon go back to equities. Also, I remind you of our strong capacity of generating capital organically from our retained earnings so that is enough to really offset even strong growth in risk-weighted assets as we had this quarter. So basically, we feel very comfortable with capital.

And finally, in slide 20 we have our guidance. We revised the guidance for two lines. Insurance premiums we reduced the range from 4 to 8% to 2 to 6%, basically reflecting the fact that the market has underperformed in terms of growth and premiums, but we feel we are in a better position to meet this guidance now. And also we revised the guidance for the expanded provision expenses from R$ 16 to 19 billion to a range of R$ 13 to 16 billion. We target here the middle, if you analyze the first half we would have R$ 14.6 billion in provisions so we are very comfortable with that. On the other lines, for the expanded loan book growth we target the middle for NII, we are comfortable with the middle, the -2 in this range 0 to -4, fees and commissions also the middle and operating expenses, we believe we can be on the mid-lower portion of the guidance for 2018.

With that, I close my comments on the presentation and open for Q&A.

Operator:
Thank you. 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 *2.

Our first question is coming from Mr Carlos Macedo with Goldman Sachs. You may proceed.

Carlos G. Macedo:
Thank you, good morning everyone. I have a couple of questions, first question, thank you for updating the guidance. I want to talk a little about both the margins growth guidance that you put where you didn't change 0 to -4%, -3.8%. I think it's two questions around that. First is on the loan growth. You're moving to the upper side of the range here and in loan growth guidance and we can tell from your origination, your retail book is starting to grow and is probably accelerates in the second half of the year. Do you think there's an upside to this growth on the retail side? And could that have an impact on your margins, given that you've had a negative effect on insurance this quarter and that you're going to have a better mix in the second half of the year? Do you think that's something that could offset some of the headwinds you faced earlier in 2018?

Carlos Firetti:
We totally agree with that, the mix can really help us. I think it has started to help bring , take a look in the the quarterly variation, we already have an increase in the credit margin this quarter so credit margin can improve. And basically insurance, we don't call it one-off but the differential between wholesale and retail inflation shouldn't repeat. So basically, the insurance results should normalize and also the ALM others also have room for normalize. So yes, we think mix can help. The growth in the corporate this quarter is kind of, as I said, based on specific opportunities. We hope we have those same opportunities during the rest of the year but most likely, we are going back to the same path, in terms of growth for corporate, as we had before, maybe better more to the end of the year while this strength in retail probably will remain. We always point that we should be able to grow high single digits for these retail portfolios and we are there.

Carlos G. Macedo:
Ok, thank you, thank you Firetti.

Operator:
Our next question comes from Mr. Jorge Cury of Morgan Stanley. Mr. Jorge, you may proceed.

Jorge Cury:
Hi, good morning. Two questions, if I may. On your guidance for provisions that you reduce considerably, you are seeing faster growth in consumer loans from the second half, as you mentioned. When you initially set the guidance and I think the expectation for GDP growth, which was early this year was around 2.5 to 3%, consensus is probably around 1.5 now, so the economy's growing less, unemployment is, having improved this margin expected earlier on so it does seem that the macro-environment is a bit worse than you set your guidance on and look, you're actually growing faster and we did see bad debt formation pick up quite meaningfully this quarter, we calculate 25% quarter on quarter. So, I just want to understand why, what's allowing you to grow more, provision less, in an environment where NPLs, the bad formation is picking up and the economy is growing much less than you expected, earlier on this year, that -

Carlos Firetti:
Jorge…

Jorge Cury:
Yes, go ahead Firetti…

Carlos Firetti:
Yes, first let's focus on your comments on bad debt formation, I understand you include renegotiations in your bad debt formation calculation that is the only difference to our calculation that is basically the variation of NPL plus write-offs. Basically, as I pointed, the bad debt, the increasing renegotiations this quarter is due to very few companies re-renegotiating for which we mostly have provisions. So basically, these renegotiations don't even impact the provisions, despite the fact that, yes, the renegotiated loans leave the NPL. So basically, in the retail and SMEs, actually there's no impact from renegotiations and the trend you see there, in terms of NPL creation, NPL is a real one. So systemically I would say we are doing very, very well in credit quality.

Your point about GDP is fair. We started the year expecting something as 2.5% growth. We are seeing 1.5%, but it's interesting, we saw very strong months in April, May and June in terms of origination, very good quality. The vintages we originated were very good. So, we didn't reduce our credit standards so basically, we still see demands. Maybe we have some impact going forward, some slowdowns in origination, we haven't seen that so far but it may happen. But we continue optimistic that actually, considering we are now very close to a very important event and after that, we believe we may see a real acceleration in the economy so eventually we don't see a material deceleration in loan growth.

Denise Pavarina:
Just to add something, Jorge, what we see is that the team is much more prepared. We do have systems that are in front of the managers and the offers they should do to each client, in each moment and the credit can be contracted also via mobiles, via ATM,

internet banking. So we are creating conditions to the client to access the credit easier and also for the managers to offer it in a more efficient way. So just to add to what Firetti said, I think these two things together, there are specific lines where we are growing faster, like the real estate, the auto financing and the salary-related loans. So those are very focused by the managers to offer to our clients.

Jorge Cury:
Great, thank you. My second question is on net interest margins. I understood from your comments that you expect a better performance in the second half from an improvement in your lending needs and normalization of the insurance product. Could I ask what is the duration of your overall loan book? Because if yours looks similar to the overall industry, which is somewhere around 12-18 months, either that means that credit loans are going to be due in the second half of the year or the issue with the SELIC rate that was closer to 10% versus 6.5% now, so your back to front book re pricing seems a bit challenging to expect a normalization in margins. Could you talk about that please? Thank you.

Carlos Firetti:
You are right. Our loan book is about a year and a half mostly and you are right, there's repricing of the portfolio and spreads really when you look line by line in some cases went down. The key thing here is the mix. Actually, we are growing more in retail, loans and less in corporate apart from this quarter that was as I said due to some specific operation. So this, and we are gowing in retail, small companies and individuals. So, basically small companies have pretty good margins. So basically this is the point, substituting corporate loans for retail loans, even though you are right, there's the effect of repricing that help margins together with the pick up in volume. That helps NII.

Jorge Cury:
Ok. Thanks for your answers. Thank you very much.

Carlos Firetti:
You're welcome.

Operator:
Our next question comes from Mr. Jason Mollin with Scotiabank. You may proceed.

Jason Mollin:
Thank you. My first question is on loan growth and origination. You do show on slide 9 of your presentation the origination by business day for individuals and companies. I think for individuals it's pretty easy to understand. Can you help us follow what happens for companies because of the 17% devaluation Q on Q in the quarter. You do provide some details on foreign currency loans that we've looked at, but specifically, what would the origination be like if we exclude the impact on FX?

Carlos Firetti:

I don't have that information, Jason. I guess, only origination probably, the impact is not really material, we can try to do something. There's an impact from FX in the overall portfolio growth that I can give you. Basically, we grew in nominal terms 4.5%, without the FX impact it would be 3.2%.

Jason Mollin:
That's helpful. I mean, I get it, just comparing year-on-year, it would be comparing, I guess, in the quarter, I'm wondering if part of this origination, clearly part of the year-on-year is probably just looking at it,you know ,such a different level.

Carlos Firetti:
Yeah, it's fair to assume that. Probably, it would still be growing anyway but it's fair to assume that it may have this impact.

Jason Mollin:
Thanks. My second question is on, and you mentioned the book value evolution or the negative impact of the mark-to-market and you said that the duration of the securities book is very short and that as these bonds mature, you could actually have the losses reversed. Maybe you could give some more color, what's a big hit in the quarter? We didn't see book value growth even after the 5 billion in recurring earnings after we look at this mark-to-market and I guess we had this impact of prudential measures that we saw that also you show impacting the capital. If you can give us some color there as well, and should we expect therefore, I mean we don't know what's going to happen with volatility, but if you were to sell these securities available for sale, they would obviously, you would realize the loss.

Carlos Firetti:
Well yes, you are right. The duration of that, as I said is not really long. For specific reasons, we will not give the duration but I can say it matches the horizon of the monetary policy. Those securities are really part of our liability management policies, how we invest, especially we hedge in some cases some liabilities. We should take it to maturity. First, the accrual on that position is still positive despite the fact had a negative mark-to-market, even that actually we didn't see them move. And basically as you get closer to maturity, the mark-to-market even the prices remain at the same level. Actually the mark-to-market reduces.

The tax credit didn't impact equity, it impacted the referential capital for BIS purpose, but it doesn't impact actually shareholders equity.

Jason Mollin:
- But where is that book then, so where was that book that was booked in that, we have that line, that prudential information

Carlos Firetti:
- You have that and in the capital calculation. In the table we show the calculation of the capital for BIS, but the tax credit goes on the balance sheet, it's there not in the equity. Actually it is reflected in the equity somehow, but it doesn’t affect shareholders equity, but mark-to-market, yes, it's one of the shareholders equity component.

Jason Mollin:
Ok. Thank you.

Operator:
Our next question comes from Mr Marcelo Teles with Credit Suisse. You may proceed.

Marcelo Teles:
Hi, hello everyone. Thanks for your time. I have two questions, if I may. The first one, I'd like to dig a little bit deeper on the insurance margin for the quarter. Now as you mentioned, the margin was negatively affected by the mismatch between IGPM and IPCA. I'm just trying to quantify that impact looking at your financials, I just want to confirm with you in the part that has this mismatch, is this R$ 22 billion of the NTNs that are in a book that's held to maturity in the insurance business, because if that was the case, this 2% differential pretty much represents close to R$ 440 million of NII in the quarter, which is quite meaningful and if you have the IGPM and the IPCA aligning down the road, you could have a very significant pick up in the NII down the road. Do these calculations make sense to you? Or, I'm looking at something incorrect here.

And the second question is, your insurance operation, when you look at the operation result, at your insurance result and excluding it, of course the financial result, does a very significant improvement in the quarter, as you mentioned, claims ratio improved and it seems that a lot had to do with health insurance. So going forward, do you think there is room for you to improve further? Where do you think you are in terms of claims ratio vis-à-vis what you see as the more-recurring level? Thank you.

Carlos Firetti:
Ok. I will start the answer. The mismatch in the insurance, it's really, in terms of IGPM, IPCA it’s much, much smaller than that. For strategic reasons we don't disclose, but the mismatch is more in the range of a couple of billion than actually the numbers that you said. When you look to the positioning in inflation linked bonds, you actually see the management of reserves and also the capital of the insurance company, not really only the management of the actuarial mismatch that's found this way in the pensions business. But you are right, only to explain the nature of this negative impact from this mismatch even though I'm now saying that the magnitude is not the one you mentioned. Basically, we have liabilities in the insurance company, mostly related to traditional pensions, and we have assets covering these liabilities for parts of the portfolio is IGPM plus something and we hedge that with bonds, and basically, some of the bonds are IPCA with retail inflation plus something. We have parts of the liability covered by matching actually, but there is a gap. But basically, when IGPM is higher, we have

expense that is higher than the revenues from the inflation linked bonds. This is the source of this mismatch.

Vinicius Albernaz:
Firetti if I may, Marcelo this is Vinicius, here. If I may add, and of course, the government no longer issues government bonds, inflation linked to IGPM. In the past we used to have most of our liabilities covered fully by government bonds inflation-linked to IGPM, which they have a natural schedule of redemptions. We had a big redemption back last year, so that's mismatch is part of our life. It's because there are no longer issuance there. And of course, we are at peace with this current mismatch, losing on the margins, but we have to remember that for a couple of years, the opposite happened, so this is something that over the long-term tends to converge, but there may be some periods of impact. And also, as Firetti said, part of the portfolio of inflation-linked bonds to IPCA, we also covered all the liabilities. We have liabilities linked to general inflation index as well, as well as long-term liabilities that they help for instance who warrant some sort of asset linked to inflation.

And as for your question on the operating results, I think you know it's not only Oral I mean Oral is an important part of that, as I mentioned underwriting discipline and the improvement in the mix of Oral and P&C in general, looking for better results and better returns in that portfolio. But also I have to say, we have had significant improvement in the claims ratio of the health business. This is a trend which we believe continues, in the trend of the first quarter, and this is very positive and is caused by an improvement in employment in the economic environment situation, but also the results of several measures that were undertaken by the company in the last year or so in order to control losses, to control claims, and reflects a lot of those operational gains that we believe will be fruitful going forward.

Marcelo Teles:
That's very helpful, thank you.

Carlos Firetti:
You're welcome.

Operator:
Our next question comes from Mr Tiago Batista with Itau BBA. You may proceed.

Tiago Batista:
Hi guys. I have just one question about the insurance results but this time on the operational side of things for these results. The results of insurance have improved a lot this quarter and if I´m not wrong, this was the best quarter ever for the operating insurance results. Do you believe this level is recurring, we can see this level of insurance results in coming quarters similar to this one? And also if there's any one-off impact that explains this very strong insurance results?

Carlos Firetti:
There are some trends that we need to mention, are in our view sustainable. The improvement in health, basically we did a lot of homework to really control costs. There's the stability of the unemployment ratio, remember we always have that in the increasing of an employment. Basically we had an increase in frequency due to this even though unemployment is not going down, actually it's more stable. So we have benefits on insurance, on health insurance. We also have improvements in claims in other lines and also we had some improvements, or at least we have been keeping our administrative efficiency ratios.

Vinicius Albernaz:
Yes I think, Thiago, it's important to mention it's coming also from lower commercial ratio, expense ratios, commissions ratios, lower administrative costs and also you have to remember that this is counterparts of the financial side. I mean when the insurance business, the financial results go down, given lower interest rates, and different scenario, it is natural that you have an improvement in the operating results. Also I think you should take into account the two quarters combined compare it to last year in the first half of 2018 compared to 2017. And of course, going forward we believe that these are improvements in processes that we have undertaken and as well as controlling of this, we are disciplined underwriting policies will continue to allow us to have better operation results but of course, we also, in Brazil, and we also are linked to the general environment and that has a big effect. So we are, I think, in a very good position to capture continuing improvements in the general economic environment, should it happen. But this is a risky business, of course, to be sure this is not something that we can predict 100%.

Tiago Batista:
Well pperfect thanks for the answer.

Operator:
Our next question comes from Mr Mario Pierre with Bank of America. You may proceed.

Mario Pierre:
Good afternoon, everybody. Congratulations on the results. Two questions here. First one is related to your new guidance for provisions. The mid point of your guidance is R$ 14.5 billion. However, if I consider that you had already done 7.3 billion in the first half and you're running at 3.4 billion per quarter now, it implies that you would be reaching closer to R$ 14 billion, so just wondering how conservative are you being on your guidance for provisions? And does it reflect just being conservative because something could come up? Or should we be working with a figure closer to the bottom of your guidance rather than the mid point of your guidance.

Second question is related to your headcount and branch count. As you have shown on your presentation, they are down about 7% year-on-year but it seems like they have stabilized. At the same time, when we look at your efficiency ratio on page 17, your efficiency ratio is stable for the last 5 quarters at 41%. Part of that reflects, I think, the week NII growth or the NII contraction that you are showing. But I wanted to get a sense from you, is there more room for you to improve your costs? And what level do you think, or do you want, your efficiency ratio to get to, let's say by next year? Thank you.

Carlos Firetti:
Ok. First on your questions, I think we overall prefer to say that our target is the middle of the range, I think there's still a lot of, I think, going on, I think there is uncertainty, this 14.5 is already a very strong reduction. We think the trends overall, in terms of credit cards, are very positive ones but really we prefer to commit only to the 14.5 that is actually already very, very good.

In terms of efficiency, you are right. We did a lot but this quarter specifically I wouldn't say one-off, but margin was impacted by some effects that reduced the NII, probably we have a recovery soon on those specific lines and part of the benefit in improving efficiency has to come from revenues. We did a lot in terms of reducing cost and basically the fact we didn't improve more was because the revenue scenario for a while was very hard so we expect revenues will from now on start to help more. But we continue with our focus on cost. I think for this year we expect to close more 200 branches, probably the reduction in number of people will be slower but it should still happen. And there's also other fronts here in terms of trying to control expenses. We don't, for this year probably as I said, the expenses should be in the mid-lower portion of the guidance 0 to -2. So there are improvements in personal expenses, only by having better labor lawsuits or lower labor lawsuits that should happen in the second quarter. We still see benefits on the cost front and we expect to start to see better numbers also on the revenue front, started to capture more synergies.

Denise Pavarina:
Just to add, when I mentioned the adaptation of the branches, when we see that a place does not need necessary to have branch. What we do, we just changed to a post of attendance, where we don't have to have the security guards and it's still the cost and the space that we're using, so the costs reduces an average of 5% of the branch as what previously to this adaptation. What happens is that this will come on time, we don't see it as first, but this will come on time. And we continue to evaluate, as I said, all the points we have and considering the business model we have of our national presence, this adaptation has to be done according to the needs of the place and results that our place can bring to us so this is something that we are very carefully looking at.

Mário Pierre:
Ok. Thank you very much.

Operator:
Our next question comes from Mr Felipe Salomão with Citibank. You may proceed.

Felipe Salomão:
Hi. Good afternoon everyone. I have a question about Cielo, to be more precise. So recent months have been challenging for Cielo. Competition has intensified, important executives have left the company and results are deteriorating despite the macro recovery. I'm sorry for asking a broad question but how does the bank, as one of the controllers of Cielo, is seeing the future of the company in the short- to mid-term, should results continue to be under pressure or are they expected to improve given that the SME loan portfolio growth is accelerating.

And can you also comment if the distribution of POS devices at branches has been accelerating since the launch of the Stelo brand. Thanks. These are my questions.

Carlos Firetti:
Ok. Thank you, Felipe, we have to be careful here talking about Cielo but overall, our view for sure is, you are right in your reading, there is a change in the competitive environment in the acquiring business. Cielo had some advantages in the past that are not there anymore, there's a strong increase in the number of competitors, but Cielo remains a great company. It's our partner for our initiatives in the acquiring business. We do with them our POS machine, co-branded POS machine. We have been growing there in terms of numbers of POSs. Their POS is our vehicle for playing in the individual entrepreneur business that is a business that makes a lot of sense for us. We have been investing in and positioning ourselves to be the most relevant player there. We already have a big number of clients in that segment, as clients of Bradesco, considering we also have a lot of clients also in the bottom of the pyramid and we are improving our offer to be even more competitive in that segment, offering the tools for attracting and providing the best service for the client. We are selling quite actively Cielo POS, the Bradesco co-branded POS, as well helping them in other situations. So basically, we are comfortable and think they will very soon overcome these pressures in revenues and in terms of mark. We have sold so far, considering both, Cielo, the co-branded, and Stelo machines, about 110,000 POSs so we are quite happy, we have just started on that.

Felipe Salomão:
Ok. Thank you, Firetti, thank you for your answer.

Operator:
Our next comes from Mrs Natalia Corfield with JP Morgan. You may proceed.

Natalia Corfield:
Hi all, thank you for the questions. With regard to your capitalization we saw this a decline of a hundred basis quarter on quarter and I want to know first, what to expect for the second half of the year, if you think there is a chance that we will continue

to go down. Secondly, if you are comfortable with the levels that you currently have and if you are not, which would be the comfortable level of capitalization for you? These are my questions.

Carlos Firetti:
Ok, Natalia. Thank you for the question. Basically we are comfortable with this level, but we understand, and I think everybody understands that actually we generate a lot of capital organically through retained earnings that should continue. This quarter we have especially in the corporate business and also due to FX and acceleration in long growth, part of it is due to these specific issues even though we believe loan growth should continue, probably these effects are more like one-off. As I mentioned in the presentation, part of the impacts or most of the impacts come from mark-to-market in our securities portfolio and most of the securities are short-term and as we converge to maturities and considering that basically, we believe that we recovered this mark-to-market to our capital. Also, consumption of tax credits generated that also impacted just let some quarters go and we should consume a big part of it. So basically, we think our capital will naturally expand over the coming quarters. We have said, we believe some sort of comfortable level would be something around 13.5 tier 1, probably 12 principal capital plus the perpetual bonds and we think we may get there in not that long considering all the trends, capital accumulation and actually recovering this mark-to-market that should naturally flow through to our balance sheet.

Natalia Corfield:
Ok, and what about the core equity at 10.6% level, is that something that you have on your mind, or you think that gradually based on what you said, when the effects of the mark-to-market fade, they should gradually improve?

Carlos Firetti:
Yeah, that's… as I said, Basically, we naturally improve with this natural evolution plus earnings retentions. We continue generating capital organically through earnings retentions.

Natalia Corfield:
Ok, and to reach the comfortable level of tier 1, do you think about the issuance of T1?

Carlos Firetti:
You say perpetual bonds?

Natalia Corfield:
Yeah.

Carlos Firetti:
We are always attentive to this market but we don't have any plans at this moment for issuing but we are always looking.

Natalia Corfield:
Basically if you wish?

Carlos Firetti:
Yeah if we wish, we could issue up to 70 bits more, we already have 80 bits in issuance made here in Brazil.

Natalia Corfield:
Ok. Thank you

Operator:
Our next question comes from Mr Carlos Gomes with HSBC. You may proceed.

Carlos Gomes:
Hello, good morning. The line is poor, and you may have trouble answering these questions I apologize for that. The first one is about the prudential adjustments that we see on page 19, 0.3 percent decline, I remember that this is related to Basel 3 implementation but that should have come in the first quarter, so can you explain why you had another prudential adjustment this quarter and if there is more in the coming quarters.

And the second one was -

Carlos Firetti:
Carlos. The line is very poor. Let me answer your questions one by one that is going to make it easier, ok?

Carlos Gomes:
Sure.

Carlos Firetti:
Ok. First, basically this prudential adjustment basically is something that adds to the prudential adjustment. Basically, I mentioned in the call, the prudential adjustment basically is the increase in the stock of tax credits. Mostly related to FX variation on our hedging of external FX exposure. So basically, this quarter, given the level of real depreciation, we had this tax credit that are deducted from our equity. That's it. And basically we should consume that over time.

Carlos Gomes:
Ok I understand you have no exposure on the currency, you have, because of your hedges, an increase in the tax credit and those portfolios were smaller <line cutting>

Carlos Firetti:
Yeah I don't have any FX exposure, the only impact is really the effect of the duration of tax credit.

Hello?

Carlos Gomes:
Look, <indistinct> and your tax rate itself <indistinct> was that also related to the <indistinct> currency?

Carlos Firetti:
Carlos, would you mind to call me? After the call? I'm really having trouble to understand, maybe we can discuss that..

Carlos Gomes:
Ok, thank you.

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

Denise Pavarina:
I would like to thank you everyone for participating of this call and as Firetti just mentioned to Carlos we will be available for further questions later on. Thank you. Have a very nice day.

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