

Transcript of the Conference Call
3Q18 Results
November 1st, 2018

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 differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Carlos Firetti, Market Relations Director.

Carlos Firetti:

Hi everyone welcome to our conference call for discussions of our 3rd quarter results we have today with us our chief executive officer Octavio de Lazari Junior our executive director and investor relations officer Denise Pavarina and Vinicius Albernaz, the CEO of Bradesco Seguros. Now to begin our presentation I turn it to Denise.

Denise Pavarina:

Good afternoon everyone. Thank you for participating in our call. I'll present the main highlights of the quarter and then I'll pass to Firetti to complement with the numbers and for Vinicius Albernaz for the Insurance Group results comments.

Going to slide three, the third quarter was a good one, even with the volatile environment that we faced. We reached 5.5 billion reais of net income, 13.7% year-on-year growth. Our Operating Earnings with a 24.8% growth year-on-year showed the improvement we had in our operations. Our return on Equity reached 19%, an expansion of 100 Bips in the last 12 months. If you look at the other side of the slide, our loan book continued to grow with improving quality, the delinquency ratio is one of the lowest levels we ever had and our tier one BIS ratio improved 80 beats in this quarter.

Going to slide four, I would also call your attention to some of the third quarter events and themes

that have a major impact in our activities. Among the list that appears in this slide, I'd call your attention to the mortgage leadership, that we had in the first nine months at both in Commercial and individual loans. This is a very important activity for us that provides a long-term relationship with our clients - the possibility to sell a set of products - and we were leader even when compared to Caixa Economica Federal, which traditionally was the leader.

Secondly, the termination of the JV we had with Fidelity will allow us to unify card processing and obtain synergies that will ramp up reaching up to R\$200 million per year from 2020 onwards. We also have acquired 65% of RCB shares: this is a recovery company, with the objective not only to enter in this business that can be very interesting for us but also to increase our credit recovery efficiency in up to 25%.

We are improving the cross-sell capacity with our non-checking account customers, about 40 million today, looking for a more worthwhile and long-term relationship with these clients and completing our digital platforms with digital wallet as well as providing a full MEI platform under open banking concept where we have already 367,000 users.

Going to slide five, we have been adjusting our Branch Network and this will be a continuous process looking for more efficient and cost reduction. This is also possible due to the growth that we had in the number of digital clients, a growth of 35% only in the last 2 years. We will continue to close or transform some branches into lighter branches or cashless branches, which will maintain our presence and therefore our clients with a lower cost structure. In parallel, we are growing our digital platforms and should reach 1.5 million clients by the end of 2019. These platforms allow our account managers to cover three times more clients increasing by 40% the profitability year on year when we compare to the traditional branches.

As we analyze case by case, we still see great opportunities in maintaining our presence locally in several regions as we had in the payroll acquisition transaction in Paraiba State as an example, where we experimented a 50% increase in the credit portfolio and almost 44% growth in deposits. In slide 6, following the macro trends, we have developed, a few years ago, an innovation ecosystem that has already brought a number of good improvements and strong innovation culture to Bradesco, so important in this disruptive scenario that financial services are facing nowadays. Our inovaBra Habitat has already 60 companies and 180 startups, which have a relationship with us either via collaboration ideas exchange as well as through Investments through our Venture Capital funding.

We have also the most advanced initiative in artificial intelligence in the Brazilian Financial Market with BIA, where 7.5 million clients already interacts with BIA. Besides improving our client experience and reducing costs, our clients already can perform some interaction with BIA in order to see their statements and call for positions and, very soon, they will be able to do transactions. Continuing in slide seven, the number of digital clients as well as the transactions have been increasing fast, as we can see in this chart. We reached three hundred thousand clients in our totally digital born bank Next, and now we should reach 500,000 clients by the year end of 2018. If we consider also the opening of accounts digitally at Bradesco, not only Next, we have already opened 365,000 accounts together.

In terms of transactions, we had over the last two years a fast expansion for individuals, and companies also do most of their transactions via internet or mobile banking.

And we can see also in this chart, the increase in loan origination both for individuals and for companies. In the case of the individuals, we more than doubled the volume of loans via the internet, and in companies, we tripled the volume in the last 2 years.

We go to slide eight, as you know, we have a complete solution in payments for our clients. We have already distributed to our clients 85,000 co-branded POS with Cielo and 123,000 Stelinhas, both incremental to Cielo existing client base to face the new competition environment. We believe we are developing the best solution for small business and our website MEI Fácil offers a full range of solutions and has already 350,000 users. A MEI Client can enter in this platform and start their business, getting the registers they need, get accounting advisory and do their financial transactions. So, it's a complete platform to those Clients.

We also have a complete range of alternatives in digital wallet, as you can see in this chart, and I would call the attention to the usage of a QR code, that we're doing, that will enable 100, almost 200 million cell phones that do not have the NFC function to perform payment, which is the majority of Brazilian population.

In slide nine, one of the points that we address, that really needed the catch up and we feel that we are very well now addressing in this sense, we designed a strategy focusing on improving the experience of our clients in wealth management. These 1.3 million clients that we have.

We also redesigned Ágora and the services that Ágora and Bradesco brokerage house provide to our 300,000 clients, that includes, for all in this group, recommended portfolio of investments as a general view and pension plans, also in terms of advisory. The service is focused on the Persona, not the simple profile, but is a little bit deeper than the profile. And we have been investing in tools in, qualified people, besides the increase in the teams that are attending those clients either locally or globally.

And the last page, just to remind that Bradesco adds a great amount of value to the society, 2018, up to September, we added 45 billion reais and distributed, as we see in this chart, Dividends, Government Contribution - basically tax -, work remuneration and profit reinvestments as a whole. And Bradesco foundation, which is our main shareholder and is very inspirational for us because, as a pride, they provide the students study from kindergarten to high school. And we have provided that through Bradesco foundation, just in 2017 to 97 thousands students.

Now I would ask Firetti to detail the financial results and I will be here also to answer any questions. Thank you.

Carlos Firetti:

Thank you Denise. Going now to the highlights of our income statement, we had, as Denise pointed, good results: our earnings grew 6% in the quarter and is growing 13.7% year-on-year; first nine months accumulated at 11.1%, in the quarter; we reached 19% ROE. We think it's a big

highlight the evolution of our operating income, that in the quarter is growing year-on-year 24.8%. I think the Improvement in the operational income gives a very good assessment of how we have improved our operations over the last quarters. Going to page 13, our return on Equity, as I pointed, we reached 19%, we had a very good evolution, considering the horizon since the fourth quarter 16. We believe we have reached a new level of ROEs and we still focus for expanding, we believe that the economy, the improvement in the economy, the opportunities that we will arise from it, with more Loan growth, and also the maturity of many of our initiatives, will allow us to actually look for higher profitability levels.

Page 14. We have our loan origination. We have been delivering for a while very good levels of loan origination growth, in individuals, in the third quarter year-on-year. We have an expansion of at 29.5%, for companies loan origination is growing at the rate of 40.6%. The reduction in the Companies in the quarter is more related to a strong base in the second quarter, due to some specific operations, but we continue seeing a very good pace of evolution in loan origination.

In slide 15, we have our expanded loan book. Our total loans are growing at 7.5% year-on-year - in the quarter we grew 1.5% -, excluding the FX impact from the loan growth (loans increased 1.2% in the quarter and 5.6% year-on-year). The majority of the FX impact is on the corporate portfolio. We see individuals growing nicely at 8.1% year-on-year, most of the lines in the individuals' book are growing at high rates. Except for cards, where we are growing actually nicely on the portfolio of clients of Bradesco, our own clients, the slow down happens more on private label, where we are still finalizing some adjustments. We believe we should go back to growth soon. In terms of SMEs, growing at 8.3% year-on-year, we see a good demand and we believe this portfolio will keep expanding. On large corporates is partially: this growth is explained for FX, also some specific operations. We have appetite for operations in Corporate, but keeping a very high level of discipline in using our Capital, we believe that in the longer period we are going to see Individuals and SMEs loans growing more than Corporates.

Another important thing on loan growth: we believe a sizable part of the growth we have been presenting is due to the fact that we have been improving our credit score models. Bringing more data and having better information for models, and taking decisions, that has been allowing us not only to originate credits with good quality, but also to originate more, because it gives us the security to actually underwrite more loans.

In page 16, our net interest income. Our net interest income is shrinking 1.6% in the first nine months of 18. The interest earning portion, that is the base of our guidance, is shrinking 2.2%, almost in the middle of our guidance as we had indicated. In the quarter, we had an expansion of 4% with an improvement in the insurance line and also in the asset and liability line, and also an increase in the credit intermediation, mostly due to the positive impact of loan volumes.

Page 17. The 90 days NPLs remains as one of the biggest highlights. Right now, we had a big Improvement in the SME book, where we had almost seventy beeps reduction in NPLs, basically with some companies in this segment, actually paying some non-performing loans. We think the quality in the SME book should remain quite strong, given that the new vintage keep performing very well. Also, we had a good performance in Individuals, where we had, as I mentioned, the positive impact of better vintage, also helped by the improvements we have been making in the

model. In Corporates, the NPLs are still high. We believe over the coming quarters, over the coming year, we can see improvements in this line. The performance that is not, is sometimes driven more by a few cases but we believe that with the economy improving, and looking to the profile of most of our exposures, we believe trends should be also positive on Corporates.

In the slide 18, we have, on top, our NPL creation versus the gross provision expenses. Our Provisions represented this quarter 121% of the NPL formation. This is in large portion due to the credit recoveries we had this quarter, where we had some of the recovered based on new loans that we bring back to our loan book at full provision, and that increases Provisions in the quarter. The NPL formation itself is doing quite well, remaining as a percentage of the loan book well behaved. In the lower portion of the chart, we have the cost of risk. Basically, we remained at 2.7% of the loan book. This is close to the lowest levels we have seen. We believe cost of risk can continue improving over the coming year, but we potentially can go to levels below the bottoms we have seen in 2014.

Page 19. We have our renegotiated portfolio. The total renegotiated portfolio had an increase of 30 bps, but this is mostly due to the recovery of loans that were off balance. This increase in the renegotiated portfolio didn't affect NPLs. That can be seen when you look at the red line, that is the renegotiated portfolio of loans, that were still in our book. This portfolio actually decreased in the third quarter by six hundred million reais. We remained quite well provisioned in the renegotiated portfolio.

In page 20, slide 20, the coverage ratio over 90 days increased to 243% in the third quarter, from 230. This is a very high level of coverage. We think the coverage is not a driver for provisioning in our... Basically, this increase has to do with the Improvement in NPLs and the fact that we have a buffer of 6.9 billion reais of excess provisions, that has been remaining intact in our balance sheet. We don't have any defined intentions of doing anything for reducing proactively coverage, but it's something we can always discuss.

Fees and commissions: basically, we had an increase in the first nine months of 5.6%. The lines that presented the best performance were the custody and brokerage with 10.9% growth year-on-year, despite the fact that it's reducing on the quarter. We keep growing nicely in the checking account, is due to the/partially due to the synergies we have been able to capture from our acquisition, and also Asset Management, that is due to the efforts we have been making in our wealth management business.

Slide 22. Our total expenses are growing at 0.9% in the first nine months. This quarter, we had the impact of the collective bargain of banking workers that happened in September. We believe our costs will remain well behaved in the middle of our guidance, from -2 to plus 2, so close to zero. We had an increase in the number of employees at this quarter. This is mostly due to some projects we have been investing on. One of the most important of them is the "meu doutor": health clinics, that is a project that, we believe, can overtime help us to keep the costs in our health insurance operation under control. We kept reducing the number of branches, almost 50 branches this quarter, we keep focused on adjusting our Branch Network, closing some branches but also converting branches in points of service where we can keep the business and, at the same time, having benefits in terms of cost.

In slides 23, slide on Insurance, net earnings of Bradesco insurance are growing at 11.6% year-on-year, despite the fact that, in the quarter, we had the reduction of 7.6. We believe in the case of insurance is always better to look longer periods, since we have some variations in the quarter-by-quarter that are sometimes due to some specifics of the business Dynamics. The ROE for Bradesco Seguros is at 19.1% in the first nine months of 18'. In terms of the performance of premiums, premiums are showing a reduction of 3% in 9 months this year. This is due to the weakness we have seen in the market, specially in the pension business, and also some adjustments we have been making in auto insurance. We reduced a lot the operation of fleet of cars and trucks and this is what is causing this impact in Auto insurance.

In page 24, we have the two important ratios for insurance. The claims ratio that is going down for the second quarter in the row, reflecting the improvements in claims in other segments. But, I would like to highlight Improvements specially in Health, that is a result of the measures we have been taking to control the claims and cost in the health insurance operations, like negotiating with service providers package of service that has been helping us to reduce the overall costs of the operation. Also, I call your attention on the combined ratio that has been improving for many quarters reaching 84.1%. This is a very important indicator of the performance of insurance company and we are delivering well on that.

Slide 25: our BIS ratio. We had an increase in Tier 1 by 80 bps. This quarter, this is due to earnings retention, but also the effects of Central Bank resolution 4680, that changed the treatment on the tax credits from fiscal losses, basically gave us 40 bps in Capital. We keep originating Capital organically quite strongly, and we believe we will keep adding capital over the coming years, even considering we are growing more. Considering FX: if FX remains in the levels, they are right now or below, actually, that could also help additionally capital, since we could consume the tax credits from fiscal losses that are still in our balance sheet that would also reduce risk weighted assets on that particular item.

To conclude, in page 26, we have our guidance. We have been delivering almost all lines, the only one where we are below is on the insurance premiums with total premiums in the year dropping 3.1%. We feel we can approach the guidance range in the fourth quarter, considering it is by far the most important quarter in the year but, apart from premiums, actually, we are doing quite well on the operational results of insurance.

So now I conclude the presentation and open to questions.

Operator:

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

Our first question comes from Mr Carlos Macedo, with Goldman Sachs. You may proceed.

Carlos Macedo:

Hi. Good afternoon Gentlemen. A couple of questions. The first question is about your provisions: you mentioned the highest coverage you ever had in a long time, at 240%. If you look at the breakdown of provisions, most of them comes from growth in the generic provision. You don't have any growth in excess provisions and your required provisions declined. So the question is: is there room for you to/ - that's in large part, driven by you perspectives on credit worthiness, particularly in the corporate side, that is where generic provision has got to be, largely - is there any perspective in improving or changing some of the credit perspectives there? In other words, is there room for you to be more positive particularly about this Large Corporate borrowers [indistinct], lower the requirement for provision in a generic basis, which is something you can do? Second question: can you talk a little bit about margin? The credit margin declined this quarter. Looking at your competitor Itau and Santander, is there something specific here, Santander <Indistinct> regulatory pressure or do you feel it's more pressure from competition? Thank you.

Carlos Firetti:

Okay, thank you Carlos. On generic Provisions, Carlos, this quarter, specifically, as we mentioned and we put in a note in the release, we recovered about three credits, that amounted 920 million reais, and these credits came from Court recovery process, and when we recover them, actually, we made generic provisions, because after recovering, they are performing loans and making these provisions. They are generic, so this quarter we had about 900 million reais increase because of this credit recover. It is not really something that relates to the dynamic of the portfolio. It is a specific thing on which. Actually. we don't have control, we have to follow this rule. Over all the trends on provisioning, credit quality remains quite strong. We should continue having improvements going ahead. Regarding margins, we see spreads in some lines going down, nothing actually dramatic, but going down gradually, and that's fair considering that we had the big reduction in the cost of risk, and Banks, as a whole, are looking for growing more. What we believe is, basically, we have some portfolios, a very good capacity of origination - like in mortgage, our position and the way we operate it - and in payroll loans. And also, over all margins, we believe the mix, specially when we have much bigger growth in individuals and SMEs, as opposed to lower growth to Corporate, this mix effect should help our margins. We believe from the current levels, margins are probably likely to stay flattish or even improve a little going forward considering mix.

Carlos Macedo:

Thanks! Going back to the first question, even if we exclude that 920 million step up in the year over year generic, I understand that It's an year over year issue. What conditions would you need to see/to start taking a more favorable view, that I think is the key question? Do you need to see GDP growth accelerate? Do you need pension reform? What should we think about that may lead to some reductions in your provisions for some of your Corporate Clients?

Carlos Firetti:

Basically, we need to see these clients paying part of the debt. Actually, we have to see their actual credit capacity, or credit quality clearly improving. You have to remember that we had a big crisis and that the corporate segment was especially affected. There were some renegotiations and, most of the cases, we got/we were able to strength our positions in terms of collaterals. But, we think in some sectors, even though we see good signs that the companies are improving, we need to see much cleaner signs that, actually, the companies are totally turning around before actually reviewing some of the provisions.

Carlos Macedo:

Ok perfect thank you!

Operator:

Our next question comes from Mr Marcelo Telles, with Credit Suisse. You may proceed.

Marcelo Telles:

Hello everyone. Thanks for the time and congratulations on the strong results. I have a couple of questions. The first one: now that we have elections behind us, how are you assessing your credit risk models: do you think there is a chance that you may increase your risk appetite with elections now behind? Is it possible to see a loan growth for Bradesco, going to next year, with double digit, in a scenario that is more benign economy, considering that this year you are growing 5,6% FX adjusted? That's my first question. The Second question regarding the threat of Fintechs: how does Bradesco see - playing out for you: we know there has been some pressure on fees. It is very clear from other banks that have reported so far, are showing some fee pressure - do you think that's what we are going to see down the road or you anticipate some pressure in credit as well? Thank you.

Carlos Firetti:

Okay.

Denise Pavarina:

Hi Marcelo. This is Denise. Starting by the risk appetite: we will increment marginally the credit, according to our models, because they are able to capture the better performance of our clients, so we increase the appetite according to those models shows. So, we'll not do anything too aggressive. But, as you follow the market - as you know -, we like to lend money, we like to offer service to our clients and so will use all the instruments we have to increase the level of credit we have in a safeway.

In terms of Loan Growth, for next year, of course, we need to understand how this growth of the country will happen. But, normally, we see elasticity being twice the GDP, so we can say something around 8%. We are not giving guidance because this is something we do in the beginning of the year, but it's possible, likely possible, to have a number like that. In terms of fee pressure, you were asking about competition, that's correct? if the credit would suffer too, is that correct?

Carlos Firetti:

Yes, Fintechs.

Denise Pavarina:

Ok, so what we see, of course, we see a lot of movements going around. But we haven't seen in credit any special movement that would call our attention and, in the other side, we are preparing all of our platforms to be able to provide credit to our clients in a more cheaper way for us, in the sense that we can offer the best price, best conditions to our clients. We don't see, but we are preparing ourselves to any challenge that we have to face in the market.

Carlos Firetti:

Marcelo let me complement your questions: regarding growth at two digits, for the full portfolio, it is hard to say. The corporate book could be growing less, given that part of what's going to be underwritten is going to go through the capital markets investment-banking. But, in some portfolios - maybe individuals, maybe small companies -, we think, actually, there's conditions for accelerating growth.

We have, as Denise said, risk appetite. Apart from that, there's a big improvement in the credit models. We have been able to give these improvements, given a better assessment of credit quality. We can approve more. This is part of what's going on. There is very important projects being finalized soon, that could help us even more on that (better assessment of credit quality). Therefore, even though, we are not lowering the bar, we are actually approving more.

On Fees, complementing what Denise said, this quarter, when you look to the performance, it was not really the best quarter in terms of fees, but there are some specifics like Investment Bank: it was a particular weak quarter. There was not much activity given the scenario. We think, going ahead, this line can be a very strong one, given what we expect in our position, actually, in the market. Fees are also being impacted by the cards line, where there is a lot of competition especially in the acquiring business, but we believe that with the acceleration of the economy, we're going to see the positive impact of volumes. In terms of asset management, actually, given what Denise mentioned, our efforts, in terms of wealth management, we are doing a lot of things that in our view can actually allow us to grow more than the market, given that we can, actually, go more towards we believe it's our fair share in this market. So, I think/I wouldn't say necessarily the fee line is going to be very weak... it's we still believe we can have some decent growth that.

Yeah... yeah... also the letters of credits and guarantees line: it was mostly due to some redemptions on some letters of credit, in a stronger economic activity potentially we can have that line actually expanding. It is sometimes related to the Investment Bank activity.

Marcelo Telles:

That was very helpful, thank you.

Operator:

Our next question comes from Mr Jason Molin, with Scotiabank. You may proceed.

Jason Molin:

Hi, thank you very much. My question is on the balance sheet, specifically this quarter: I saw another negative impact from the Mark to Market of available for sale, securities, about six hundred million reais, according to my calculation. This follows last quarter's 3.5 billion hit, but doesn't go through the income statement. I am just trying to understand, I understand what the mark to market of available for sale is, and looking in your balance sheet and I do see a large increase in the in the bonds and securities long-term about 40 billion in short term reduction in 12 billion. I am just trying to understand this. In the third quarter we didn't see, I am just looking at long term rate, decrease that we see in <indistinct> do you expect the book value to rebound if the markets stay where they are, and what I am really trying to understand the trends in return on equity <Indistinct>.

Carlos Firetti:

Okay, thank you for the question, Jason. Basically, as you mentioned, the mark to market is related to the fact that the interest rate curve still moved up in the quarter. As you said, the improvements we saw in the scenario were not fully captured in the end of the third quarter. With the reduction in rates and better market conditions, yes, the values of the security increase, but during the quarter, and also last quarter, as a measure to protect our balance sheet in a scenario of volatility, we transferred some securities to held to maturity. With that, some of the mark to markets will not flow back immediately with the improvement in the market. But we don't feel this is a problem because the nature of those securities are relatively, the maturity is relatively short. We will accrual the interest on that and we capture the higher value of those Securities as we converge to maturity. But, the part of the book that is still in available for sale, yes, we can see improvements in the Mark to Market.

Jason Molin:

So would you say that the majority - I am just trying/I am just looking at the short term security declining 12 billion in the long term 40 - is that... that wouldn't be the switch from available for same to held to maturity, in this case, that is the impact that I guess would adjust/would impact future valuation adjustment, so what is going on? Is this a strategic shift in the balance sheet... more bonds and securities there? is this from insurance or from banking operation?

Carlos Firetti:

There wasn't any specific switch this quarter, Jason. Maybe I have to look further on the details of what you are saying. But, basically, structurally, we didn't do anything new this quarter apart from, actually, this change of part of the portfolio to held to maturity. Sometimes, when we acquire a position it is still in trading and then it goes to other lines. I think it's better if we just talk and you show me specifically what we are referring to and I try to get an explanation.

Jason Molin:

That is very helpful, thank you.

Operator:

I would like to remind you that to ask a question you just have to dial *1.

Please hold while we wait for questions.

Excuse me Ladies and Gentlemen, since there are no further questions I would like to invite the speakers for their closing remarks.

Denise Pavarina:

First of all, I'd like to thank all of you for your time taking the call and to say that our balance sheet, this quarter and if you look at the 9 months, have shown the efforts that we have been doing to work in several areas. As Octavio like to say, we don't have a silver bullet, we do work in several lines, in several fronts, in order to increase the results, reducing costs, which should continue to be our effort... and Bradesco has being a bank that has a branch Network spread throughout Brazil, is well prepared to take advantage of the growth of the economy if it comes for the next years. So thank you very much and have a nice weekend.

That does conclude the Banco Bradesco's conference call for today, thank you very much for your participation and have a good day.