

Transcript of the Conference Call
English
1Q19 Results
April 25th, 2019

Announcer:

Good morning, ladies and gentlemen, and thank you for waiting.

We would like to welcome everyone to Bradesco's first quarter 2019 earnings results conference call. This call is being broadcasted simultaneously through the Internet in 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 company's presentation. After the presentation, there will be a Question & Answer session, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

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

Carlos Firetti:

Good afternoon everyone, welcome to our conference call for discussing our earnings results for the first quarter 2019. We have today with us participating in the call our CEO, Octavio de Lazari Junior, our Executive Vice-President and CFO, André Rodrigues Cano, the CEO of Bradesco Seguros, Vinicius Albernaz, and our Executive Director and Investor Relations Officer, Leandro Miranda. Now, I turn the floor to Leandro for starting the call.

Leandro Miranda:

Hello everyone. Thank you so much for joining our first quarter 2019 earnings review conference call. We start this presentation with a sense of pride about our Bank, and about our almost a hundred thousand employees. It is remarkable how much we have accomplished in terms of financial performance so far, and we see with a lot of room to grow. As we continue to accelerate investments in our people, diversity in all of our levels, product sources and technology. The first quarter was another strong quarter for Bradesco. With the firm generating record revenue and record net income, as well as a growing ROE. In spite of the increased confidence level noticed in the end of 2018 and the beginning of 2019, the Brazilian economy has not shown the expected

strength in growth yet. As a result, we have revised our 2019 GDP growth expectation to 1.9%. We believe the recovery will get momentum as the pension reform is approved and the economic agenda moves forward, but we foresee a gradual but steady growth which is positive for inflation control and the maintenance of low interest rates. Despite the scenario, we are very pleased with our results, which we strongly believe were due to our strategic positioning, growing client focus, and this is very important in our strategy, effort and dedication of our teams, and the fact that the Bank is pretty much adjusted and prepared to grow. We remain flexible to face volatile market conditions, and we believe that until the pension reform get approved, that is the market that we shall face. But, we are going to be investing continuously in our people and technology, and very focused on serving the needs of our clients.

The first quarter was very strong for us. As you can see on page 3, we earned a R\$6.2 billion net income, up 22.3% year-on-year, reflecting a strong and relying performance across all of our businesses. Keeping the growth trend of the previous quarters, our annualized ROE reached 20.5%, and growing. We are confident to keep this level. The expanded credit portfolio accelerated its growth pace, and reached more than R\$558 billion reais, up 12.7% year-on-year. In this sense, we would like to highlight the balance and the sounding growth that we achieved in the main lines of our credit products to individuals. We are going to get into more details afterwards. Credit quality improved again this quarter, and the 90-day delinquency ratio was down 24bps in the quarter. Finally, we highlight the further increase of 70bps in our Tier 1 capital, reaching therefore 14.4%.

On page 4, we highlight some of the several important initiatives we had in this quarter, such as the net number of checking accounts, growing approximately 360 thousand in Bradesco, our mature platform, and approximately 300 thousand in Next, showing that both platforms grow and benefit from our technological and client-focused strategy as well. The healthy growth performance of individuals' loan portfolio reached almost 200 billion reais up to 12.8% year-on-year, and our outlook for credit remained very positive. The creation of an incentive program that rewards a steady performance of our managers enabling almost 30 thousand people to work performance bonus from now on is something new and something that is pretty much energizing our sales force, and giving us all the elements to believe that we shall grow steadily this year. And for last, in this page, I would like to highlight that the strong growth in the net income of our insurance business that reached 1.8 billion reais up 16.1% year-on-year.

Moving to page 5, we briefly present our strategy of technology, for technology, that is comprised pretty much of three pillars. The first one is the transformation and modernization of our traditional bank through the growing focus on client and the intensive use of technology; we aim to delight our customers, in every single market that we play. BIA, that is Bradesco's Artificial Intelligence, is a more and more important component of this strategy, as it acts across all of our products, across all of our services, departments, and even in different environments here. The second pillar is our digital bank, Next, our fintech. Next is rapidly becoming an independent full digital bank providing a more complete, funny, innovative and convenient experience to clients than any other fintech sets in Brazil. And the last but not the least pillar is preparing the bank to run in the open bank world, taking advantage of our platform flexibility to distribute not only Bradesco's products and services through several fintechs but others, as we already do in our main portal, as well as in Agora, for instance. We believe that these three pillars put us in a very

flexible and broad position to adapt to several different scenarios, and combine our tradition and safety with innovation and client focus. Important to say that in 2019, we expect to invest more than six billion in technology, one third of it in innovation. It is huge.

Moving to page 6, we present BIA, one of our transformation initiatives of the Bank. It puts us in the vanguard and cutting-edge position in the use of artificial intelligence in the financial markets not only in Brazil, but worldwide. We are pioneers in launching such a tool to clients, and we will continue expanding fast due to the use of artificial intelligence. BIA is a multiplatform, as it uses IBM Watson, Google Assistant, Amazon Alexa, Microsoft Cortana, and has been recognized by IBM as the largest IBM Watson bank implementation in the whole world. BIA allows us to cut costs, but it is mainly a tool to improve our customer experience, and this tends to expand revenue. We have recently achieved the level of 100 million interactions of clients with BIA, with a 90% accuracy.

Then, on page 7, we explore a little bit more this digital world. We are quite impressed. We highlight Next, which achieved 800 thousand clients by the end of this quarter. We are opening about 7 thousand accounts daily, and we expect to reach 1.5 million clients by the end of the year. Seventy-seven percent of these clients who joined Next were not Bradesco's clients, and the churn is very low, only 2%. In the first quarter, Next's credit portfolio grew 38% and deposits 35%. And 28% of Next customers have pre-approved credit lines, and we are increasing this number every week. BIA customer's interactions through WhatsApp had significant evolution, reaching more than 30 million transactions in the quarter. The volume of loans released through mobile and Internet increased steadily. The figure was up 90% year-on-year for individuals, and 159% year-on-year for companies.

Regarding to SMEs, we can move to page 8, just to give you a flavor, and you are going to see that we continue to expand our offerings to SMEs and micro-entrepreneurs embedded with open banking concepts that is pretty much aligned to what the Central Bank has released yesterday. We sold 314 thousand Stelo POs through our channels, and our micro-entrepreneurs portal reached more than 854 thousand users.

Moving to individual credit loans on page 9, we are going to see that one of the main highlights is our strong growth to credit individuals. It is really impressive. The main factors that contribute to this good performance are: first of all, our strategic positioning that allows us to have a stronger growth in payroll loans and mortgage, improvements in our mortgage product formalization, successful commercial partnerships, evolution in our credit modeling, which allows us to have a higher approval and improved quality process, and especially the use of income estimates through algorithms. We have more than a hundred PHDs and MMD guys working for us within our platform and helping us to achieve outstanding results every day. As a result, we achieved strong growth in the main product lines: up 23% in personal loans year-on-year, up 16% in mortgage loans, up 18% in payroll loans and up 14% in vehicle loans. And we are still very confident to improve those numbers throughout the years.

Finally, here, on page 10, we would like to highlight the important value that we share with society. We have value added to society more than 16 billion reais in this quarter, out of which 28.4% was related to employees' compensation, and more than 30% to taxes. We also present

the relevant contribution Fundação Bradesco has made to community, as it is currently providing a high quality education to more than 90 thousand children, and it shall invest more than 650 million reais until the end of the year.

And now let's go to financial results. Here on page 12, we will discuss the financial performance of the quarter. Our NII is speeding up and increased 4.2% year-on-year. In this quarter, credit provision expenses were 3.6 billion reais, close to the top of our guidance, but we do expect it to positively evolve throughout the year. Our operational result was up 15.6% year-on-year, and our net income, as we have already mentioned, was up 22.3. Moving forward, related to our ROE and ROA, we can see that we reached 20.5% in ROE, and we are reaching 1.8% in ROA. And the most important point here for us is that this is the highest figure since the fourth quarter of 2015. It represents an increase of 200bps since the beginning of 2018. We understand that the current levels of profitability are sustainable, and may present improvement in case of a favorable economy.

On page 14, we analyze a little bit of our expanded loan portfolio. It continues to grow, despite of the slower economic activity, and we believe that our positive result is founded on our solid operations, which have been streamlined by better processes, good vintages and improved credit models. The expanded loan portfolio was up 12.7% year-on-year, or 11.4% without considering the foreign exchange variation. Corporate portfolio was a very good surprise, up 14.5% year-on-year, impacted by foreign exchange variation, since it holds the largest majority of our portfolio in foreign currency. The growth of the corporate portfolio should lose pace throughout 2019, converging to the levels that we have previously forecasted, depending on the economy pace, as we may see further opportunity in the debt capital markets, and in this sense, we feel very comfortable with this change, since we are the leading financial bank in debt capital market in Brazil. Our SME portfolio had a seasonal decrease, year-over-year it was up 8.5% with highlights to retail, which is expected to accelerate further. Our individuals' portfolio was up 12.6%, and as we discussed before, highlights to personal loans, up 23.4% year-on-year, and payroll-deductible loans, up 18.2% year-on-year.

As we move forward, on page 15, you can see that our credit origination pretty much continued to have a positive evolution, and origination was up 21.5% for individuals, and up 30.5% to company's year-on-year.

On the next page, when we turn to page 16, NII was up 4.2% in this quarter, already in the lower portion of our guidance, but we see it to grow steadily. We believe that it shall reach the middle of the guidance by the year-end, and with clients, it was up to 6.2% year-on-year with a positive effect on volume and growth of our mix of portfolio, partially offset by a drop on spreads. Market NII decreased 5.8%, reflecting lower gains in ALM, and we do believe that our growth shall continue.

Moving to page 17, where we address the matter of delinquency ratios over 90 days, we see it continues to improve as well, moving closer to the end of an improvement cycle, but we can see further, see that it shall last a couple of months, and then it shall come across the same growth of revenues that we have. All lines improved allowing us a reduction of 24bps in the overall in this year.

Now, we turn to NPL creation and allowance for loan losses. We can see that pretty much, there was an improvement in delinquency and our NPL creation and cost of risk dropped again. As I have just shown on the previous page, NPL creation reached the lowest level in the series, confirming that the increase presented last quarter was seasonal. Cost of risk dropped to 2.6% of the portfolio, also the lowest level in the series. And we are keeping our guidance for provisional expenses and we aim for the center of the range, we shall keep it.

On page 19, we can see that our fee income was up by 2.4% year-on-year. The card line, as everybody expects, was impacted by the competitive scenario in the acquiring business, and by the regulation imposed by the Central Bank on the interchange fee in debit cards. Additionally, the quarter was particularly not strong in capital markets and asset management. In terms of capital markets, we expect to see a recovery as the pension reform is approved, and regarding to asset management, we do not see a further derail, pretty much because we have achieved some sort of stable yield in the country and we believe it shall keep it this way.

Moving to operating expenses on page 20, we can see that it was up 5.7% year-on-year, but although it was not in the guidance, it exceeded our guidance, it was due to very positive measures, such as the hiring of frontline sales teams in different businesses, acceleration of investments in data, and provisions related to new incentives of our compensation program. So pretty much, they are variable items that are linked to revenue and shall increase our net income. We have to make those investments right now, but we shall see the return of it throughout the year, and for the next quarters, we expect costs to be in the guidance range.

On page 21, we show strong results from our insurance arm, with profits up 16% year-on-year, and a soaring ROE of 23% in the quarter. Premiums grew 2.8% year-on-year with a positive highlight to health and auto, up by 8.4% year-on-year.

On page 22, we continue to discuss the insurance business. The good performance was mainly due to the operation enhancement; that is very good news, because this is something that we shall see the results throughout the year. The claims ratio improved by 200 bps in this quarter, it is huge, and the combined ratio improved by 50 base points. The operational result grew 22% year-on-year. The best improvement on net income was in health insurance, reaching 110% of growth. And we remain very comfortable about the insurance guidance, although we are here clearly ahead of the guidance.

Moving forward, on page 23, our BIS ratio continues to expand in spite of the portfolio growth, we accumulated capital organically. Tier 1 reached 14.4%, 70 bps over the last quarter.

And finally, our last slide here, we talk about our guidance. We are very comfortable with the lines of Loan Portfolio, Insurance and Provision Expenses. We understand that there is room to converge to the center of the guidance for NII as well as we are speeding up. In costs and fees, we are aiming to the center of the range, but we understand that it will be within the given range. In costs, we have different initiatives that we believe will bring results mainly by digitization and reduction of branch network back office. And the final message that we'd like to leave to you before we start the Q&A session is to, first of all, thank you very much for making the time to

participate in our conference call, we're going to keep working hard and focused on our clients' satisfaction and continue to deliver superior results to our shareholders, employees and general community. We believe that the value that we add is not only to shareholders, it is for our employees and community as a whole. We are now available to take your questions. Thank you very much for your time.

Announcer:

Thank you. Ladies and gentlemen, we will now initiate the questions and answers session. 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. Please hold while we collect your questions.

Our first question comes from Mr. Thiago Batista, with Itaú BBA. You may proceed.

Thiago Batista:

Hi guys, thanks for the opportunity. I have two questions, the first one about the open banking. If you can give your view about the possible impact of the guidelines of open banking released yesterday by Central Bank. So, I know that you had mentioned a bit during your initial speech, Leandro, but this can give a little bit more of view about the possible impact.

The second one is about payout ratio. Do you believe it is possible to assume that payout ratio should increase next year? Or, is it too soon to expect this possible increase in payout ratio?

Leandro Miranda:

Thank you, Thiago, this is Leandro speaking. Pretty much we are totally aligned with what the Central Bank has released yesterday, this is something that we were expecting. We have already our main portal that aligns that, as we have for some time also released in press, talked to investors, open banking is our third pillar in technology. So, this is something that we do not see as a threat, we see it as an opportunity. We are ahead of our competitors in terms of open bank and we are going to try to collaborate the more we can because we are very interested in this platform that will bring for sure benefits for the bank as a whole.

Regarding to payout ratio, I mean, we also expect that our net income shall continue to grow and perform according to our guidance. And in this sense, this is something that we shall evolve in terms of internal discussions and address this matter related to the market at the time and the opportunity that we shall have. It is very difficult to say today what we shall have to do in a market that we still have not seen, the reforms approved, the market reaction and all the opportunities that we have. So, depending on the scenario, this is something that we shall consider.

Thiago Batista:

Ok, perfect. Thank you for the answer.

Announcer:

Our next question comes from Ms. Maira Lidevolt with Wells Fargo. You may proceed.

Maira Lidevolt:

Hi, thank you for the opportunity. My question is regarding the income from credit recovery, which was about twice the amount that you recorded for 4Q18 and also for the first quarter of 2018. If you can provide a bit more color on what caused this higher income from credit recovery, and also what is your expectation for ALL expenses quarterly for the rest of the year. Thank you.

Carlos Firetti:

Ok, thank you Maira, this is Carlos Firetti. Basically, first, the increase in credit recoveries in the quarter mostly did not have impact in earnings. As we put in our release, basically we have about 1.8 billion reais in credit recoveries related to mostly two companies, one of these companies is much larger, that were off balance, basically they were on court recovery and this process finished. With that, with this restructuring of these credits, we had a credit recovery, that's the way we should... we have to account it... these loans, this 1.8 billion went back to the loan book, in credit rating H, so we made a 100% provisions on these loans. So, basically the credit recover directly to your question is related to these large corporate restructures related to the end of court recovery process for two large companies without impacting on earnings on a net basis, considering the recovery versus the provisions, and also without impact in NPLs. In terms of expectations for provision expenses, we believe we will throughout the year converge to the center of our guidance for provision expenses for this year, that is, the guidance range goes from 11.5 billion to 14.5 billion reais. We are pretty much comfortable with that.

Maira Lidevolt:

Fine. Thank you.

Announcer:

I would like to remind you that, to ask a question, you just have to dial *1. Please wait while we post your questions.

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

Leandro Miranda:

Well, this is Leandro Miranda speaking, thank you all for making the time to be with us. After this call, of course, we are going to be available for any sort of discussion, clarification of matters that you may wish, and we will remain here positive with the coming of the results. Thank you, have a great day.



Announcer:

This concludes Banco Bradesco's conference call for today. Thank you very much for your participation. Have a good day.