Conference Call Transcript
English
2Q22 Results
August 5th, 2022

Operator - Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Bradesco's second quarter 2022 earnings conference call. This call is being broadcasted simultaneously through the Internet, in the Bradesco investor relations' website: bradescori.com.br/en, where the presentation for download can be found. Please be advised that there is simultaneous translation into English. All participants will be in listen-only mode, and then we will begin the question and answer session, when further instructions will be provided. If any participant needs assistance during the call, please request the assistance of an operator by dialing "*0". Before proceeding, we would like to clarify that any statements that may be made during this conference, relating to the company's business prospects, projections and operational and financial goals, are based on beliefs and assumptions of its Board, and on information currently available to the organization. Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of the company and could cause results to differ materially from those expressed in these forward-looking statements.

Now, I will turn the conference over to Mr. Leandro Miranda, Executive Director and IRO.

Leandro Miranda - Good morning, everyone. Welcome to our 2Q22 earnings conference. We have today with us Octavio de Lazari Junior, our CEO; André Rodrigues Cano, our Executive Vice-President and CFO; I, Leandro Miranda, Executive Director and IRO; Oswaldo Tadeu Fernandes, Executive Director; Carlos Firetti, Business Controller and Market Relations Director; Ivan Gontijo, Bradesco Seguros' CEO; Renato Ejnisman, Banco next's CEO; Curt Zimmermann, Bitz's CEO and Carlos Giovane Neves, Digio's CEO. Now, I turn the floor to Octavio.

Octavio de Lazari Junior – Good morning everyone. Thank you for joining in our 2Q22 earnings conference call.

The scenario has remained quite complex in 2Q22, with a combination of high inflation, the impacts caused by Ukraine's war on global supply chains and commodities, and the need for monetary tightening in major global economies, particularly with the acceleration of rising interest rates in the US. Given this scenario, concerns turned to the risk of a global recession at the end of the quarter.

In Brazil, high inflation and the consequent impact on income were part of the dynamics that affected the economy during the period, including generating new fiscal pressures.

Despite this outlook, the Brazilian economy is a bit better, which led us to increase our GDP growth expectation to 2,3% in 2022.

The cycle of rising interest rates in Brazil has already advanced rapidly. This has led us to report a slightly less optimistic view for 2023, with a projection of GDP growth close to zero.

We saw a solid result in 2ndQ 2022, with a net income of R$ 7.041 billion, an increase of 3.2% compared to the previous quarter, representing an ROE of 18.1%.

The Loan Portfolio also posted an evolution, expanding by 2.5% compared to 1stQ22 and 17.7% compared to 2Q21. The more expressive advance occurred in the portfolio for Individuals, with a 20.2% rise over 12 months. Within this portfolio credit cards expanded by 46%. The growth at the end of the period is expected to be lower, in line with the guidance, mainly due to the comparison basis.

We point out the performance of Client NII that grew 7.1% in the quarter. The Market NII continues to be pressured by the impact of Selic increase on the ALM position. This pressure is expected to continue throughout 2022, but in 2023 we expect Market NII returning to normalcy.

The insurance business posted a R$ 3.7 billion income in the quarter, an increase of 135% over 12 months, explained by the comparison basis with last year, and 12.8% in the quarter.

Fees performed solidly, with an increase of 6.7% on an annual basis, benefited primarily by the strong performance in the line of Credit Cards, which is favored by client base growth and by higher spending.

Despite the challenges brought by inflation, total costs were well controlled. Total expenses grew 4.9% year-over-year, in line with our guidance. We have been able to offset much of the inflationary pressure through our efficiency actions, and this growth that we have had includes investments in our digital initiatives as well as additional reinforcements in the investment advisory, technology and data science teams.

We will analyze our performance in relation to the guidance later, but we can report that we were able to maintain a performance that was consistent with what we have proposed.

Moving on to slide 3, we present the earnings evolution considering the nominal variation of each line in the period.

In both quarterly and annual comparisons we had expansion in Client NII, Fees and Insurance.

This growth was more than enough to absorb the drop in the Market NII, which is currently pressured by the high Selic; and higher Credit Provisions, which are a consequence of delinquency returning to historical levels and growth in high yield credit lines.

We will now take a look at slide 4.

The Loan Portfolio evolved in line with our expectations. Origination for Companies per business day was higher, primarily due to the base of comparison which was affected by the second wave of the pandemic last year, and it is mainly concentrated on shorter lines. In the Individuals segment there was lower demand for longer lines such as mortgage, and natural caveats in credit concession.

We have seen a significant annual evolution in consumer financing lines. These are lines with higher spreads and have favored the growth of Client NII. The most expressive movement occurred in the credit card portfolio, with a 7% hike in the quarter and 46% in 12 months.

The growth of the Renegotiated Portfolio is a reflection of the advance in the credit portfolio, and also of the origination mix, with a higher share of more profitable lines.

Turning now to slide 5.

The Cost of Risk increased slightly in this quarter and represented 2.5% of the portfolio, reflecting the origination mix plus the higher delinquency in retail, both in individuals and small and micro companies.

The early delinquency remained at the same level as the previous quarter and the over 90-day delinquency rate grew by 30 bps reflecting this increase in retail delinquency. The large companies segment continues at historical lows.

Aligned with the projection we mentioned during the first quarter's earnings call, the coverage ratio showed a reduction, given that we had anticipated provisions in 2020, which are now being consumed with the effective arrears of some of these credits.

Our projections still point to defaults growing in the second half of the year, depending on employment and income conditions. We expect the coverage ratio to remain consistent at around 200%.

Turning now to slide 6.

This slide includes some charts that are relevant to credit dynamics.

Overall the employment levels continue to show a good growth, and the unemployment rate has been dipping and has reached the levels we saw in 2015.

Real wage mass have improved, which also reflects the increase in employment and the transfer of inflation to wages due to collective agreements.

It is important to highlight this graphic on the right below, with Bradesco's proprietary information, illustrating our clients' income commitment to credit servicing, considering both operations at Bradesco and also with other institutions. We see a relatively small increase in income commitment with credit servicing. In 2020 the commitment was 20.2% and increased to 21.1% and 22.8% now; ex-real estate financing, the income commitment is 20.6% in May/22.

Turning now to slide 7.

The Client NII continues to post a good expansion, both in the quarterly and annual comparison, reflecting the rise in the loan portfolio by the higher yield lines, plus the growth in revenue from funding.

The Market NII, as we pointed to in the previous quarter, continues to be pressured by the higher Selic, partially offset by the higher result on own working capital.

A significant fact to mention is the NIM increase, both gross and net of credit provisions. In the chart on the right, the gross spread rises to 10.0% and the net spread to 6.8%.

We will now take a look at slide 8 in which we present The Insurance Group's numbers.

Net income improved by 49% in the first half of the year, reflecting an ROE of 19.7%.

We emphasize the growth in revenue, which was above 16% over six months. This rise is due to the increase in the number of lives covered by Health, as well as in the number of Pension plans and Life insurance plans, and price adjustments in Auto.

Concerning the Income from Insurance, we saw a better performance, mainly related to the improvement of the loss ratio from reduced effects of the pandemic, as well as better financial results for the period. In our projections up to the end of the year this line shall reach our highest growth expectations.

We continue to see a drop in Covid-related claims. In the 2ndQ22, these events represented R$ 348M, the lowest volume since the beginning of the pandemic.

Turning now to slide 9.

Fees jumped 6.7% year-over-year, reflecting the addition of 4.3 million clients in the last 12 months, totaling 75.5 million clients.

The credit card line spiked 32% in one year, reflecting a higher transacted volume in cards which topped R$ 73.6 billion this quarter.

This growth in volume is a consequence of a larger clients´ base, the normalization of the economy and also the effect of inflation on our clients' spending.

Turning now to slide 10.

Operating Expenses increased by 4.7% in the accumulated six-month, much lower, half of inflation in the period, with 10.7% IGP-M and 11.9% IPCA.

Personnel expenses have risen due to the collective bargaining agreement – 11% last year – and also investments in Investment Advisory, Technology, Analytics and Data Science teams. As a result of our efficiency campaigns, Administrative Expenses posted a contained growth. Other expenses dipped due to the large volume of provisions that occurred last year and should not be repeated this year.

The efficiency ratio was 42.4%, one of the best in our history.

One thing to highlight is the optimization we promoted in our physical presence. We have transformed our branches, migrating to a more advisory and less transactional model. As such, since 2018, we have opened 976 Business Units and reduced 1,691 branches.

As part of this transformation, we train our Managers with tools that facilitate remote or face-to-face service, according to the wishes of our clients. Today we have nearly 25,000 relationship managers and more than 1,000 investment specialists who promote Loan, Investment and Insurance consulting to our clients. We will be adding 700 investment specialists to this team this year.

We also need to point out a unique competitive advantage in our strategy, that is Bradesco Expresso where we complement our physical presence with a significant capillarity and convenience to customers through more than 40,000 bank correspondents, where the cost is fully variable.

We will now take a look at slide 11.

Our capital ratio remained at fairly comfortable levels. Profit generation has allowed us to maintain a solid distribution to shareholders in the form of Interest on Shareholders' Equity.

We experienced an expected reduction of 40bps in the Tier 1 Capital index over the quarter due to the regulation of tax credit treatment originating from the hedge of investments abroad, with an impact of 50% in June '22 and the remaining 50% in December '22. We also saw the impact from mark-to-market on the securities portfolio.

The Additional Capital increased by 20 bps with the renewal of debts that would mature progressively from 2025, taking advantage of favorable market conditions at the moment, with LCR of 168.5% and NSFR of 119.7%.

We will now take a look at slide 12.

Our digital experience is continuously evolving, representing enhanced autonomy, a better experience and more business.

70% of the account holders are already digital. Of our total transactions, 98% are carried out via digital channels and financial transactions via Mobile and Internet grew 57%. This autonomy also drives the accounts opening in the Bradesco App. This half of the year alone, we have nearly topped the total of accounts opened through the App in all of 2021. There are 82% more accounts, totaling close to 1.5 million openings from January to June this year. The opening of Individual Micro-Entrepreneurs (MEI) accounts followed this growth, with an increase of 79% within the same period.

And as for experience, clients have increasingly sought ease and customization. To improve their experience, we give voice to our clients. We listen to what they have to say and develop products and services consistent with their desires, needs and moment in their lives. This allows us to enhance their experiences, as we did with the revitalization of the Pix section within our App.

In addition to positive feedback, this closeness to our clients generates a lot more business opportunities. For Individuals, digital origination already represents 74% of the volume of operations. The same effect can be seen in Investments, which jumped 112%, and in Insurance, which grew 132%. There were also positive results seen in Companies, where the amount of credits released spiked by 139% and Investments by 111%. Consortia also grew by 70%.

Turning now to page 13.

In Sustainability, one of the pillars of our corporate strategy, we were the first Brazilian bank to join the PCAF (Partnership for Carbon Accounting Financials), an international benchmark for calculating the portfolio's carbon emissions.

In 2021, the carbon emissions from our Companies' portfolio were 13% lower than the emissions in 2020. And just to give you an idea, 20% of this portfolio comes from customers who have already made some voluntary commitment to decarbonization.

Our strategy was recognized by GFANZ, an alliance that brings together financial institutions around the world with net zero commitments. We had two cases highlighted as a reference in the financial sector. This recognition reinforces our purpose and performance in favor of sustainable development.

In the Sustainable Business agenda, we remain committed to the goal of generating businesses with a positive impact and, by June, we have already reached 52% of the objective.

Our strategy and leading role are recognized in the evaluation of the main Sustainability indices and ratings, where we perform above the industry average.

We are happy with this recognition and invite you to learn more about our Sustainability strategy in the Integrated Report.

We will discuss Guidance on this last slide.

In the Expanded Loan Portfolio, we expect to close the year with a movement compatible with the range from 10 to 14%, close to the center, considering a stronger comparative base in the 2nd half of 2022 and the adjustments we continue to make in our origination, according to the scenario observed, which requires more caution.

The performance in Client NII continues along at a good pace, benefiting from the increase in spreads, portfolio repricing, portfolio turnover, shift in the mix, and the impact of the higher Selic rate on our deposits margin. We see growth at the top of the range of 18 to 22%.

Fee and Commission income is expected to continue being favored by the growth in Card Income and Loan Operations. Our expectation is the convergence towards the center of the 4 to 8% guidance.

Regarding Operating Expenses, we continued with our efficiency and control actions that allowed for a guidance with a range well below inflation, below half of inflation, even with investments in our digital initiatives and in the technological evolution of our business. We should finish out the year between the center and the top.

Expectations are positive for the Insurance business, with a growth trend at the top of the guidance of 18 to 23%. The result may be driven by both operational improvements – with the evolution in premiums – and financial improvements.

Finally, in Credit Provisions, we are looking at a movement towards the upper part of the guidance, which is R$ 17 to 21 billion, due to the intensification of growth in higher yield portfolios and the expectation of delinquency levels slightly higher than the current ones.

As for the Market NII, although we do not have a guidance, we remain with an outlook that it proceeds under pressure, as we commented before.

Thank you for your time, and we will now proceed to the questions and answers section.

Operator – Thank you very much. We will now start the Q&A session. Conference participants with audio in Portuguese will be able to ask their questions. Other participants will remain in listening mode. To ask a question, please dial *1 and to unsubscribe, please dial *2. Please wait while we collect new questions.

Our first question comes from Jason Mollin of Scotiabank.

Jason Mollin (Scotiabank) – Hi good morning everyone. My first question is about asset quality – with the portfolio overdue more than 90 days increasing from 3.2% to 3.5%. Can you talk about the sale of credit portfolio in the quarter and how did that impact delinquency? The delinquency from 15 to 90 days was stable for individuals on a sequential basis for the total portfolio and even for individuals, however, we have seen the increase in SMEs. Should we expect further deterioration? Thanks!

Octavio de Lazari Junior – Jason, thank you very much. Regarding credit portfolio sales, this is a strategy that we have been adopting for a few years and I reiterate this with you, because we have already seen from previous experience that the cost of collecting stressed portfolio in the bank is not worth, it is not efficient. Therefore, it is better to sell to companies with a good price to have greater efficiency within the organization. We have a stake in a stressed credit company that is RCB. We see that, comparatively, the collection efficiency is better. This is in our business plan for every year, in our budget, in our strategy for the following years and we will continue to sell portfolios, because they are stressed portfolios, with more than 5 years of maturity that do not have guarantees, and the cost to do this collection internally is much higher than selling these portfolios. This remains in our strategy and over time, we will continue to look good opportunities for us to sell these portfolios, as long as they are priced accordingly. Moreover, it seems to me that the market as a whole, all banks, started to adopt this as a strategy because in fact it is more efficient. Therefore, it is something that is in our strategy and we will continue to look for good opportunities. Regarding the delinquency rate, with this portfolio sale there was an improvement in our delinquency rate by 0.29%, something that was already on our radar. It was already on our schedule for 2022 to sell portfolios, so it improved our delinquency rate by 0.29%, as I told you. The delinquency of 15 to 90 days, especially for micro and small companies that you mentioned, we see this segment of SMEs more pressured, that's why we had a greater delinquency in both individuals and SMEs, but we understand that this is something that for our models should normalize going forward. There may be a little more growth in SMEs, but not much else. Therefore, we see a more normalized situation.

Oswaldo Tadeu Fernandes - Jason, this is Oswaldo speaking. Just another point that I would like to add to what Octavio commented on - regarding the sale of portfolios, just to give you an idea, this quarter we sold R$5.1 billion in portfolios; in the second quarter of 2021, we sold R$5.5 billion and in the first quarter of 2022 we sold R$6.3 billion. It is something that in the bank is recurrent. There are some other points: today as we are working with operations that are more profitable, personal credit, vehicles; it end up having a higher default rate in comparison to for instance a real estate financing operation. So just to give you an idea, our credit areas did an exercise simulating our delinquency now in 2022 with the mix of portfolios that we had in 2019 and this natural impact just by switching operations is 0.4 percentage points in our delinquency. It means that it ends up having a higher delinquency due to the operations with different characteristics, but, on the other hand, you may have already seen, provides a better net interest income. Therefore, we have a counterpart in the NII, which is positive. So much so that the net margin of credit provision is increasing, the spread.

Jason Mollin (Scotiabank) - Great. My second question is about expenses. Operating expenses increased by almost 5% in the second quarter of 2022 compared to the previous year, less than half of inflation but in line with guidance. Can you talk about the strategies in addition to what you have shown? In terms of physical presence, is Bradesco working to keep expenses growing half of inflation? If we think that in the future inflation will drop in 2023, will this continue possible?

Octavio de Lazari Junior – Yes, very good question. Jason, this branch strategy, we know that POS is important, we are spread all over Brazil, we capture results, clients NII because of this geographic distribution that we have, but we also clearly saw that this expansion of the branch network had to be done in a different way, that is, with agencies more focused on business and with smaller physical spaces. That is why we made this trade-off closing branches and opening business units, transforming branches into business units, that is why you have this number of 1,691 closed branches and 970 opened business units. We will obviously continue with this strategy, because it has been a winner. The business units, to have an idea, represent 40% lower fixed cost than a traditional agency, so it continues in our strategic planning and in our budgets for the following years. In addition, we have a technology expense like an 80-year-old incumbent bank, you have a technology expense, and you have a legacy. You have to make a transformation and we have to remember that many of the things are being migrated to the cloud which requires a higher initial investment and you capture the cost reduction over time, for example, Next that works today practically all in the cloud, Bitz on the same path, Digio is also on the same path, in addition to all the bank's own digital initiatives. You are right, this year we are managing to have an expense growth that is half of the inflation. For next year, we will maintain the same discipline, that is, we will continue to make necessary investments and try to reduce expenses. Remembering that now in September we have the collective bargaining agreement for bank employees, which should be around 11%-12%, more or less what it was last year, which has a great impact on our organization. That is why we also adjusted the total number of employees. I think it is a growing challenge that all organizations have and we also have, but it is possible and it is our premise to keep growing expenses or evolving in operating expenses to maintain below inflation. This is the challenge that we will face every year.

Jason Mollin (Scotiabank) – Thank you very much!

Octavio de Lazari Junior – Thanks, Jason!

Operator – Our next question comes from Rafael Frade of Citi.

Rafael Frade (Citi) - Good morning everyone. Thanks for the question. I have two questions, one regarding the credit provision expense. You reinforced the guidance, when we look at the NPL creation for the quarter it was around R$7 billion. If there had not been the sale of the portfolio, I understand that the NPL creation would have been closer to R$9 billion, imagining R$9 billion less recoveries, then we would perhaps have a credit provision expense of R$7,500 for the next two quarters, assuming an NPL creation in the same magnitude, and that would be well above the guidance. I would like to understand where you think it might be better, maybe NPL creation, maybe consuming coverage, in short, try to understand a little bit how do you think the delinquency expense will behave in the second half so that it stays in line with the guidance.

Octavio de Lazari Junior – Hi Rafael, thanks! Nice talking to you. Rafael, when we sell credit portfolios, and as I said, it is something that has been part of our strategy for some time, you sell the portfolio net of everything. You clean the whole portfolio. Now, for the second semester, we will also look at the sale of portfolios, it is on our radar, stressed operations, long term, portfolios that do not have the guarantee, remembering that we have Bradesco Financiamentos, which is our affiliate that has stressed operations which we consider selling, also Losango, which is the company we use for retail unsecured retail loans... and therefore, as I said, that is why we are here telling you that our global credit provision expense for the end of the year, we estimate it at the top of the guidance, it is R$17 to 21 billion, we are estimating it at the top of the guidance considering all the strategies that were already in our budget since the end of last year.

Rafael Frade (Citi) – Perfect, Octavio. If you allow me one more question, regarding the Market NII, I understand that since a good part of the impact we are seeing is referring to ALM, you should have a good visibility of the coming quarters, you said that it will continue pressed, but what might it be reasonable to imagine? Can we imagine a gradual improvement and maybe reaching zero in the 4Q, reaching zero in the 1Q of next year? How could we think about Market ALM, its trajectory?

Octavio de Lazari Junior – Good point in relation to the Market NII. We saw in the last minutes of the Bacen that we should have reached the top of interest rate growth, Selic at 13.75%, maybe there will be some correction at the next Copom meeting, reaching 14%, but it should not have new increases. What happens is that it improves the scenario for Market NII. In addition, we are also rotating the portfolio of operations that were contracted when Selic was 2%, 3%, we rotate the portfolio but it has a maturity period, around 17 to 18 months to turn the portfolio as a whole. So I would say to you, going forward, the situation is better, there is pressure, but it is a better situation going forward, so I would say that for the year 2022 we can think about zero, that is, we should stay at zero to zero.

Rafael Frade (Citi) – That is great, Thanks!

Octavio de Lazari Junior – Thanks Rafael!

Operator - Our next question comes from Thiago Batista from UBS. Please proceed.

Thiago Batista (UBS) – Good morning everyone. Thanks for the opportunity. I have a question first about the over-indebtedness law from a year or so ago. That graph you showed of the Bradesco customers' income commitment, I even thought it was low, 22% more or less, 26%. In fact, are you seeing some impact of this law in the banks operation or not? So far, it has not had any relevant impact, assuming that you have a much lower income commitment than the average that Central Bank shows, I imagine the calculus is different too. The second question is about Bradesco Seguros, you already indicated that for this year the insurance line should be at the top of the guidance. Looking at 2023, can you talk a little bit of the competitive scenario and what you can imagine for 2023, if you are managing to pass prices, if not, I imagine that the Covid must be very residual, if there is still any in 2023; how do you see the insurance dynamics for 2023?

Octavio de Lazari Junior – Thiago, nice to talk to you. I will talk about the law of over-indebtedness and then I will pass it on to Ivan Gontijo who is the Bradesco Seguros' CEO. I think he might add some color to what you have put on. This law, we have not yet seen any impact of this norm that came out on over-indebtedness, but it is something that we are treating as an industry, because it is very difficult to be able to make those existential minimum proofs that the norm is bringing. It is something that concerns us because it is very difficult to prove it, because the client can come to a bank branch and say that has the existential minimum preserved, but he leaves half an hour later and goes to a department store and buys at the installment plan and it will compromise its existential minimum. So it is still very difficult to say how this law will be implemented, so it is under discussion at Febraban, how we are going to treat this topic. This difference in the chart that I showed you is that in the one that the Central Bank discloses, it takes all the people and divides it by all the indebtedness. Who has debt and who does not. Here we are showing those clients who actually have debt with Bradesco. All Bradesco clients who have debt, how much debt they have in Bradesco, plus what they have in the market, divided by their income. Therefore, we are only taking people who have debt. That is why there is not much to compare the graph that I showed you with that disclosure that comes out in the Central Bank. Therefore, as for over-indebtedness, we still have a way to grow, to see how this will be implemented and the impacts that this may have on the entire chain, from people not being able to take money, asking for their chapter eleven for individuals, so there is still a lot of discussion to do, legal discussion and operational discussion of how we're going to be able to do that. We cannot see how much a client owes, for example, in department stores or in companies that sell online. We only can see debt in banks. The risk center only brings financial indebtedness in the financial industry; outside the financial institution, we cannot see. So, how will the bank be able to guarantee that that client is respecting his existential minimum? So there's an operational, legal discussion even so that this can be implemented, so it still does not really have any effect on what's happening inside the banks, let's put it this way.

André Cano - Octavio, just a complement. It is André Cano speaking, Thiago. The value that was established in the regulation, I think in the end it turned out to be quite reasonable for all system, it was around R$300, the so-called existential minimum. It is a relatively low value. This should not really have a bigger impact on the financial system. So far, in terms of actions, the impact is close to zero.

Octavio de Lazari Junior – Thiago, I'll pass it on to Ivan Gontijo to talk a little, give a little color about the insurance company.

Ivan Gontijo – Well, Octavio. Thank you. Thiago, great pleasure for your participation and thank you for your question to the insurance group. In fact, in relation to 2022, which was the first part of your inquiry, we are targeting the top of the 2022 guidance. We are comfortable with the drop in claims, this was amply demonstrated in the presentation that Octavio made, the drop in claims during the first half of 2022 also demonstrates a decrease in the lethality of the pandemic, in relation to Covid-19, together with the increase in premiums, increase in all business lines and accompanied by an improvement in the financial result, it justify and support the financial statements of Bradesco Seguros in the first half of 2022. Regarding Covid, which you mentioned, it has been hurting less our results. In the last quarter we had a much lower value, with R$512 million, but we cannot forget to mention that we are, in a way, proud of the strength and backing of the Bradesco Seguros group to pay something close to R$7.8 billion in claims during the pandemic. This demonstrates our continuity, our robustness and our sustainability and permanence in the insurance, pension plans and capitalization business. Regarding the second part of your question, which concerns a prospective vision for the year 2023, we see a very high resilience of the market and an ability to adjust the insurance market as a whole, including the Bradesco Seguros group. In addition, we look at a growth vision not only in the second half of the year, even looking at the second half of 2021, so we look at a growth vision for the second half of 2022 and looking at 2023 we also see a very positive vision and we obviously register that we must have growth not only in the number of policyholders and new clients in our portfolios, but also expanding our negotiation capacity of our current portfolios that will allow us even greater comfort and relief on the financial aspect to continue to provide the best service, better service to our policyholders and clients in general. Our global growth of 16% in premiums is accompanied by a diversification of the portfolio and an increase in the number of businesses, which gives us comfort for a positive outlook for the year 2023.

Thiago Batista (UBS) – Perfect, thanks for the answers, I think it was pretty clear. Thanks!

Operator – Our next question comes from Flavio Yoshida of Bank of America.

Flavio Yoshida (Bank of America) – Hi, good morning everyone and thank you for the opportunity to ask questions! Octavio, my question is regarding delinquency. In the last conference call on the results of the first quarter, which was in early May, you mentioned that delinquency in the second quarter could increase by 10 to 20 basis points, followed by stability in the second half. We saw that delinquency ended up getting a little worse and should continue to get worse over the second half of the year, so I would like to understand what happened differently to what you said; if in fact the portfolios are deteriorating at a faster pace, what is happening? Still on this topic, what I keep thinking is if the activity of selling the portfolio in non-negligible amounts, in fact, is a recurring activity, if you do not think about perhaps improving the efficiency of Bradesco's own recovery structure so that you do not have to stay selling and maybe leaving some money on the table in this type of transaction. Thanks!

Octavio de Lazari Junior – Thank you, Flavio! In fact, you remembered well. We try to hit the target, but we can not always hit the target exactly, because we have to remember that in the last three months the situation has deteriorated even more, problems in global supply chains, rising inflation, oil has increased in these last three months, you saw what hit inflation and the interest rate that we thought could stay at the size it was has also grown. So it is very difficult for a bank the size of Bradesco, the diversity of lines it has, it is difficult for you to hit the target, we give you at least a guideline of what we see that can happen. Now, anyway, I think the main point that we should highlight is this diversity of business lines that the bank has, the diversity of clients that the bank has and that gives us a certain peace of mind about how it will behave not only delinquency when it goes up a little more, but also the Client NII goes up beyond than delinquency went up, so you start making a trade-off, which is natural. If we were monoline, I would know exactly what my default would be and what my result would be. As you have a bank with multiple lines of business, multiple clients, type of companies, size of companies and size of individuals, you are subject to these things. The important thing is that you manage to generate results or bring income so that you can compensate for this increase in delinquency. So we have an expectation for this second half that maybe it will grow a little more, but when we look at the default lines of 15 to 90 days, which is the short-term delinquency, it is not absolute, but it gives at least a perception of what may be ahead, so the total delinquency has already dropped from 3.6% in March to 3.5% now, in individuals it was at 4.91% and went to 4.75%, in companies also it fell and, I will give you a number that we do not disclose but I think it's important to tell you so we can at least give you a reference, when we take, for example, the credit card line, which is a line that we ended up growing the most, the credit card, despite the

46% growth in volume, the credit card portfolio, the part that is financed remained stable at 16% to 17% of the total portfolio, always remembering that when the client uses a credit card, we have to make a provision in the starting point of around 3% to 4% of the provision, which naturally increases the our credit provision. Therefore, we see that over time, we start to bring in the revenues from the interchange fee, so it is a trade-off that is made, a little more delinquency, but also on the other side, you make a little more Client NII. This mix of client NII is very favorable for us because when one is not very good, the other ends up compensating, so we have a balance in these businesses. Therefore, that is how we are going to walk along the delinquency rate in the second half of the year.

Leandro Miranda de Araujo – And the other question was related to our structure for credit recovery.

Octavio de Lazari Junior – This point regarding the structure, we have already tested all models and we continue to test all models. Naturally, when you had a Selic rate of 2%, you had better pricing of the portfolios you were selling because the interest rate is low and you have better pricing, with a higher interest rate, this pricing can fall; we are already seeing this change in pricing, a lower pricing because the cost of capital is much higher. So this is an observation that we continue to make all the time, this structure of the bank's credit collection area is still in place and they continue to do this collection, continues making the first collection of the credit that is overdue for the shortest time, which is much easier for you to collect when the due date is still fresh. But after, when you take a credit card, personal credit, Losango's installment plan that has expired for 5 years, it is very difficult for you to have any success in collecting here. That is why the fact that we participate in RCB is very good for us because we can always put the thermometer and measure this comparison, where I am more efficient, you always test with a control group and the group that RCB is buying and we can already see where the collection is being more efficient. Therefore, I think this is a little bit of the deviations, the distractions that a high interest rate, that high inflation and growing all the time, that is, with volatility, leads to, because if you have a high but stable interest rate, you know exactly how to work and you have an easier perspective to determine going forward, but when you have this volatility that we had, all this becomes more difficult and you have to pilot it all the time, but you are right, it is something that we have to look because if it is better for us to collect, it is better for you to have internal people to make this collection.

Carlos Firetti – Just complementing with one thing, when we evaluate this portfolio, we have a very clear view of the statistical probability of being able to recover internally, so this evaluation compares what we can recover and is placed on the market and we are looking for a few bps above what we think we could recover internally. The ability of these players to buy these portfolios at a higher price comes from the fact that they use these portfolios in their strategy to compose debt and in this way they are able to extract some value in their view. Therefore, we do not leave money on the table in our view, against what we can recover and already considering that we are very good at this recovery process.

Flavio Yoshida (Bank of America) – Got it! I have another question regarding the Insurance business, looking at the result for the second quarter and if we simply replicate it over the third and fourth quarters; we will reach a result for the year that already exceeds the guidance. So my question is, maybe you did not change the guidance due to conservatism or should there be some pressure on the result during the second half of the year?

Octavio de Lazari Junior – Flavio, there is nothing that puts pressure on the result, on the contrary, we have even better expectations and that is why Ivan hit and spoke firmly at the top of the guidance, because that is our expectation. We have to remember the comparative basis of last year, the fact that we have deflation in July and now in August we will probably have deflation again. Therefore, that is why we are aiming at the top of the guidance. It also did not make sense to revise guidance now with uncertainty regarding interest rates, inflation, etc., but we are very comfortable with the top of the guidance for our Insurance result.

Flavio Yoshida (Bank of America) – That is great, thank you!

Operator – Our next question comes from Marcelo Telles from Credit Suisse.

Marcelo Telles (Credit Suisse) – Good morning everyone and thank you for your time. My question is actually a follow-up to Frade's question about the credit provision, you reiterated that you expect the provision at the top of the guidance, which would be R$21 billion, I would like to understand if within this expectation, if you have the expectation of having more positive impairments in the rest of the year? I know that this quarter had a positive impact mainly due to the debentures part and if this is something that we can also expect more for the second half of the year. In addition, my second question is about how your risk appetite is in this environment, if you still see opportunities to be growing in the individuals segment, if you can elaborate a little on how the appetite is in the different lines. Thank you very much!

Leandro Miranda de Araujo – Telles, it is Leandro. We understand that our provisioning level is adequate and we should effectively reach the top of the guidance, as we had talked about and we see a pressure for delinquency within our models that indicates that this is the correct provisioning. Regarding the segments with the highest delinquency rate, we have seen individuals and micro and small companies, in the short-term lines, having the greatest pressure, but what really guides us is the net spread and this net spread has been increasing, here in our presentation you have seen that it has increased around 0.1% per quarter. So, having said that, we continue with a positive reading of this positioning, it is obvious that if we realize that there is a reversal of the trend, we will effectively reduce the intensity in these lines to always have a positive management of added value. In relation to the longer lines, with lower risk, this only happens in a more favorable macroeconomic environment, where you have greater demand from clients and even a lower assessment of specific risk.

Marcelo Telles (Credit Suisse) – Perfect, thank you Leandro!

Operator – Our next question comes from Henrique Navarro, Santander.

Henrique Navarro (Santander) – Good morning everyone and thanks for the opportunity to ask questions! My question is in line with Yoshida's question, to understand the forward delinquency trend. Therefore, the first question is, can we consider 20 to 30 basis points of delinquency deterioration in the third quarter? And the second question is more structural, what we have today, which is still strong portfolio growth with delinquency increasing 30 basis in the second quarter, this is a scenario that does not match next year with 0% GDP, which is your expectation. So at some point, some of these numbers will have to change, or we got the GDP wrong and GDP goes up, or you will have to reduce credit origination or because delinquency was really flattish for the fourth quarter. So I would like to understand when we could see some of these major changes in Bradesco's numbers, is it perhaps in the fourth quarter that you will eventually reduce origination? I would like to understand this macro scenario a little more, thinking about 2023, thank you!

Octavio de Lazari Junior – Henrique, thank you! Your point is great because, in fact, we have already reduced origination, if you look at the originations that we had compared to previous quarters, it is a little higher this quarter, but it was little. But for individuals, this origination has already decreased, so I mean, this affects the credit models, it is natural that when you put an interest rate increase in the model as we are seeing now from the Selic, naturally the model already excludes a part of those clients who were asking for credit, a natural function of the higher interest rate and the income commitment that he may have. So it is a little bit like that, we keep piloting it and tightening it, I think there is no need to tighten it more, because as I mentioned and you heard, the early delinquency curves seem to already show an improvement. Now, it is a fact, there should be some deterioration over the third and fourth quarters, with prospects of improvement already for next year. But this is something that we have to pilot and look at every day because there is no other way to do it, every month or every day that we have information on the delinquency and NII growth, we have to pilot it to continue remunerating the bank's capital, this is the most important point that we have to observe at all times.

Leandro Miranda de Araujo – That is it, and effectively, if, for example, there is no GDP growth, there is no decrease in unemployment, there is no increase in income, our models will naturally indicate a reduction in the lines of greatest risk.

Henrique Navarro (Santander) – Okay, my first question is 20 to 30 basis of delinquency deterioration for the third quarter, is that something we can expect?

Leandro Miranda de Araujo – We prefer not to talk specifically, because we are now in a moment of trend reversal. As Octavio himself put it, the 15 to 90 line has behaved well and I think we are cautious and for now, what matters to us is that we have a positive and growing net spread.

Octavio de Lazari Junior – We hope it does not come to that, Henrique!

Henrique Navarro (Santander) – Perfect, thanks! Moreover, my last question is a coverage rate of 218%, I think it is close to historical lows, should we imagine that this is a level that remains stable or is there still a chance of reaching 200%, for example?

Leandro Miranda de Araujo – We expect to reach close to 200% coverage by the end of the year, historically we have already reached 180%.

Carlos Firetti – And remembering that we had already said in the last quarter that the ratio should close the year between 200% and 220%.

Henrique Navarro (Santander) – Excellent, thank you very much!

Operator – Our next question comes from Pedro Leduc from Itaú BBA.

Pedro Leduc (Itaú BBA) – Good morning everyone, my question comes in the direction of the SME and here too the delinquency has been rising gradually and now it is close to 4% which is what we had in the pre-pandemic, the 15 to 90 indicator was stable and maybe it is not so cool, I see historically here in the graph it always drops in the second quarter, and this portfolio has already slowed down a little but I would like to hear from you how it is doing among the different segments of the SME, S and M of the different industries, how you are adjusting the repricing of risk, term, guarantee and finally if there is already an estimate of how beneficial or how much volume can be in Pronampe just approved in May here for this segment. Thanks!

Leandro Miranda de Araujo –Basically what we have seen is that the concentration of growth in delinquency is in individuals, in short-term lines, notably personal loans, credit card, in our Micro and Small Companies, those companies up to R$50 million, but in special those small that are often confused even with the individuals themselves, in working capital and we have seen a drop in delinquency in the medium and large companies, so they are very well behaved, we believe that this is a trend that will continue and, as you yourself commented, as we have a reduction in inflation, a reduction in interest rates, and the trend from 15 to 90 indicator is maintained, we should have less pressure, so we believe that these are the major trends here.

Pedro Leduc (Itaú BBA) – Regarding Pronampe, any expectations?

Octavio de Lazari Junior – We will start operating Monday, Pedro. It is Octavio talking, sorry, good morning. We will operate in Pronampe from Monday but the volume should be lower than it was last year, due to the requirements and the volume available but we will operate and we want to operate in the same way as we did the other one once it went super right, that is, already pre-approving the operation for the client so that he could process directly on the internet banking or on the mobile so he does not have to do all that bureaucratic paperwork with physical paper in the branches. However, it will be smaller than the previous one.

Pedro Leduc (Itaú BBA) – Already quite useful the answer that starts now from August. Thanks!

Octavio de Lazari Junior – I just wanted to add something, that we also have to observe, Pedro, regarding delinquency, we keep talking and looking at delinquency, but we need to increase the spectrum of our vision, because we are seeing delinquency today 3.5% here, but we are talking about a delinquency rate of 3.5% with a Selic rate of 13.75%, that is, almost 14%. If we look back, when we had a Selic rate that high, delinquency rates are not what we see today, they were higher. Therefore, you always have to look at this very long spectrum because Brazil ends up having economic cycles that have not been revoked and will not be. Therefore, we always have these changes of scenario and a very aggravated scenario. We had the interest rate going up from 2% to 13.75% in less than 18 months. I mean, it has an impact on people's lives, as we have seen.

Oswaldo Tadeu Fernandes - Just trying to complement Octavio, as I had mentioned, the mix of our loan portfolio when the Selic was 2% was much more real estate financing, payroll loans. Moreover, today the portfolio mix has changed. Therefore, I mean, they are products that have a different characteristic of delinquency and, as I commented at the beginning of the conference call, only the change in the portfolio mix from 2019 to now give a difference of 0.4 percentage points in delinquency, that is, the mix changed and it reflects, as Octavio commented, in our higher net interest income.

Pedro Leduc (Itaú BBA) – It is clear. Can I just do a quick follow up? A conceptual doubt in the credit card portfolio. When you mention that you have a greater focus on the growth of internal clients in this expansion, when you talk about next and Digio, and thank you for sharing their performance, do you also consider them internal clients that are generating volume in the card portfolio or not?

Octavio de Lazari Junior – No, they are separate companies. Next, Digio and Bitz have a credit card. We look at it as separate companies, Pedro. There are their challenges and there is their growth.

Pedro Leduc (Itaú BBA) – That is great. Thanks for clarifying!

Octavio de Lazari Junior – Pedro, a hug!

Operator – Our next question comes from Domingos Falavina of J.P. Morgan.

Domingos Falavina (J.P. Morgan) – Good morning, everyone. Thanks for the opportunity. Two questions here. In credit provisions and asset quality, a little more in other lines, perhaps accounting, one of which is Bradesco "other revenues" that have been growing a lot, R$1 billion, R$2 billion, almost R$4 billion, specifically a provision line, reversals of operating provisions, something that ran at R$700-R$800 million if we look at 6 months ago and it came to R$1.7 billion this quarter, I would like to understand a little bit what exactly is driving this reversal and how should we think about this line going forward, whether it is consolidated or not, and my second question is, maybe this has already been addressed, apologies if already, but the TJLP has been rising a lot and the Interest on Shareholders' Equity (IoC), I assume it should rise too, how do we think in an effective rate, in a reasonable soft guidance to work with, given this higher interest rate scenario?

Oswaldo Tadeu Fernandes – Hi Domingos, it is Oswaldo, how are you? I will start with your first question; I imagine you are looking at our notes of "other operating income". For us, the ideal, if you are looking at the explanatory note, look at both, "Other Income" and "Other Expenses", which is, for example, on page 25, we have this combined, the bank's day-to-day ends up having reversals of provisions that end up hitting this accounting line but that also have other provisions that end up being met in another accounting line so if you suddenly look at page 25 that is condensed and in "other - other operational" you see that all four lines showed a decline, the card sales line showed a reduction, if you compare the second quarter of 2022 with the second of 2021, the number is practically the same R$442 million and R$446 million, civil and tax contingencies also dropped, although comparing 2Q22 with 2Q21 is also practically the same R$103 with R$88 million, the claims portion, which is largely fraud as well in the quarter compared to the previous quarter there was a drop, but if we compare it to the same previous quarter, there is a small drop and in "Others – Others", which is condensed other income and other expenses, this month it came positive, basically it is the allocation of supplementary provisions of the technical provision insurance at the top. Therefore, in this case, these would be our movements in this quarter in relation to others. Now, the other point you mentioned about the TJLP is very important, because the TJLP rose in the first quarter from 6.08% to 6.82%, so our tax benefit increased in relation to that, and this undoubtedly ends up having an impact in our tax rate, so to give you an idea, around 1 point, 1.5 p.p. our tax line benefited from this. This quarter it is already 7.01%, that is, there will be another positive impact in relation to the Interest on Shareholders' Equity (IoC) tax benefit, so we are imagining that in the year, between 2, 2.5, up to 3 percentages points we would have a benefit in the rate. So our soft guidance on the rate due to this TJLP change is 30% to 32% now, obviously we still do not know the TJLP for the fourth quarter, so we are estimating a small difference due to the interest rate movement. Would it be this!

Domingos Falavina (J.P. Morgan) – Super clear. Just...accounting speaking, you mentioned insurance. In this separate line 30, which it changed close to R$1 billion, does it include insurance provision reversal as well, or is it civil, labor, legal? Just to know what is inside.

Oswaldo Tadeu Fernandes – Insurance enters because it is our consolidated balance sheet, so it covers all companies, including companies that we consolidate, such as Cielo, Alelo group and all companies of the Bradesco group.

Domingos Falavina (J.P. Morgan) – Perfect, very clear. Thanks!

Operator – Our next question comes from Luis Fernando Azevedo of Banco Safra.

Luis Fernando Azevedo (Banco Safra) – Good morning, everyone. I would like to follow up on this issue of delinquency. You said a little bit that the trend is to get worse now in the second half, and maybe in the next year it will improve, but on the other hand, structurally, Oswaldo said that if normalized, the portfolio mix would have worsened by 40 bps in relation to 2019, so how can we see delinquency a little further on? What would be a reasonable level and also looking at the large corporate is going very low, well below what would be the historical level, at 0,1%, which you can imagine that would be a normalized delinquency later on, something in 3.5 and 4 %? That's the first question. Thanks!

Octavio de Lazari Junior – Luis, the delinquency of large companies, the corporate bank, is at historic lows, it should continue, there is no prospect, because when there is a problem in large companies, the name is stamped, we already know, it comes out in the press and everything, so the we do not see any problem in large companies in a scenario a little further ahead, this year, we don't see any problem in large companies. In the small companies, that have the most difficulty, but from the moment you generate employment and income and the interest rate stops growing and starts to return, which is the expectation that we all have for the coming year, everything gets better. Moreover, in individuals, the lines that we have the highest delinquency rate, are the lines that have better profitability, such as credit cards and personal loans; when you look at the other lines that have a guarantee, vehicle financing, real estate financing, the delinquency is absolutely in line, there was no increase in these lines. So if there is a growth, I think you set a good tone, I mean, the delinquency rate for the end of the year and the beginning of next year can reach a maximum of 4%, I think it's just that, and I'm exaggerating because I think that the models and the ease or speed that people today adjust credit models to bring about a lower default rate is much greater than what you had in the past. Just to make a comparison, in 2017 when the interest rate reached 13%, 14%, you had a 90-day delinquency rate of 4.7-5%, we are talking about a delinquency rate of 3.5% today. That number you gave, that range of 3.5% to 4%, it is quite adequate and that is certainly where it is going to be.

Luis Fernando Azevedo (Banco Safra) – My second question is about payout, if we consider this dynamic that you mentioned with higher TJLP, bringing a better tax shield to Interest on Shareholders' Equity (IoC), I think that to optimize the IoC we would be seeing a payout maybe even closer to 40%. Can you imagine the payout a little higher or does the bank continue with the reading more close to the minimum of 30%?

Octavio de Lazari Junior – Luis, we will stay in the historical level, we will be at 40%. That is what we have been doing for a few years, except for 2020, so we will be at 40%.

Luis Fernando Azevedo (Banco Safra) – That is great. Thanks a lot!

Operator – Thanks! We now conclude the question and answer session. I now return the floor to the speaker for final remarks.

Octavio de Lazari Junior – Thank you all for your attention during our conference. We remain at your disposal, our entire investor relations team, Firetti, Oswaldo, Leandro, Joice, Poterio, are at your disposal, André Cano himself, are at your disposal for any additional questions that you have regarding the balance sheet and more details that you need. Thank you very much. Good evening and a good weekend to all.

Operator – Bradesco's conference call is closed. We appreciate everyone's participation and wish you a great day!