Operator:

Good morning ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco´s fourth quarter 2016 earning results conference call. This call is being broadcast simultaneously to the internet at the website www.bradesco.com.br/ir. In that address, you can also find a presentation available for download.

We inform you that all participants will all be able to listen to the conference call during the company´s presentation. After the presentation, there will be a question and answer session, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceedings, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco´s management and on information granted available to the company. There will be 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 the results to differ naturally from those expressed in such forward-looking statements.

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

Carlos Firetti:

Good morning everyone. Welcome to our conference call for discussing our 4Q 2016 results. We have today with us Alexandre da Silva Gluher, our CFO and Investor Relations Officer and Randal Luiz Zanetti, Chief Executive Officer for Bradesco Seguros Group. Now, I turn the presentation to Alexandre Gluher.

Alexandre da Silva Gluher:

Good morning everyone. Thank you for participating in our conference call today. For us, 2016 was marked by our focus on three main priorities: the full integration of HSBC Brasil, which we completed in October, last October, to keep our credit quality under control and to maintain our discipline in cost control. We understand we reached our goal in these three fronts in a satisfactory way, considering the complexity of the scenario. We believe that we are now ready to explore the opportunities of a new cycle of growth and capture the synergies in our operation.

I will explore now the main highlights of our results, and it will let me go later into the details in the rest of the presentation. In this slide 1, we observe that our massive earnings reached BR$17.1 billion in 2016, a reduction of 4.2% year on year. Considering only the fourth quarter, our net earnings reached BR$4.4 billion, lower 3.9%. Our earnings for the year and the quarter reflect the complex environment that we faced. For the long book we were 8.6% year on year based on the report book and dropped 9.2% on a pro forma basis, impacting our revenues. We were also impacted by the increase in NPLs and the consequent impacting from lost provisions expenses, which also, on a pro forma comparison, increased 25.9% year on year. We were able to compensate part of these negative sectors with good results from fees, controlling operational costs and with higher average spread in our portfolio.

Our results were solid, showing a resilience and high recurrence on our sources of readiness. The main reason for this is our high level of diversification in our results, especially the insurance and fees. We expect a reduction in credit provisions expenses already in 2017 and, mostly, in 2018, whilst we are advancing the capturing of synergies from the acquired bank. This sector should allow us to show returns in the range of 18 to 20% in the coming years. Our assets reached BR$1.3 trillion in 2016, an increase of 19.8% year on year, reflecting multiple incorporation of the acquisition. Our shareholders´ equity reached BR$124 billion, growing 13%, even considering that our didn´t payout ratio reached 48.7%.

Comparing our main operating numbers with our guidance we delivered almost all. We only did not meet our guidance for operating expenses which were impacted by extraordinary items that we maintain as recurring. They are related with the integration of HSBC and similar dated payments. These results show our capacity of delivering our objectives in all kinds of environments. In terms of NPLs we had an increase in the fourth quarter; however we already see signs of improvement in the short term delinquency and the new interest of loans have been behaving better. We included in this quarter new information about NPL creation by segments. This data shows that even in the SME segment, which presented an important increase in NPL this quarter, the creation was almost stable, showing that most of the increase was due to lower loan volumes of the quarter. To face to delinquency, we have on our balance sheet a strong level of provisions, representing 207% of our expected losses for the next 12 months.

In terms of credit provision expenses, we believe we have reached the peak in 2016 and there is room for a reduction in 2017, and much larger reductions in 2018 onwards.

In insurance, we had a good performance in 2016 with our premiums, with premiums growing 10.5% year on year within our guidance. Bradesco Seguro´s net earnings reached BR$5.6 billion, an increase of 5% year on year. This performance shows the strength of our operation which comes with stable sources of results. In terms of capital, we closed 2016 with a Tier 1 Basel III ratio of 12%, a level we considered comfortable and which should continue to expand in the next years with retained earnings. We concluded the integration of HSBC Brasil in October, in a successful operation, considering the dimension and results we achieved. We have all new clients and branches already integrated into our platform and now we are able to offer the clients the same products and quality of services that we offer to our original client base, quickly capturing synergies from revenues and costs. We continue without distraction since we have already completed the integration.

We are focused on growing our business and exploring big opportunities of synergies. We continue to evolve in our strategies for serving our clients, increasing their options to digital channels, with differentiated services in the extended business hours. Our traditional bank model based on branches remains strategic for business origination conceded our clients. We will continue innovating and launching new platforms to serve all kinds of clients and profiles, in line with our traditional open door strategy.

Now I turn the presentation to Mr. Firetti.

Carlos Firetti:

Thank you very much, Alexandre. So now we will follow with the analysis of the results, going into details. In slide 3, we have the adjustments in our net income, from book net income to the adjusted. The book net income was BR$3.592 billion while the adjusted was B$4.385. We had three main adjustments. One, Impairment of Assets, we considered nonrecurring, basically BR$20 million after tax in Impairment of Shares and BR$137 million of systems from HSBC. We have another impairment record in our net interest income, in which I will go into details later. That one we consider recurrent. We also have contingent liabilities, the biggest portion of it are provisions for something called FCVS that is related to mortgage loans in the 80s and early 90s for which there was a securitization process. We made a provision of RS$235 million. We have already made some provisions in the past, but with these provisions we believe we have completed the provision for this.

Also, Goodwill amortization; this quarter we started to adjust our net earnings considering the gross Goodwill amortization, leaving the tax benefit as a recurrent element in our P&L. In the previous quarter we had basically discounted the Goodwill net of the tax benefit instead of the gross. We didn´t adjust the 3Q numbers. On the Goodwill, basically for 2017, you can consider that we will be amortizing BR$2.4 billion in Goodwill, in 2018 BR$2 billion and going forward a reduction of about BR$400 million a year until we complete the amortization.

Going to slide 4, you have there our P&L; we can go into some comments about the main items. Our net income, as I said, was BR$4.385 billion, a reduction of 1.7% Q on Q and a reduction of 3.9% year on year for the quarter. Considering 12 months there was a reduction of 4.2%. Our RoE for the year reached 17.6%. Our return on assets, 1.5%, with our assets growing 13%, basically through accumulated earning and assets grew 19.8%, reflecting mostly the incorporation of HSBC.

In terms of net interest income, we had a drop of 7.5% in the quarter, mostly related to the impairment of assets and we will comment a bit more about that, and looking to the pro forma our net interest income dropped 3.5%. We have some slides that detail our mid net interest income. On the impairment, basically, this impairment is related to bonds abroad and bonds in Brazil for which we ran the impairment test at the end of 2016. We used to run this impairment test on an annual basis; this is related to our test of recoverability for these assets. We considered it as a recurrent impact on our numbers.

Going forward, we are evolving with our governors for impairment and we should start to do this impairment test on a quarterly basis. We believe we did the necessary impairments for the portfolio as of year-end 2016. Going forward – we cannot forecast if we will or will not have any more impairment but we believe that if we have something then it will be much lower than it was for the full year 2016. For insurance we had important growth in the quarter, 31.3% for premiums and variation of technical provisions. Basically this is mostly related to gain premiums, increasing the gaining of premiums in insurance and also to a lower loss ratio for the health insurance segment.

For fees, we have an increase of 1.3% for the quarter and operating expenses had a growth of 2.1%. We have more information on that in the coming slides. In terms of income tax, we had lower income tax this quarter and this reflects the payment of interest on capital, the change of goodwill adjustment, now considering the gross, will leave the tax benefit on the tax line so that helps to reduce it, and also the use of some tax credits that were realized as we had the incorporation of HSBC.

Going to slide 5, we have the evolution of our net earnings and earnings per share. Our earnings per share reached BR$3.09 per share in 2016. Our net earnings for the year dropped 4.2%. This slide also showed the strong level of diversification of our net income, with 31% coming from credit intermediation, 29% coming from fees and 32% coming from insurance, which grants stability and resilience for our earnings given this strong diversification of sources.

In slide 6 you have our net interest margin. Our net interest in margin for the year was 7.5% remaining roughly flat for the year. In slide 6 we have the details of our net interest income, the interest earning portion. Basically, it decreased 0.3% in the quarter with credit intermediation margin dropping 1.4%, mostly due to a lower number of business days and also lower volumes that explain a big part of this effect. In insurance we also had a deduction due to lower interest rates and inflation rates. Inflation acts as an indexation factor for some of our bonds in the local market. In security and in others we have an increase of 12% due to gains in our asset liability management. There was, this quarter, no revenues coming from dividends from our investment bank portfolio.

Going to slide 9, we have our expanded loan book. The expanded loan book, in the quarter, dropped 1.3% for companies, a reduction of 2.2% with the biggest reduction coming from SMEs which reduced 7.3%. Individuals increased 0.6% with payroll loans growing 1.8%, credit cards 6.4% and real-estate portfolio 1.8%. For the year on year analysis we have an increase of 8.6% due basically to the incorporation of the HSBC loan book.

In a pro forma comparison, including HSBC in the end of 2015, basically our portfolio shrunk 9.2% with the company segment dropping 13.6% and individuals´ portfolio growing 1.3%.

In slide 10, we show the diversification of our loan book with sequential reduction in the participation in the SMEs, mostly because this portfolio is shrinking in this environment where demand is very low. The increase in the participation of corporate and individuals. In Individuals it´s possible to see that we had over time a migration of loan operations to lower risk with payroll loans and mortgages reaching 41.4% of our loan book what grants a reduction on the risk in this portfolio.

Going to slide 11, we have here the information on our delinquency ratio. This quarter, as you´re going to see in the following slides, we brought new information about NPL creation by segment that, in our view, is important in the analysis. We had, this quarter, total NPLs growing to 5.1% of our loan book. SMEs still showed the biggest increase going to 8.6%, driven a lot by the fact that the loan book is shrinking and I think we can do a better analysis by looking to the NPL creation. For individuals we had an increase of 6.94%. In corporate, the total ratio dropped to 1.24%, mostly due to the write-off of a specific case in the fourth quarter that reduced the index. If we analyze the NPL already without that factor in the third quarter, we actually see an increase that was due to some cases that were turned into late payments. We already have a big level of provisions in this case, so this didn´t impact that much our provision expenses.

In the case of the shorter term delinquency ratio, we see a very good level of improvement for individuals going to 5.78% from 6.47% but it´s still an increase in corporate and this increase is mostly due to a new case that hit our delinquency ratio this quarter that is still in the 15-90 days late payment. It should migrate to 90 days in the first quarter, but we already have this case with 100% provisions. The fact it´s only turning to late payment now is due to the fact of some specific contract characteristics but, as I said, it is already provisioned and we should write it off in the second quarter.

In slide 12, we have the chart for NPL creation, excluding the effect of the specific case. In the third quarter we had an increase in the NPL creation. The fact that we had provisions representing less than its creation, 94%, is mostly due to the fact I mentioned, that part of the creation comes from corporate and for this specific company, we already had a very high level of provisions.

In terms of provisions expenses evolution, as a percentage of the loan book, our provisions represented, in the fourth quarter, 5.5% of our loan book. We believe, going forward, especially in 2018 and for full year 2019, we can go back to levels similar to the low levels we´ve seen on this chart, after we´ve started to see the improvement in the credit cycle and we have already started to see improvements in credit calling.

In slide 13, we have the new charts on total NPL creation, already showed on the previous slides. For corporates, NPL creation for the fourth quarter was BR$500 million. Actually, if we adjust the creation for the third quarter for the specific case, that went into NPL that quarter, and was written off this quarter, actually the NPL creation for corporates would have increased this quarter and this explains a big portion of the increase in NPLs that we saw in the fourth quarter in the corporate segment.

For the SMEs operations, we have very interesting information that the NPL creation stabilized in the fourth quarter, despite the deterioration we´ve seen of the NPL ratio. That deterioration, the ratio, as I said, is mostly due to the reduction of the portfolio and also because we had lower write-offs in the fourth quarter. Finally, with Individuals we had some increase in the NPL creation that is consistent with the increase in NPLs, but, as I said, we´ve already seen short-term delinquencies improving and also this improvement is consistent with improvements in shorter term vintages that are already showing a much better performance than older vintages.

Going to slide 14, we have our provisioning. Our provisions represent 10.4% of our loan book. We have total excess provisions of BR$7.5 billion, which is in part of our total provisions. In terms of coverage, we have 188% of our NPL ratio in terms of provisions and if you compare it to our expected losses for the next 12 months, our provisions represent 207% of this number.

In slide 15, we have our renegotiated portfolio. This portfolio represented an increase in this quarter; it represents 4.5% of our loan book. We have 68.4% of this book in provisions and the NPL ratio in this portfolio is 28.1%, meaning loans that redefaulted after being renegotiated. One important point in this portfolio is that part of the loans that go to this portfolio are loans that were renegotiated after being written off, when we recovered these loans or renegotiated them, they go to the renegotiated portfolio with 100% provisions, so this is an important portion of this renegotiated portfolio. This portfolio is also hit by court recovered processes that are approved and when that happens it goes to the renegotiated portfolio. On top of that, we have our normal day to day renegotiations that happen mostly for loans after they are late and especially late after 90 days.

In slide 16, we have our fees and commissions. In the quarter our fees grew 1.3% and, looking to the pro forma analysis, our fees grew in the last 12 months 4.5%. The main highlights in the fees are checking accounts that grew 12.9%, mostly due to the segmentation of our client base, asset management with growth of 10.3%, consortiums with 13.2% and 27% in our under-writing of financial advisory service that is our investment bank. In terms of expenses, we had an increase this quarter of 2.1% and looking at pro forma, 12 month expenses grew 0.9%, showing a very good performance, remembering that the pro forma includes HSBC for full year 2015, when we were not actually managing the bank. We don´t have that information, but looking to the bank isolatedly we also keep a strong level of discipline, also having a very good performance.

In slide 18, we have our efficiency ratios; they got worse with the incorporation of HSBC, that are included in the efficiency ratios. We do a 12-month accumulated efficiency ratios. We believe that we will go back to the levels of efficiency we had prior to the incorporation of the banks in 2019, after we complete most of the adjustments for the operation.

Finally, in slide 19, we have information for our insurance operation. We believe we had a very good performance in insurance in 2016, especially considering the environment that we faced. It is a segment where we believe that there is still a lot of room for growth, especially deepening the penetration of insurance products. In the fourth quarter, specifically, the results in ratios for the insurance operation improved with better loss ratios for the health insurance segment and also the increase in gained premiums for insurance. Focusing on the quarter, we had a Q on Q growth on our premiums for insurance of 20%. In the fourth quarter, due to seasonal factors and also efforts in the distribution of especially pension plans, pension and lives plans that have a very strong performance in the quarter.

Looking at premiums year on year, we focus on the pro forma analysis for which we had a growth of 7.8% in 2016. Financial assets, focusing on the pro forma, grew 17% year on year in 2016. Technical provisions grew 16% and the shareholders´ equities of our insurance company 25.6%. Net earnings in the quarter for Bradesco Seguros was BR$1.105 billion, that´s 24.9% return on equities. For 2016 as a whole, BR$5.551 billion, that represents an RoE of 23%, reminding us that the insurance company was hit by the increase in income tax. Due to the social contribution tax rate, they are more directly affected by that increase and, even with that, there was an increase of 5% in earnings.

Going to slide 20 you see our capital ratios, we have a very comfortable level with the BIS ratio falling the phase in schedule at 12% considering Tier 1 ratio and 11.2% ratio considering common equity. Looking to fully loaded ratios without any adjustments, our fully loaded ratio would be 10.4% for Tier 1, 9.6% for common equity and considering the estimates of consumption of tax spreaded and Goodwill amortization, our capital ratio goes to 12.2% for Tier 1, that compares with the expected requirements for 2019 of 9.5%, 11.4% for common equity that compares with 8%, and on top of that, we believe we will keep increasing the capital base with retained earnings over the next coming years, that grants us a very strong level of capital origination.

Finally, in terms of guidance, the first comment on 2016, the only line for which we were outside the range of our guidance, as I mentioned, was for operating expenses, for which we had the impact of some expenses that we can somehow call extraordinary but we didn´t adjust as nonrecurrent. This is related to anticipated payments in some contracts for which we had some advantages and also the expenses related to the incorporation of HSBC.

For our 2017 guidance, we presented it in two ways comparing the pro forma that is including HSBC for full year 2016, and as disclosed where we are comparing with the reported numbers that included HSBC only in the second half. We will discuss only the pro forma. For the pro forma we had the expanded loan book, we expect the expanded loan book to grow between 1% and 5%. Only for this guidance we believe that it is more likely to grow in the bottom one, the mid-lower portion of the guidance and this is what is implicit in our guidance for net interest income. For net interest income, we expect a drop between -4% and 0%.

Basically the main impact from this guidance comes from lower volumes. Average volumes will actually shrink if you compare 2016 to 2017, but I´m sure that we will have questions on this. Fees and Commissions, 7% to 11% reflecting already part of the benefits of synergies, which is what drives this guidance to these ratios, to these levels. Operating expenses, -1% to 3%, that also reflects the benefits from synergies considering total inflation should be 4.5%. Insurance premiums, 4% to 8%, and provisions for loan losses expenses between BR$21 billion and BR$24 billion, reminding you that we closed pro forma 2016 at BR$24.1 billion so the middle of this guidance implies, as we have the same reduction comparing to 2016.

So, now, we are open to questions.

Operator:

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

Our first question is coming from Marcelo Macedo, from Goldman Sachs. You may proceed.

Marcelo Macedo:

Hi, good morning, thanks Carlos, Marcelo here from Goldman Sachs. I have a couple of questions. My first question is on margins. Your guidance calls for, on the publish basis, 3% to 7% growth and on a recurring basis 0% to 4%. It doesn´t really leave much room for margin compression as a result of rates, I think you have rates going down to 9.5%, average rates will be down 300 basis points. Give us some color on how your margins react to rates and, more importantly than rates, to spreads because you have to assume that spreads will come down with rates as has already started to happen in the data that comes out from the Central Bank in November and December.

Second question, the additional provision that you have of 6 bidden, half of them now are earmarked for your guarantees. I know you say you´re not going to use them, but if a situation arose that you had to use them, how much do you really have available? Is it really the 6 bidden? Or at this point are we really talking about 3 bidden? Thanks.

Carlos Firetti:

Okay, Carlos. First, the guidance on margins. As we have been saying, the structure of our balance sheet makes us actually have positive impacts from rates in the first moment if you compare our loan book to our rate structure of the funding, so basically we have a big portion of 6 rate loans with more than a 1 year duration that are backed by 1 day duration funding. So from the rate that is specifically in this portion of the book, we have a positive impact as we have been saying; we have other impacts that somehow compensate this positive impact for the negative, like the impact of interest rates on other items of our balance sheet. Also the lower inflation rate that is an indexation factor for part of our bonds portfolio. So for rates, specifically, this is the main impact. I’m talking about the bank. On the insurance company, the impact from rates is more negative, in the sense that they have a big portion of their results, of their margins, based on their financial assets and that is indexed either by inflation or by rates. So if you look to the breakdown of our margins in insurance, actually you have a negative impact from rates.

In terms of spreads, we can say that spreads, in some cases, have started to go down. They are in a process of normalization, but we are still re-pricing our portfolio. In terms of credit spreads on the portfolio, we can say that we should see the margin as relatively flat. The main negative impact we have comes from volumes. If you do the calculation on average volumes, it drops, then you have to consider that the growth that we expect actually comes a lot in the second half. So if you look to the average portfolio it could be even lower than if you just do the average taking year-end 16 and year-end 17. That´s the margin...

Marcelo Macedo:

Just one follow-up there. So what you´re saying, basically, is that we shouldn´t see that dramatic of an impact this quarter because of the way that your balance sheet is set up. But then it flows to 2018, when the benefit from the lower rates doesn´t really show up anymore, because rates are going to be lower for the whole year, that´s when you see a bigger hit in margins and spreads. Would that be an accurate statement?

Carlos Firetti:

Yes, basically with the re-price in 2018, we should see a little bit more of the impacts of good price and also the impact from lower interest rates and we believe that can be more than compensated by the reduction of credit costs, in terms of our results.

In terms of guarantees, basically we have set aside BR$3 billion for guarantees, when the Central Bank required us to make these provisions. There were no rules that were definite and we used the most conservative rules that were just applying the 2682; that is the provision in regulation Brazil for guarantees. You know, the guarantees are a contingent liability, meaning you will lose if the company goes into default and it loses the lawsuit to which the guarantee is related. So we decided to be conservative and set aside part of our additional provisions. In January, we started with the final provisioning for this, following the rules of regulations 4512. Basically we have defined a new model for provisions of guarantees. The actual provisions we should make are more related to what we call specific, that is something around BR$600 million in the fourth quarter and not the RS$3 billion.

Marcelo Macedo:

But if you had, just to follow up again, to use the excess provisions, for whatever reason, I know it´s extraordinarily unlikely, you would only be able to use BR$3 billion and not $6 billion. Is that right?

Carlos Firetti:

No, basically that BR$3 billion will be normal provision as part of the additional provisions. What we will have now as the official and definitive provisions for guarantees, following the regulation, will be a lower number and then we will make provisions for guarantees on a regular basis as it comes.

Marcelo Macedo:

So basically, just to get this right, if this rule had been placed in 2016 for the full year, I think your guaranteed provisions that are allocated to this additional line went up by 2 bidden, those 2 bidden would have to go through your income statement as regular provisions, right?

Carlos Firetti:

There was no rule. The Central Bank required us to make...

Marcelo Macedo:

No I understand, but had it been in place.

Carlos Firetti:

Basically, we set aside what we believe was an excess amount of provisions and now, doing the provisions for the test, we will do something and we will use something like BR$600 million. Our system was doing the same; they were worried and a little bit more conservative, using the 2682. So the BR$3 billion will not be the provisions for this inventory collateral as we go into these new rules. We go to a more rational way of calculating and defining what is necessary for provisions.

Operator:

Mr. Marcelo Macedo has been disconnected. Our next question comes from Mario Pierre. You have the floor.

Mario Pierre:

Good morning, I have two questions as well. First question is on your guidance for provisions. If I take your fourth quarter provisions and I annualize them, you are annualizing at BR$22.1 billion, while the meet point of your guidance is BR$22.5 billion, so basically you are saying that on a quarterly basis, provisions are likely to be higher than where they are now? I just wanted to understand that or whether your guidance is too conservative and you´re more likely to reach the BR$21 billion rather than the BR$22.5 billion guidance.

Second question has to do with your guidance for fees and operating expenses. On fees, as you´ve show on your slides, you´ve been growing well above long-growth, even with all of the changes you´ve made in your system and the cross-selling, however you continue to expect very strong growth in fees in 2017. I wanted to understand then, on this guidance, how many synergies are you expecting from HSBC and how is HSBC impacting your guidance then for fees? As well for operating expenses, if there´s any number you can give to us in terms of cost savings from HSBC that is embedded on your guidance for operating expenses?

Carlos Firetti:

Thank you, Mario. We can say that our guidance for provisions is conservative. We contemplate the fact that we are in an economy that is improving and with credit conditions that are improving, but it´s a process of improvement from a situation that was relatively fragile so I think our guidance is conservative and it kind of contemplates some room that is considered as the scenario. Another thing, we can say eventually that the fourth quarter is a quarter that has seasonality.

In terms of fees we can say that this guidance from 7 to 11 can also contemplate synergies from HSBC. We have been growing our fees in Bradesco considering our segmentation and have been making better offers to our clients but we believe there´s a lot of room for cross-selling in HSBC or to penetrate the client base more. That is something we have been saying since the beginning. On a performer basis, in 16, we grew 4.5%, the meet point of our guidance is 9% so it clearly considers the benefits from synergies.

Mario Pierre:

Anyway, you can quantify these synergies with any products specifically or anything like that?

Carlos Firetti:

I think it´s harder to do that, especially considering now we have an integrated bank in a single platform and it´s only Bradesco but, as you said, in many products we see penetration in the acquired bank client base, below of ours.

Mario Pierre:

Sorry, do you have some statistics that show how many products each client has at HSBC versus what you have at Bradesco?

Carlos Firetti:

Not to share at this moment.

Mario Pierre:

Okay, and then on the costs, what type of synergies or cost savings are you anticipating from the HSBC transaction?

Carlos Firetti:

Our guidance implies a variation of expenses between -1% and 3%. Basically, inflation for this year is 4.5%, so it already implies a capturing of synergies. We have been saying since the beginning that we can capture at least 30% synergies on the original cost base of HSBC. We maintain that. There´s kind of a ramp up, the synergies or the levels of synergies will be growing throughout this year. We have been doing already most of the work to capture synergies in administrative expenses that should materialize very soon. The adjustment of this structure is kind of based on our turnover and gradual over the next three years.

Mario Pierre:

Okay, thank you.

Operator:

Our next question comes from Tito Labarta, from Deutsche Bank. You have the floor.

Tito Labarta:

Hi, good morning and thanks for the call. Couple of questions also. First I guess on asset quality. I understand that you saw NPL creations look a bit better this quarter. Just looking at 2017, we still expect very modest recovery, GP maybe going 0.5% and maybe it still would be into a downside. So just want to ask how you feel comfortable that there are no other risks out there that could make asset quality worse than expected. As you mentioned you saw early NPLs and corporates go up this quarter. I understand your 100% provision for that but could there be more cases that you´re not fully provisioned for, and still some surprises with unemployment still going up. Could there be some risks there that are not quantified yet in terms of asset quality?

My second question, in terms of attach rates, we saw a low attach rate this quarter, with interest on capital and Goodwill amortization, what kind of tax rates should we expect for the full year of 2017? Thank you.

Carlos Firetti:

Thank you. Starting with the second question, in terms of tax rates. First, as I said, we changed the way that we adjust for the Goodwill, now we adjust for the gross Goodwill and that leaves the tax benefit in the tax rate, a difference of what happened until the third quarter. So you can work with the tax rate for 2017 between 26% and 28% already including the impact of the Goodwill amortization.

In terms of NPL evolution, in that question particularly, I´m not sure I got everything because the quality of sound was not very good but correct me if I don´t answer something. We see, even in the economy, a point where it is starting to recover. We may already see a stabilization of the economy, even this quarter. We have been even cleaning up our portfolio over the last two years when NPLs increased through the normal write-off cycle. This has been leaving our portfolio, the origination has been improving in quality if you compare the recent vintage to the vintage that originated a year ago, we see a meaningful improvement. So we believe that together with the short-term delinquency, for instance the 15-90 day delinquency that already shows an improvement for individuals. I think, with all of that, and the data of NPL creation, points to this perception that the peak of this NPL cycle is really around us.

Tito Labarta:

Thanks for that, it was very helpful. So is it safe to assume that maybe NPLs stay relatively stable for the next couple of quarters as the economy stabilizes, and then maybe by year-end you do start to see some improvements, as the economy picks up more?

Carlos Firetti:

Yes, we´ve mentioned that there is a case in the 60-90 days that should go into 90 day late payments in the first quarter. If you, and this is 100% provisioned, adjust for this, it is fair to say that that we don´t actually expect more of an improvement in the first half, we believe that it will start to happen more in the second half.

Tito Labarta:

Okay, thank you, thank you.

Operator:

Our next question comes from Philip Finch, from UBS. You have the floor.

Philip Finch:

Yes, good afternoon everyone, thank you for the opportunity to ask a couple of questions. I was cut off during the presentation so apologies if you´ve already addressed this issue.

Carlos Firetti:

Philip, sorry, I can´t hear you well, can you repeat and maybe try to speak closer to the speaker or something like that?

Philip Finch:

Yes, of course, is this better? I´ll speak slowly as well. Can you tell us how you see the new rules on revolving credit impacting your operations, both from a revenue and a risk perspective?

The second question is, can you discuss more about your new digital bank that you plan to launch this year? What are the key features and how could this enhance revenues and or lower costs? Thank you.

Carlos Firetti:

Okay, first on the revolving. Basically this was a discussion that was done with the Central Bank. The regulations for the new revolving were already released. It states that the revolving, as it is, remains as for the first 30 days and then clients go into a payment installment that they will choose from the possibilities available. They choose up to a certain limit the number of installments. Basically in our view, the interest rates on that will be lower and the credit cost will also be lower of this operation. That will compensate over time the impact of lower interest rates. It makes the product more sustainable, and we should be forming a portfolio over the months after we start with the product and as we form this portfolio that will have a higher duration, we believe we will compensate the losses in interest and the original revolving credit line. We have already incorporated some estimates on that, in fact, in our net interest income guidance.

Is it okay on this issue specifically, Philip?

Philip Finch:

Yes, that´s very good, Carlos. Thank you.

Carlos Firetti:

Okay, on the digital bank strategy, basically let me run you through our diverse strategy here in the bank. Today we have a traditional bank model that still serves most of our clients and is still responsible for generating most of our business and we believe it will remain relevant as a source of the generation of business for many years. There is a big portion of the clients that still prefer it and continue doing your business through branches. On top of that we have a digital bank strategy where we have been inviting clients that are clients of the traditional bank model to be served by a digital branch. The digital branches are centralized structures where we have managers that serve the clients through digital channels. This can be a chat, or online or a video chat. They have larger portfolios of clients and there are some gains of scale in terms of how they can serve these clients. They have, in many cases, broader portfolio of products and it has been a very successful strategy in the sense that clients that accept to migrate to the digital branch model actually have higher average revenue than their behavior before they migrated to the new model.

On top of that we are launching a new digital bank in a couple of months that will focus mostly in new clients, clients more in the average range of age, between twenty-five and thirty-five years, the so called millenniums that have a totally different behavior with how they make their relationship with financial products and branches. This, in our view, will be kind of a disrupted model in the sense that it is a basis to the relationship of clients with products in their journey in the bank, in their life and trying to capture algorithms of their behavior to do the right offer of products. We should be launching this soon with few who don't share our expectations in terms of goals or how much we have invested on this.

Philip Finch:

Ok Carlos, thank you very much.

Operator:

Our next question comes from Enrique Nazarro of Santander. You may proceed.

Enrique Nazarro:

Hi, good morning everyone, my question is on HSBC, the level of client retention from HSBC. You know it is natural what we have seen in the fourth quarter after a position like that, to see the long growth coming down and also a reduction in the number of branches and a reduction on the number of active checking accounts, but statistics indicate that, of checking account holders, there was a reduction of nearly half a million clients. So my question is, if this is the number of checking account holders that were lost, what was Bradesco´s first estimate? So it was natural. Are we are going to see further reduction on this drop in account holders for the next quarters? And also the reason for that; if this was because of overlap or any other reason? That's it.

Carlos Firetti:

Ok Enrique, first this reduction number of account holders, if you look, also in December 15, before we incorporated the HSBC, the number of account holders dropped in the third quarter of 15 from 26.4 to 26 in December and it dropped from September from 27.2 to 26.8. All the end of the year we do some sort of clean up in the account base, look to what are actually active clients and remove the base from the clients base, so it is related to Bradesco also and as you saw, actually we had a similar reduction last year when we still didn't consider HSBC in the numbers. In terms of branches, we are constantly evaluating the branch network; the model of evolving in this process we prefer is the evolution of branches. Basically, we are converting some of our full branches in point of services and sometimes reducing the size of some larger branches. So we keep monitoring the branch network, we don't keep branches that are not viable open, we believe our branch network now is composed of branches. That is basically what is necessary, and what we have to have to serve our client base. But our main focus will be really on a first approach, to adapt the performance of the branches.

Enrique Nazarro:

Ok, thank you and if you allow me a second question. Your coverage ratio is near 200%, we know that is not a normal level if this scenario starts to get better. I would like to know what you consider a normalized level of coverage ratio for the next couple of years. I know, by considering your guidance for provision, we can more or less guess how the coverage ratio is going to be for 2017, but looking forward for the next couple of years, let’s say 2018 and go on, what do you believe is going to be the sustainable and normalized level of coverage ratio for Bradesco.

Carlos Firetti:

Enrique, is you look historically, we haven't reverted additional provisions and this is something that could change additional coverage ratios immediately if we do so. We don't have any expectations on using additional provisions, unless, in the future, we go to levels that we believe we should discuss that. But on a, let’s say, normal basis, what's going to happen is, as we start to grow again basically the coverage ratio should adjust. In the past, when we were growing our loan book, we reached lower levels of coverage. We believe that that can happen again, that we don't have specific targets for coverage and actually we don't have any expectations also to revert to the additional provisions what would eventually reduce that coverage in the short-term.

Enrique Nazarro:

Ok thank you.

Operator:

Our next questions is coming from Thiago Batista of Itaú BBA, you have the floor.

Thiago Batista:

Hi guys, thanks for the opportunity. I have one question on the level of credit recoveries. We saw a big expansion in the credit recoveries in the 4Q. If I am not wrong, it went up 20% Q by Q and 50% year by year, so could you give us a little bit of some color on this material expansion in the level of recoveries?

Carlos Firetti:

I think there are a couple of things. First, we believe our operation, our models of working on credit recovery is very good. We have been improving the way that we work over time and it has produced pretty good results. Another thing, we don't sell on a regular basis loans after write-off. We did something this quarter but it was something specific and credits were actually older loans, but we have a base for working on credit recover that is bigger, so we have more to recover. Also, on that front, we did the merger with HSBC, in October we incorporated, or in July actually, we started to incorporate HSBC and do the full incorporation in October and we had a new base of loans to work, we started to apply our way of dealing with loans to HSBC portfolio that helped, and I think this explains most. We also had some loans recovered from the write-off that originated new loans; we mentioned that when we discussed our recovered loan book that also helped. I think all these things together probably explain this performance.

Thiago Batista:

Ok, thank you.

Operator:

Our next question is coming from George Friedman from Citibank , you have the floor.

George Friedman:

Thank you very much. I have two questions that were not approached in the party's call. So first, I note an important increase of your renegotiation credit portfolio to 4.5% in this quarter, in terms of total loans, versus 4% in the previous quarter. Still Bradesco is running below on this metric versus private controlled peers, which show that number above 5%. My question is, was this increase related to a change in your renegotiation policy in order to become more proactive in that line going forward? Or was this related to any specific event? That is all I have for my second question.

Carlos Firetti:

I think I discussed a bit of that on the previous answer. Basically, as part of the recovery of loans, when I recover something, this recovery is based on a new loan, I record that on my renegotiated portfolio. This is part of it and you know my recoveries have been growing so that leads also to an increase in the renegotiated portfolio. Loans that are recovered after the write-off, part of the renegotiated portfolio is composed by loans that came from the write-offs. Also, when you have a court recovery approved, that credit remains in my portfolio and it goes to the renegotiated portfolio and, on top of that, I am doing very well on the process of recovering loans.

George Friedman:

Ok but, not necessarily. Are you going to continue fostering this renegotiation, natural process that happened to imply an increase this quarter.

Carlos Firetti:

No, nothing changed, if you look to the consistence of the portfolio, the level of delinquency of this portfolio has been varying a little bit but is relatively stable. You see that the increase in provisions in the renegotiated portfolio also brought a relatively large increase in provisions, meaning that the loans that it brought to this portfolio had a high level of provisions, exactly because as I said, part of it are loans that came from the write-off ready with 100% provisions.

George Friedman:

Ok perfect. And then my second question is with regards to the insurance platform. You did a significant improvement in terms of the claim ratio, as I mentioned, in the health segment, but on the and PNC segment you actually reported a loss. Basically, you mentioned in the press release that it was due to the business time revision on the PNC segment. My question here is, is it done? You booked approximately 100 million if I am not mistaken, or do you still have any further negative recognitions to observe at the beginning of this year?

Carlos Firetti:

PNC is exactly that. We did the revision of the business plan of one agreement we had on the extended guarantee business. That revision led to an expanse or a loss of 101 million reais. We booked it in the commercial expense line for the PNC business and it's done, we treated that as a recurrent item. It's there and it's a kind of a one-off thing. And that is the reason for the loss in this PNC business.

George Friedman:

That's perfect. And do you believe also that the claim ratio observed in the health segment is something sustainable going forward or anything that might imply the deterioration at the beginning of the year? Of course, taking into consideration the normal seasonality of the business.

Carlos Firetti:

Basically, this increase in the loss ratio in health insurance in the fourth quarter is related to some seasonal impacts. Especially at the end of the year there's a reduction in claims, also there was less business days this quarter but in fact claims. Part of it is due to the sector but the perception is, there is also a real improvement due to measures our health insurance company has been adopting. Even if the seasonal impacts go away, the perception is that we will not go back to the levels that we saw in the second and third quarters last year in 2017.

George Friedman:

Perfect, thank you very much.

Carlos Firetti:

And when unemployment stabilizes, other factors that have been contributing to the high loss ratio go away. Like the fact that frequency increases when people are afraid of losing their jobs or people have some standard coverage and they lose their jobs and use more. So, in the second half, if we have this benefit of stabilization on unemployment, we can have even bigger benefits.

George Friedman:

Ok, that's very good, Carlos, thank you.

Operator:

Our next question is coming from Carlos Gomes from HSBC, You may proceed.

Carlos Gomes:

Hello, good morning, thank you for taking the question. I am going to go back to the adjustment to the interest income and you referred to it in the Portuguese conference call, but I am still wondering. So it is 1.26 billion, it's an impairment if I understand correctly of debentures. Is it permanent loss or is it impairment because it will not be paid or because it is a change in the financial conditions? Because if it is a lot, why doesn't it be part of our provisions? And what should we expect going forward if it is going to be a recurrent feature every quarter and will you distribute it out separately? Will we have information about it? And secondly, I would like to ask about your amortization of Goodwill, and the fact that it is considered as a nonrecurrent? Again I wonder for the logic of it and what we should expect going forward, thank you.

Carlos Firetti:

Carlos, the quality of the call was not very good, I'm not sure I understood everything. But if I don't answer something please correct me. Related to the impairment first, impairments related to securities. I record as provisions what I have in the loan book that follows the 2689 resolution, it is a separated thing. The impairment is related to the perception of recognition of a loss related to a credit descent, most likely, it is not recoverable unless, for some reason, a company for which we have downgraded our view improves dramatically. It can happen, I would not say it is very likely but it can happen. Most definitely it is a permanent loss. We used to have, we have an annual governance for doing this impairment test, considering the level of problems we had until now, it was enough. We decided revise to make it more quarterly. One thing is, most of the problems or evolution in credit events that led to the impairment actually happened in the fourth quarter. It is not something, there was some concentration. From now on, we do it on a quarterly basis; we believe if we have something, we cannot say we have actually. We believe at the end of 2016 we did the right level of impairment for the current credit conditions, but if we have, we believe that it would be much lower than for the year than the 1.26 billion we made in 16. And the second question, can you repeat it sorry.

Carlos Gomes:

Yes, the amortization of Goodwill seems to be considered a recurrent event.

Carlos Firetti:

We were treating it as a recurrent event in the sense that we were deducting the Goodwill net of the text benefit. We were adjusting; we neutralized totally the tax benefit. Technically, the Goodwill amortization becomes deductable after the incorporation of HSBC. In the previous quarter it was not deductable at that point. Considering that and considering that basically we see our peers adjusting, deducting the gross Goodwill we thought it was actually more appropriate to do in line with what our peers do. From now on, it is going to be done this way. In terms of Goodwill, you saw we amortized something like BR$345 million in the quarter. You can't consider an amortization schedule; considering we will amortize BR$2.4 billion in Goodwill in 17, 2 billion in 18 and kind of reducing it around 400 million each year until we amortize everything going forward.

Carlos Gomes:

And all of these amounts will be considered as nonrecurrent every year?

Carlos Firetti:

Yes, we removed that expense as nonrecurrent, the full 2.4 as nonrecurrent, leaving the Goodwill, as I said, in line with what other banks do.

Carlos Gomes:

Thank you very much.

Operator:

Our next question is coming from Yuri Fernandes of JP Morgan. You may proceed.

Yuri Fernandes:

Hello, thanks for the opportunity here. So I just have one question related to the credit card chains on the revolving credit card. Can you comment please on the potential NII impact you may see? Do you think potential loan provisions reduction will upset the low NII you may have? And finally, it this included on your NII guidance?

Carlos Firetti:

Yuri, the answer is yes. We included the impacts from these changes in credit cards in our guidance. We believe we have initial negative impact, followed by a compensation coming from a portfolio with a longer duration and that should compensate. And also lower risk. So both things together compensate the loss coming from lower interest rates.

Yuri Fernandez:

Thanks for that, very clear. Do you see nothing happened to other products? Like on these new Central Bank agenda during do you see additional changes happening for, let´s say, over a director? From your knowledge there is no other conversation right now.

Carlos Firetti:

We don't see this discussion at the moment.

Yuri Fernandez:

OK, well, thank you. Thank you very much.

Operator:

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

Carlos Firetti:

Thank you very much for the questions and interest in our call. We are available for further inquiries if you have. Just contact Bradesco's Investor Relations Department, thank you.

Operator:

That does conclude the Banco Bradesco audioconference for today. Thank you very much for your participation, have a good day.