

Conference Call Transcript 2Q21 Results August 4th, 2021

Announcer:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Bradesco's second quarter 2021 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, our Executive Director and IRO.

Leandro Miranda- Good morning, everyone. Thank you for the presence. We will start our presentation with Octavio de Lazari Junior, our CEO, then we will be available for questions and answers. We have today with us André Cano, our Executive Vice-President; Oswaldo Fernandes, executive director and CFO; Carlos Firetti, director of controllership and market relations; Ivan Gontijo, Bradesco Seguros' CEO; and Renato Ejnisman, Banco Next's CEO. Now, I turn the floor to Octavio.

Octavio de Lazari Junior – Thank you Leandro. Good morning everyone. Thank you for your interest and for joining us on our 2Q earnings conference call.

This quarter we saw new surges in the Pandemic, which, unfortunately, affected a significant number of Brazilians. However, there was also a great acceleration in vaccinations, which is the only real solution for the Covid 19. The current pace is good and we shall accelerate even further. Over the coming months, this should help Brazil achieve the benefits seen in the countries at more advanced vaccination phases. We see continued recovery on the economic field, even with the spike in Covid cases in the beginning of the year, and especially now with vaccinations ramping up. We foresee a growth of 5.2% in the Brazilian economy in 2021. Formal employment is rapidly rising, supporting loan growth and keeping delinquency ratios at historically low levels. Fiscal risks have eased with GDP growth, leading to a positive surprise in Debt/GDP ratio and thereby enabling an appreciation of the Real.

On page 3, we begin a discussion on our numbers. Our income in the quarter was R\$6.3 billion, with the accumulated return reaching 18.2% over 6 months. The loan portfolio expanded 3% in comparison to the previous quarter, and about 10% YoY. The Tier 1 ratio reached 14.1%, an increase of 0.5 bps QoQ and 1.6 bps YoY, which indicates a very comfortable capital level. So far this year we have already distributed R\$6 billion in the form of interest on shareholders' equity. This brought our payout to 52%. We feel that our second quarter results had a good level, driven by a robust performance in banking activity. The insurance income was adversely impacted by the increase in Health and Life insurance claims due to the impacts from new spikes in the pandemic and a lower financial income due to variations in market indexes. The fact is: we were able to deliver a strong consolidated income, despite the hit taken from Insurance activities; this demonstrates the strength of our balance sheet and our Organization's ability to diversify our revenue streams.

Moving now to slide 4, we present our income statement. As we mentioned before, the lower quarterly income primarily reflects the impact on the insurance business, which was heavily affected by the claims related to Covid 19, despite the evolution of 20% in revenue YoY. You can see in the graph on the right top that the insurance income, historically, represents 20%, 25% until 30% of corporation's results. This quarter, the result was 10%, basically, due to Covid. Looking just at income from the banking structure, the growth in the quarter was 16% compared to the 1Q. In the annual comparison, the income rose 125%, as the 2Q20 was the most affected by the Pandemic. It's worth noting that the banking structure's income in the 2Q21 was 23% higher than in the 2Q19. The total NII was up 1% in the quarter and down in the annual comparison because the Market NII was rather high in the 2Q20, thanks to the robust market recovery in that period. ALL Expenses came at a very good level, posting a reduction of 10.7% QoQ. This comes from the positive performance in defaults and our loan models. We would like to point out the sharp improvement in costs and the solid recovery in fees. Finally, when we compare our operation this half year with the first 6 months we had in 2019, it is possible to notice that we have had significant evolution and that we are expanding. Total revenues are up 6% and reflect the growth in the portfolio and customer base, more than absorbing the drop in spreads. Expenses fell 7.3% even with the high inflation accumulated in this period and, as a consequence, the efficiency ratio reached 45.7%, an improvement of 3.7 percentage points.

On slide 5, we will talk about funding and loans. Our Funding activities as you may see continued to perform well. Funds from clients grew 4.5% in the annual comparison, particularly in demand deposits and savings, the latter being an important source of funding for our mortgage loan operations.

On slide 6, we will talk about the Expanded Portfolio, which grew 9.9% in 12 months. We posted a sharp 21% hike in individuals and 28.7% in SMEs. For Large Companies, the annual comparison was somewhat hampered by the solid growth of working capital lines at the start of the Pandemic and greater access to the capital markets at this time. Some lines reported impressive levels of growth over 12 months: - real estate funding grew by 40%. This performance reflects improvements in our contracting process and the strength of our origination channels, in which I would like to highlight our digital journey that originated around 1.7 thousand transactions in 1S21, 4 times higher than last year. Therefore, a channel that is increasingly gaining share in origination; - payroll-deductible loans grew 19.8%, with origination concentrated in our own channels; - agriculture loans rose 18.2%, an increase of

R\$3.1 billion for companies and R\$1.2 billion for individuals, reflecting the close relations we have with farmers through our regional agricultural platforms, which we have reinforced with agricultural engineers, along with the distribution of our branch network, which is present in the major agricultural municipalities. In SMEs, the growth of 28.7% YoY reflects the repositioning we made in our business retail structure, in which we tripled the number of coordinators and also added 600 relationship managers. We also reviewed the small entrepreneur's origination journey. We will have more news in the second half. Finally, I would like to highlight that the origination of loans to Individuals, which had been already enjoying steady growth, progressed even further and now is 40% higher compared to the same quarter of the previous year. In this quarter, with the recovery of the economy, the origination of companies grew by around 25%. All this explained by the digital world. And credit cards grew 23%

Turning now to slide 7. Our expanded ALL expenses totaled R\$3.5 billion in the quarter, representing 1.9% of the portfolio. The level was consistent with our Guidance. The reduction in cost of risk is a consequence of the positive performance in delinquency ratios and the growth in lower risk transactions over the last few quarters - such as real estate financing and payroll-deductible loans as we had seen before. The 90-day coverage ratio remains at rather high levels and is expected to continue above pre pandemic levels up to the end of this year. The coverage ratio including the renegotiated portfolio remained virtually stable.

Turning now to slide 8. We see that delinquencies remained under control, in line with our initial expectations. The 90-day ratio remained stable, with a 10 bps improvement in the Individuals segment and the 15-to-90-day ratio showed signs of improvement in all segments. We believe that delinquency ratios are expected to converge to near pre pandemic levels by early 2022. This positive performance can be explained by an active portfolio management, the progress of our loan models and journeys for credit application as well as renegotiation that are centered on the client.

I also would like to highlight that NPL Creation this quarter is at the same level of 2019.

Moving to Slide 9. The Extended Portfolio continued to improve, falling 26% year on year. From a balance of R\$41.3 billion, only R\$3.5 billion are in arrears for over 30 days. The possibility of an extension remained available to clients in the 2Q, but demand was low and our portfolio tends to close completely.

Coming to slide 10. You can see that our Renegotiated Portfolio declined by R\$900 million in the 2Q this year after holding a stable position in the 1Q. This shows a trend towards more normal loan conditions. We maintained a high level of provisions, maybe the highest compared to our peers, equivalent to 62% of the portfolio. Delinquency ratios in the Renegotiated Portfolio continued to be stable over the quarter, but it is expected to climb by the end of the year, returning to pre pandemic levels.

Turning now to slide 11. The Total NII grew 1.0% over the quarter. YoY there was a drop of 5.7% thanks to the strong Market NII in the second quarter of the previous year. The quarterly growth in the Client NII is mainly driven by the expansion in the Individuals Portfolio, mainly in personal loans, credit cards and payroll-deductible loans, which more than offset the slowdown in spreads motivated by market dynamic. We expect spreads to stabilize and indeed might even improve during the second half due to the economy improvements.

On slide 12, we will talk about fees. We posted a strong performance in Fees. We are seeing an intense growth in the volumes transacted in both debit and credit cards, reflecting a recovering economy. For Checking Account, we were able to recover the level of revenues from our network of banking correspondents due to a resumption in commercial activity. In addition, revenues were also positively impacted by the annual growth of more than 1.7 MM in Banco Bradesco's account holders, offsetting the reductions in TED/DOC revenues, mainly due to the pix. In Asset Management, the growth over the quarter came out of the strategy to diversify into new products that have a higher added value. In addition, we experienced growth in our net funding both in our own products as well as on third parties. This comes as a result of the work performed by our team of investment specialists, contributing to a net funding of R\$17 billion in the first half of 2021 and also by higher revenues originated from third party funds. We also highlight the strong performance in the income from consortium and investment bank, benefited from IPOs, M&A and Follow-on operations.

Now on slide 13. Our total costs fell by 4.4% over 6 months, a good indicator. The comparison between the quarter and the previous year is impaired by the poor basis of comparison, as a number of expenses were not carried out due to the pandemic. Personnel expenses were primarily impacted by higher provisions for profit sharing compared to the previous year, given the 60% higher net income this year. The decline in administrative expenses for the half year reflects our stringent cost control measures and actions to optimize our cost of serving, which more than absorbed the high inflation accumulated over 12 months: IPCA 8.3% and IGPM 35.8%. On the right side, you can see the reduction in the number of branches or transformation in business units, which are more efficient branches with lower costs basically focused on doing business. Also the redefinition of the mission for physical agencies and also of our managers.

Turning now to slide 14. Our Insurance operations posted a robust growth of 20,7% in revenues and resilience in terms of income which was R\$2.3 billion, despite the elevated level of claims due to events related to the Pandemic. On this slide, we highlight the Covid 19 impact in our insurance operations with costs reaching R\$1.8 billion in the 2Q21 and R\$3 billion in the first half, totaling around R\$4.8 billion since the beginning of the Pandemic. The financial income in the 2Q was also affected by the behavior of the ratios, which had an impact on the performance of financial investments as a whole. This scenario is temporary, it already shows improvements as a consequence of the vaccination, but we decided to revise our Insurance Guidance as we will be going to detail further on. On the right side, at the bottom, you can see in blue, the cost exclusively for covid- R\$1,848 billion in the 2Q with another R\$1,129 billion in the 1Q, totaling R\$3,0 billion of costs associated exclusively with Covid. This pink dashed line shows the claims ratio without the covid effects. Therefore, the impact on the insurer is directly linked to higher claims expenses with covid. If, in this page, we take a base of the picture of what has already happened, that is, R\$ 3 billion in expenses with covid, on slide 15, we present gives an overview of weekly events related to the pandemic in our healthcare business. Here we show the curves with the volumes of PCR tests that have been administered, as well as hospitalizations for policyholders during the same period, by week. Since the onset of the pandemic, Bradesco Saude's insured clients took more than 1.3 million PCR exam and approximately 78,000 ended up hospitalized. As you can see, PCR exams graph is a good indicator for hospitalization levels, that generate higher expenses to Bradesco Seguros, and these charts allow us to expect reduction in the short future due to the recent weeks' trend, although still in a high level. This is confirmed with the ICU/bed use level on Brazil's hospitals.

We now move on to slide 16 as you can see our capital liquidity ratios. Our Tier 1 capital ratio finished the quarter at 14.1%, and the common equity stood at 13.1%. It was an increase of 50 bps compared to the previous quarter and 160 bps compared to June 2020. The ratio is well above the regulatory minimums and is at a fairly comfortable level.

Moving now to slide 17, we talk about our digital channels, an important distribution channel of our products and services. This year, 98% of transactions are already done by clients using our various channels through fluid and intuitive journeys, an ongoing evolution towards transitioning to digital without dependence on the branch. The most significant transactional volumes are now seen in the Mobile channel. The number of financial transactions in the first 6 months of this year reached 600 million, which is 90% higher than the previous year. We also saw a record number of accounts opened for both Individuals and Companies, already at volumes that are twice as high as last year. The volume of loans coming from digital channels over this period amounted to R\$31 billion, 21% higher than last year. Growth in the Individuals segment came to 54%. The number of credit card requests through digital channels grew 270% and this year we issued 3.9MM new credit cards. For the Insurance company, we managed to sell 1 million products through digital channels in the 1H21, which represents revenues of R\$700 million and an increase of 80% compared to the same period last year.

We now move on to slide 18 to talk about pix and what it represents. We have volumes on the left and amounts on the right. What we can see is the evolution in all transactions in both volumes and amounts. Only "processed checks" and "ATM withdrawals" had decrease in quantity, which contributes to a reduction in our expenses. The pix has skyrocketed, but all other transactions are growing. Those that show a reduction are those that invariably bring cost reduction to the bank.

Turning now to slide 19, we talk about digital advances, centered on the client. In addition to continually improving our channels, we have also made investments in BIA, our artificial intelligence that simplifies our clients' lives by providing an increasingly pleasant experience. I would like to point out that we are pioneers in the use of artificial intelligence. In this first half of the year, digital interaction grew 43%, totaling 275 million interactions with clients, in which 83 million of these interactions were through WhatsApp. I am pleased to share with you that Bradesco received, for the second consecutive year, the award as the most innovative bank in Latin America, an award organized by the Banker Magazine, reflecting all the investment and focus we have placed on innovation.

Turning now to slide 20. We posted a strong performance on our digital business: Ágora saw a nearly 50% growth over 12 months in both the number of clients and in terms of volume under custody; next finished this quarter with 5.4 million clients, double what it had the year before, and its NPS is one of the highest among digital banks, and it is virtually in cloud. Bitz, the digital wallet that we introduced last September, has already surpassed 1 million accounts. Next is expected to continue its robust growth in the second half thanks to the "member get member" program and partnerships. The sign up process has been improved and 70% of accounts are opened within 24 hours. next has also incorporated ShopFácil, and now includes a new source of revenue from non-financial businesses.

Turning now to slide 21. We would like to point out that we are the first financial institution in Brazil to announce our goal to achieve a balance in greenhouse gas emissions by our clients and invested companies, reaching what is known as Net-Zero. This is an extension of

our climate strategy. 15 years ago, Bradesco was one of the first to measure the amount of carbon generated through its own operations. As of 2019, we have neutralized 100% of these emissions. In 2020, we were also the first financial institution in Brazil to join PCAF (the Partnership for Carbon Accounting Financials). We have arrived at a new level of climate management and we would like to play a leading role in this transition in the country, engaging and supporting our clients to adapt their businesses while promoting a more efficient, clean and climate-resilient economy.

Moving now to last page. Concerning our Guidance, we consider we established a well balanced guidance when the year began, and we maintained expectations for all lines, with the exception of Insurance, due to the change in the pandemic of Covid 19. We believe that we will see growth above the center of the range for the loan portfolio. In the center, for Client NII. At the top for Fees. At the bottom, fortunately costs, primarily due to the expected impact from the collective bargaining agreement for bank employees, that must reach 10%, as inflation accelerated sharply in the first half. In the center of the Guidance for ALL expenses. The Insurance Guidance was reviewed downward, and we now anticipate a drop from 15% to 20% as a consequence of the topics discussed earlier today, about the claims related to Covid.

I would like to thank you so much for making the time to be with us, and now we are going to proceed to the questions and answers section.

Announcer:

We will now initiate the Question and Answer section. Conference participants with audio in Portuguese will be able to ask their questions and the other participants will remain in listening mode. 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 Mr. Eduardo Rosman, from BTG Pactual. Eduardo, your line is open. You may proceed.

Eduardo Rosman - Good morning everyone, thanks for the opportunity to ask questions. Two questions on my side, the first one is about expectations of how we should think about the bank's results for next year, it's not guidance, it's more about trying to take a qualitative view of you. I think the second half is very clear that all banks are expecting a stronger second half, with stronger credit growth, delinquency under control. But inflation is rising, next year will be more complicated due to the elections, so I would like a more qualitative update of you on how to position yourself thinking about the bank's results for next year, that would be the first question. And the second one, I would like an update about some companies in the group that you have, about expectations of bringing partners or even an IPO. There's been news that Elo intends to do an IPO, I think Next you've already said a few times that it could do an IPO in the future or bring a partner, if you could give an update on how you're thinking about forming partnerships, bring partners or possibly even list some subsidiaries on the stock exchange. Thanks.

Octavio de Lazari Junior - Eduardo thanks for the question and good morning. Regarding the results for next year, it is difficult for us to make a forecast but what we can infer, Eduardo, is according to what should happen in the rest of this year; in the first half, as you

mentioned, stronger credit growth, the central bank is now increasing interest rates and this will naturally be reflected in the results, we are under inflationary pressure and the central bank will have to act with its monetary policy mechanisms to be able to handle this. So we understand that the prospects are better for next year, together with this, particularly on the Bradesco side, we have a clear expectation that the worst is over related to expenses that we had Covid at the insurance company, so all the graphs, all the curves show a reduction in expenses, a reduction in hospitalizations and therefore if there is a reduction in hospitalizations, you have less expenses with Covid and that for next year, I think we should overcome this pandemic as it happens in other countries that already have a much bigger vaccination. The country has been accelerating vaccination, yesterday we had 1 million and 800 thousand people vaccinated and certainly with the mass vaccination of the population you avoid hospitalizations, at least people, if they get sick, will have much milder symptoms and, therefore, without need for hospitalizations with differentiated treatment. So the expectation for the year 2022, especially for all the work we have done throughout 2020 to reduce costs, which is an important item of cost-of-service change, working with hub agencies and satellite agencies, that is, those agencies that are much more business oriented, so you have a significant reduction in the cost of serving. And the acceleration of digital channels with more fluid journeys for customers and new sources, new channels for placing products and services, as I mentioned here, credit card, there were 4 million new cards in this first half alone, as I mentioned the insurance company with 1 million items sold in this first half alone with additional income of R\$700 million, credit operations grew, R\$ 31 billion operations were contracted on mobile alone in this first half, so expectations for next year, despite a political scenario that lies ahead, despite the increase in the interest rate, we see it as a challenging scenario, but a scenario in which we have all the premises and instruments for us to present 2022 result even better than 2021 result, despite the fact that we have been talking about these points that we highlighted in the elections and higher inflation. In relation to the other businesses of the corporation, Next has been growing in an accelerated rate, as we just mentioned, by the end of the year it had a target of reaching 7 million customers, but it will be greater than that, for sure, because it has all the works, Next already has the platform, has its banking core completely migrating to the cloud, so it is a company that was born equipped with the cloud, with a much more intuitive journey for our customers and much faster to launch any of product or service. Now it is a bank that we understand we need to grow, we understand that we are at the point of growth of our businesses to go public, it will certainly not be in 2022, Eduardo, because we want to get everything ready, but it could be in 2023 And what I have said before, we have no restrictions on going public or bringing in strategic partners who want to be part of this business, as long as it is in fact a strategic partner and will bring improvements, bring an upgrade to our Next. and this is repeated for Bitz, this is repeated for Ágora, which are businesses that we already treat as totally separate businesses, each of these businesses has its CEO, each of these businesses has its human resources area, each one of these businesses has a technology area, totally separate from the bank, without any corporate dependence, because we have these businesses as lines that in the future may be part of an M&A, an IPO to add value, bring added value to the corporation. This is a bit of the business strategy going forward.

Eduardo Rosman - It's great Octavio, thank you very much.

Operator - Our next question comes from Pedro Leduc from Itaú. Pedro, your line is open, you can proceed.

Pedro Leduc - Good morning everyone, thanks for the question. First, Octavio, in relation to NII with clients it rose a little slower than the portfolio, especially in the quarterly comparison, in the last call I had perhaps the impression that we were going to see a little more acceleration and then it breaks the bridge very well and there was a contraction perhaps a little bigger in the spreads. If you could elaborate a little bit here, whether it's more about funding, it's in the final product price that this pressure on the spread is coming, as you are working to readjust this, so we can draw how this recovery will take place over the next quarters. Thanks.

Carlos Firetti - Hi Pedro, it's Firetti, I'll start answering. We see a trend of positive evolution of the NII with clients throughout the second semester, we have seen a positive impact of the Selic increase in the funding margin and this should intensify throughout the second semester. In addition, we see an improvement in spreads on origination in some lines such as personal credit and also towards the end of the quarter, we saw a slightly more significant improvement in shorter term lines, overdraft, revolving, so I think the intensification of these trends over the second half of the year is something that we believe should happen and it should take the margin, at the end of the year, to the center of our guidance, as we said, it is 4%, which means a year-on-year margin growth even above that level in the individual quarters.

Octavio de Lazari Junior - Pedro, it's Octavio who's talking, I think it's even worth commenting Pedro that it's natural that the last half of last year and this year, we favored operations with guarantee because you had a good certainty of receipt, such as payroll-deductible operations, real estate operations, that have lower spreads, so this was expected. Now, it is not possible to deny that the increase in the Selic rate that will happen is inevitable; the market itself is already placing this in the price of this rate in the future. So I think the increase in the interest rate, associated with what Firetti said, the funding margin will improve, the natural improvement in spreads that will happen due to the increase in the interest rate and operations with higher risks, but it brings better spreads, which started to grow, which was what I said, contracting R\$31 billion personal credit operations through mobile, which are operations with a little more risk, but we are well adjusted in relation to the default and we are very well provisioned, so I think these factors combined will make the NII grow, the overdraft is already improving, personal credit improving, so I think all of this will make this NII certainly tend to have a growth curve.

Pedro Leduc - All right, thanks. I'll get back in line here for the next question, thanks.

Octavio de Lazari Junior - Thanks.

Operator - Our next question comes from Flávio Yoshida from Bank of America, Flávio your line is open, you can proceed.

Flávio Yoshida - Hello, good morning everyone, thanks for the opportunity. My question is a follow-up on the last question, you commented that the NII should grow and reach the center of the guidance for the end of the year, mainly due to the spreads, but I would like to understand a little more about the mix of products, especially for individuals that you show that low spread products have been growing a lot over the last few years, especially payroll and real estate and my question is: why not speed up more? Octavio has even commented

that Personal Credit is increasing in digital, but why not speed up more, maybe in the card that has been losing space, given the level of default is well controlled, the level of provision is quite high, coverage and the economic scenario is also very favorable and, with that, try to further maximize the margin for the end of the year. Still on this issue, we can see on individual products' mix that cards have been losing its relevance in the total mix within the Individuals segment, this is Bradesco's strategy or it can also be explained by perhaps a greater competition from fintechs, after all, the vast majority offer a credit card, so if this has also had an impact.

Octavio de Lazari Junior - Flávio, thanks for the question, it's a pleasure to talk to you. Of course you have competition from fintechs, but that's part of the game and it doesn't worry us. It's the bank's own growth strategy; if you look at page 6 of our presentation, you can see that, for example, personal credit growing year after year at a rate of 19% and other credit products are already at 15.6% and when you look at origination based on 100 in the second quarter of 2020, you see the total growing to 130%, the legal entity growing to 125% and the individual growing to 138%, precisely because of these strategies, I think the worst delinquency has passed, we knew how to make the necessary provisions to face a delinquency that even we would imagine would be higher, but today it is at lower historical levels that we had pre-pandemic, so what are we doing now, and we are already doing that, it takes a while for you to capture, because throughout the payment of operations you capture interest rate revenue, interest revenue, so this process has already been implemented for us to continue growing strong in those operations that we have already adjusted in its entirety, which is working well, such as payroll loans, such as real estate credit, but also in other lines, that's why I also said about personal credit, other lines of credit, origination and the credit card itself, which returned to its best levels until the pre-pandemic with 4 million new cards in the first half alone, so this gives us a very good perspective of margin growth.

Carlos Firetti - Flávio, just to complete a point, as Octavio said, we have originated a very strong volume of cards, 3.9 million cards originated digitally and the focus has been on new acquisition and origination channels. New products serving even broader audience, but I think that when we look at the revenue and the effect on the credit portfolio, I remind you that the Private Label, especially, in which we have an important weight from Bradescard, our company that operates in this segment, it ended up being affected due to the pandemic, mainly due to the closing of stores, we have a share in apparel retail and others that have physical stores and this ended up affecting a little the revenue in this specific portfolio and this also affected the revolving because this type of portfolio has an important consumption of revolving and I think the normalization of the economy tends to help us in this regard as well.

Oswaldo Tadeu Fernandes - And just one other thing, Oswaldo speaking, when you look at the margin, we really like to look at the ALL net margin. If you look at this rate of the ALL net margin, it is the fourth consecutive quarter that it has been recovering, I mean, it is a good indicator, we are managing to grow in credit operations within our profitability, with very low ALL.

Flávio Yoshida - It's great guys, super clear, thank you.

Operator - Our next question is from Gabriel da Nóbrega from Citi. Gabriel your line is open, you may proceed.

Gabriel da Nóbrega - Hi everyone, good morning and thanks for the opportunity to ask questions. My first question is about expenses, I understand that you have been making a lot of efforts, especially in the administrative part, for you to reduce your branches and remodel them as well, but this quarter we saw that much of the improvement came in other expenses. So even with the 8% inflation that we saw and it should remain high, I would like to understand if there is any other strategy that you are using to control your expenses and also if you think these levels are sustainable. On my other question, I would like to understand a little more about Next, in my accounts here, this quarter Next added about 16 to 17 thousand accounts per day and digital banks are much smaller, we have seen digital banks adding about 30,000, 40,000 accounts, so I would like to understand the reasons why you are not adding at the same pace as these other digital banks, especially because Next has help from Bradesco, then if you could elaborate a little more on this, I would be very grateful. Thanks.

Octavio de Lazari Junior - Gabriel, with regard to costs, we have been making significant adjustments in structure and headcount since last year, and of course we are not continuing with the same intensity, but we kept the same adjustments that we made over the past year. Regarding the branches, we made a very important downsizing last year, there were 1,000 branches in total, 1,100 practically, 700 were transformed and 400 closed and for this year we expect to have 184 incorporated branches and 400 transformed into business units, that is, there will be 584 more branches throughout this year that we will somehow or reduce, so 184 will be reduction and 400 will be transformed into business units where you have a much lower cost, you have a branch much leaner, there is no watchman, the costs much less. So, the cost strategy is for us to maintain the same trajectory that we did during the last quarter of last year, which was very successful and is reflected in the balance sheet for this year of 2021, so it is this discipline in relation to costs. And regarding Next, Renato, Next's CEO, is here with us, I'm going to ask Renato to give you a little more color, Renato... Gabriel, Renato, our Next's CEO, isn't getting in for some reason, it must be a technical problem. But as I said before, Next is now a company that is totally separate from the bank, without any corporate dependence. There you have a CEO, who is Renato Ejnisman, you have the entire C-level structure of the company, whether it's digital channels, technology, human resources, finance, you have a structure totally separate from Banco Bradesco, there is even the banking core as I said, totally separate from the bank, including this banking core completely in the cloud, we insisted on having this digital bank building in an absolutely separate way, so, in the future, at the moment when we think it's appropriate, when we think it's worth bringing in a strategic partner, it can be an option, or even going public in this company, given the valuations that we observe of these digital banks. So this concept of Next's digital bank, of mimos, of partners that we are bringing, including its own marketplace so that customers can enjoy the entire relationship it has with Next is something that is already being built and already has been showing good results due to the number of customers that Next has been gaining on a daily basis. With the new levers that we have been using, whether through a much more fluid journey, whether through mimos, whether through the marketplace or even through Marketing with Tatá Werneck who is now doing the Next campaign. So this leads us to believe that we will reach, at the end of the year, no longer those 7 million customers that were initially expected, but more than that by the end of 2021 and then we will have a bank of 7 millions of customers, very well structured, totally separate from the bank and a M&A

alternative, association or going public could be studied. So it will depend on how things go for next year, so this is a little bit of the strategy we have for Next.

Renato Ejnisman - Octavio, sorry, for some reason I was on the call, but you weren't listening to me.

Octavio de Lazari Junior - Well, you can complement it if you have something to complement Renato, Gabriel from Citi asked the question regarding the Next strategy, I've already commented a little, if you have anything to add.

Renato Ejnisman - Perfect, I just wanted to say, first, thanks Gabriel for the question. Regarding your question of growth, we have been growing at a strong pace with 99% a year, what I find interesting is that when we look at the unit economics point of view, things fit together because our revenue grows above the growth of clients, if we look at assets under custody, when we look at TPV, we see a lot above that, when we look at the cost point of view, we adjust costs as it goes down around 35%, so we have a business model that fits, this is the first point that is very relevant. Second, when we look from the point of view of competitors, it is true that there are competitors that are more in the monoline style and should have greater growth, but if we look at competitors that are more in the style we are pursuing, the strategy that we are pursuing, we are again experiencing super interesting growth with a marketplace that is now starting on Black Friday, so we grow as a digital platform, we have new financial products too, including life insurance that started just this week, we are growing from the point of view of delighting customers with an NPS, like Octavio has already commented, in 72, growing from the point of view of employees with a lot of talent, we have been able to attract people from different platforms digital, several companies that are in line with the culture that we want to implement. So, we are very sure that we are on the right path, I think that everything Octavio has already told us a little bit about how we have seen it from a strategic point of view, but what we are really sure about to see is that this path we are choosing, we are pursuing a path of high growth but with numbers that make sense and we have found this here in our result.

Gabriel da Nóbrega - It's great guys, thank you very much for the answers.

Operator - Our next question comes from Jörg Friedmann from Citibank. Jörg, your line is open, you may proceed.

Jörg Friedemann - Thanks guys for the opportunity. I also have 2 questions more related to insurance, which in our opinion was probably the only point of attention to the result here, because the dynamics in general, we found it very healthy, except obviously for the notes with insurance. Therefore, to understand and put this result in context, the first point, I would like you to talk a little more about the financial result because it falls more than 50% quarter on quarter, while the result of the NII with the market is doing very well in this last quarter, an increasingly super solid. I would like to understand here if this is purely due to the IGP-M x IPCA mismatch. How do you see this evolution for the next quarters? And associated with that, your new guidance, if we do the calculation at its midpoint, you are implicitly saying that the result per quarter of insurance operations in the second half was around R\$2.9 billion. It's not what we've seen in the average over the last 3 years, but it's back to around R\$3 billion already, numbers very similar to some quarters that were observed during the year

2020. And here comes my question- What are the assumptions for that? It is the recovery of the financial result or a significant drop in this loss ratio related to Covid that has been increasing. It was R\$1.1 billion in the 1Q and R\$1.8 billion now in the 2Q, I mean, the worst is over. This number drops significantly so that we can see these numbers of insurance results returning to normal in the next semester. For me, there are many moving parts, both in the financial results and in the claims area, to understand this almost normalizing in the 2H. Thanks.

Octavio de Lazari Junior – Thank you Jörg. Ivan Gontijo, our president of the Insurance Company, is also on the line. Ivan, do you want to say and I complement?

Jörg, I think Ivan is having some difficulty getting in, but we will comment here. Regarding financial result, Jörg, it is basically due to the detachment that happened in the main indexes, the IGP-M had a very high growth, but that doesn't worry us. It is a manageable situation, there are several instruments that we can invest. We can work on assets and liabilities, funds, multimarkets, other investment options, so that doesn't worry us, it's a momentary situation. If we take the chart of IPCA and IGP-M over 20 years, you will see it equalizes in the long term, several times we had negative IGP-M, so this is not something that worries us. After being located in this quarter due to the detachment of the IGP-M. Regarding the insurer's recovery, due to the midpoint of the guidance, you commented on what we see from the studies we have done and from everything, we see of the pandemic, the worst seems to be over. We had an extremely sensitive quarter due to the claims with Covid, which is a claims ratio that you do not know exactly what the size will be, the course of this claims ratio. When we talk about elective care, you know exactly how many days the person will be in the hospital, what type of surgery they will undergo, or intervention they will undergo and how much it will cost. Covid's, no. You don't have it because it depends on the evolution of the clinical condition of our patient, our insured. If this is going to evolve into a more serious situation, it will require new procedures, if it will get more expensive, how long the insured will be hospitalized. So it's very difficult to deal with this Covid framework. But we understand that the worst is over with regard to spending on Covid because vaccination has been accelerating at a very intense pace, yesterday we had one million and eight hundred thousand people vaccinated. All hospitals throughout Brazil are showing the rates of use of ICUs and beds - we already had 80%, 90%, today 40% 42% - so today this is a clear indicator that our claims rate will decrease. But, at the end of the day, Jörg, this is important: as I mentioned at the other meeting, we have an insurance company in which is rare, it is a very rare burden, I would say it's a burden that never happened because the last pandemic we have in history was the Spanish flu in early 1919, more or less. So, in the insurer's existence, since Atlântica Boa Vista, we have never experienced a pandemic scenario that could affect the result. Then it happened. What we have to do is take care of our people, take care of our policyholders. Therefore, our role is to provide the best assistance, the best care to all these policyholders who trusted Bradesco and we did that, we paid this expense. The result, the expense that incurred is not the main factor. The result comes back, this expense will no longer exist. The Insurer earned already in this 1H, 20% more than last year. So, the revenue is growing. We are going to replace that as of the 3Q, the insurance company will have, over time, a share of 15%, 20%, 25% to 30%, as it had in the bank's results. The worst of it is the more than 520 thousand deaths in Brazil. More than 4 million people worldwide have died from this pandemic. So the expense has already happened, it's a thing of the past, it's accounted for. The care now is to make the company grow and how to grow, that was your question, Jörg. We entered the insurance company's digital very strong, as I mentioned, it sold more than 1 million items this semester only through digital, generating additional revenue from insurance premiums of R\$700 million for the insurance company. A strict cost

control that we have been doing at the insurance company for some time. So, the expectation for the Insurer, Jörg, for everything that happened, the pandemic brought a lesson to people that they need to have life insurance, health insurance and they need to somehow protect their family, protect their employees, when hiring in a company, so if a problem eventually happens, people can be protected or protect their family. I think that this is also an inducer of higher billing in insurance companies. So this scenario in expenses is a scenario that all insurance companies will face due to the absolutely terrible, but atypical, situation, but we will also have a good sales growth that we are already seeing at Bradesco. This is the picture that leads the insurer to growth over the next few quarters.

Jörg Friedmann- Great explanation. Thank you so much for the super thorough explanation, Octavio. If you can just do a quick follow up, here. My point is how the insurer's results evolve. The issue of IGP-M and IPCA was obviously not solved, it reduced the gap, but it still exists. It would make sense, in this sense, even with the claims ratio falling over the next two quarters, for the recovery of this insurance result to be gradual, that is, still a recovery, an intermediate retail in the next quarter, 3Q and then yes, in 4Q, something much more close to history?

Octavio de Lazari Junior- I think you're absolutely right, Jörg. Of course, in the 3Q you will still have the remnants of what we saw in the 2Q, there are claims notices to be paid, so that's a bit of that. The 4Q tends to be better, because vaccination will be much higher, it will be more close than the last quarter of last year. So, including the numbers you mentioned when you asked the initial question, they are much more in line with our expectations regarding the insurance company.

Jörg Friedmann- Perfect! Thank you very much.

Octavio de Lazari Junior- The guidance reflects just that.

Jörg Friedmann- Perfect, great, very clear! Thank you very much

Octavio de Lazari Junior- Nice to hear you, Jörg.

Jörg Friedmann- Pleasure, thank you!

Operator – Our next question comes from Pedro Leduc from Itaú. Pedro, your line is open, you may proceed.

Pedro Leduc - Thanks for the follow up. Regarding tax changes, both CSLL now this 2H and, next year, possibly a drop in interest on capital or a reduction in the rate, just to clarify, you did not register in the results a revaluation of the tax inventory this quarter. So for next year, if the rate drops, the IOC should not have any type of revaluation in the case of negative in this inventory, except for the results, am I correct? And later, thinking about whether the IOC really falls, with Basel ratio very comfortable, could you think about perhaps using more repurchases as a way to return money to the shareholder in a way that would have an effect on dividends per shares, on earnings per share. Thanks.

Oswaldo Tadeu Fernandes - Pedro, it's Oswaldo speaking. As you may have seen in our balance sheet, we have not activated a deferred tax asset from the increase in Social Contribution this semester. This will happen month by month according to what happens in the periods. Even so we don't have a mismatch in relation to the activation projection and be forced, at the end of the year, to reverse something. Regarding the tax reform, obviously, every time there is a different project, every time we have a project, we have to redo all the calculations but, no doubt, considering the last proposal, we and all companies in the market have a significant reduction in deferred tax asset at the end of the year. Now this equation, considering the last project, between the write-off of the DTA, the loss of the IOC tax benefit and the reduction in the rate for our accounts, this will have a positive effect for the shareholder who receives his dividend.

Leandro Miranda Araújo - If this really happens, Oswaldo was very happy to say this current scenario is constantly changing, we should intensify the buyback. In fact, as in the United States, it is natural for you to reward your shareholder, increase earnings per share by reducing the outstanding amount, the total shares in the market. We already have a much larger program than we used to do and this is a way of managing capital as we have been talking about.

Octavio de Lazari Junior - Taking advantage of your question because it is very interesting, what Leandro said about the repurchase is that when we look at the United States, the repurchase and dividends ratio is practically 70-30, differently in Brazil because of the benefits you get from IOC. Now, this is an important point, Pedro - the end of IOC benefit is already been given, there is no way out, we are going to lose. And based on this assumption, to lose the IOC, what will happen to the deferred tax asset? It seems to me that we have to choose the good battles. People say that DTA is the jabuticaba in Brazil. This is not a jabuticaba, because jabuticaba is delicious, this is a very bad apple, because it only harms the companies' equity and the financial market, especially banks. We may even have to recognize and remove from the balance sheet, but what needed to happen is to attack not the effect, but the cause. The problem with DTA is that everyone wants to fight the cause. We calculate the ALL based on studies, expected loss, absolutely reliable statistical models, all the science, intelligence and technology possible to estimate very clearly and be able to inform you how much is the expected loss of our corporations. In the Federal Revenue, I can only register the losses when they turn effective. That is, I recognize the revenue, without actually "earned" and, when it happens, it generates the DTA. If Federal Revenue adopts the same rule, or recognize the Central Bank rule for the purpose of recognizing the ALL, we could stop generating DTA. And that's it, we have to fight the cause and the cause is just that. What I could tell you is the following: the IOC is already gone. About DTA, whether you like it or not, we will have to recognize this loss, reduce our equity, but if this were in favor of combating the effect, we will not have this distortion anymore, of you creating DTA. This will never end until this rule is changed, the DTA will not end. I think it will be better for the market as a whole, for companies, and we will put an end to the problems once and for all, which is a very serious problem in Brazil, this problem with the DTA of large companies.

Pedro Leduc - Very nice answer, I hope that many have heard it too. Thank you!

Operator - Our next question comes from Domingos Falavina from JP Morgan. Domingos your line is open, you can proceed.

Domingos Falavina - Good morning gentlemen and thank you for the opportunity. My question is regarding expenses, other expenses. Anyway, you had a very constructive cost reduction guidance, not easy given the IGP-M, but if we look at the cost breakdown it is a little different from what we imagined. We noticed personnel expenses that you classify as non-structural a little more pressured and the part of other expenses actually falling a lot year on year. And my question is, when we think about it going forward, seeing these R\$850m in other expenses, and it was around R\$1.3 - R\$1.6 billion, is this the new level you believe in these other expenses? It is normalized at R\$800 to R\$1bn, let's say, or personnel and administrative expenses come back because, if the other ones come back and the other two don't go down, it ends up impacting a little when we are looking within the guidance range. Thanks.

Oswaldo Tadeu Fernandes - I will divide the question into parts, talking about administrative and personnel expenses. Starting with personnel, the biggest increase we had there was in the non-structural part, which due to the growth in our profit, we made greater accounting for the provision for profit sharing - PLR, this was the main point in personnel expenses. In terms of administrative expenses, we can see, especially when we look to fixed and variable. Our component in relation to fixed expenses is well controlled and even falling. Of course, when you look at the total administrative expenses, from the moment we have an increase in business, we also have an increase in these expenses. I can even give a very practical example, when you see an increase in our checking account income, a good part of this income comes from banking correspondents, due to the resumption in commercial activity. On the other hand, in administrative expenses, there is more payment of fees for bank correspondents. On other operating expenses, the sales of cards dropped, because when the customer makes purchases on the internet, we have the benefit of a lower expense, because it ends up reducing the profit share we have in our agreements. It ends up being very positive, because we have a full income and less expense. And regarding other operating expenses, in the previous quarter, there was still a little, when compared to last year and the previous quarter, constitution of non-technical provisions for the insurance group, which in this quarter were reclassified to the result of operations of insurance. We are talking about something between R\$250 - R\$260 million, with double opposite effect, because you leave this line of other expenses and go doubled to the line of income from insurance operations. These would be the main reasons for the variance. Looking ahead, we believe this should return not to a level close to 2020 level, because it is impacted, but something close to 2019. Remembering that in 2019 we had an amount that was included in this line, related to payroll amortization which we reclassified to margin.

Domingos Falavina - If I understand correctly, if we believe that profits are still strong, the part that you consider non-structural of profit sharing will remain strong. Increasing economic activity will put pressure on the other lines and it (Other) goes back to 2019 level. So if we apply forward, your cost guidance will probably end up at the top of the year-on-year cost growth.

Oswaldo Tadeu Fernandes - In our guidance, we are estimating more than bottom, because in the third quarter we will have the effect of the collective agreement and due to the INPC, that is already given, and 0.5 percentage point more, we are imagining a 9% high readjustment. Therefore, we are imagining a guidance, at the end of the year, close to the bottom.

Leandro Miranda - Due to personnel expenses.

Oswaldo Tadeu Fernandes – Exactly.

Domingos Falavina- It's clear, thank you!

Octavio de Lazari Junior – Thank you very much for your attention, our investor relations team is still available, good afternoon everyone and thank you for your attention. Big hug!

Operator – Bradesco's conference call is closed, we thank you all for your participation and wish you a good day!