Company Participants

- Luiz Carlos Angelotti, Executive Managing Director & IR
- Paulo Faustino da Costa, Director

Other Participants

- Anibel Osdez, Analyst
- Boris Molina, Analyst
- Eduardo Nishio, Analyst
- Francisco Kops, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Philip Finch, Analyst
- Regina Sanchez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Third Quarter 2013 Earnings Results Conference Call. This call is being broadcast simultaneously through the internet in the website, www.bradesco.com.br/ir. In that address, you can also find a banner through which the presentation will be available for download.

We inform that all participants will only be able to listen to the conference call during the Company's presentation. After the presentation, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities and Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the Company.

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 in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

To represent Banco Bradesco, we have here today Mr. Julio de Siqueira Carvalho de Araujo, Bradesco Executive Vice President; Mr. Luiz Carlos Angelotti, Executive Managing Officer and Investor Relations Officer; Mr. Moacir Nachbar Junior, Deputy Officer; Mr. Paulo Faustino da Costa, Market Relations Department Director. Now I will turn the conference over to Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. We deeply appreciate your attendance to our Third Quarter 2013 conference call. In the Third Quarter of 2013, the global scenario was marked by the continuing financial market volatility. Expectations that the US would begin reducing monetary stimulus had a relevant impact on financial asset prices. As a result, long-term interest rates moved up globally and the emerging (consequences) depreciated strongly and the Fed's decision not to taper stimulus in September brought some relief to the markets.

The Brazilian Central Bank has been working on reducing (inaudible) fully, establishing the confidence on the economic agents and ensures that both actual (inaudible) gains and macroeconomics stability are maintained. We therefore continued to see favorable prospects for the Brazilian economy.

Bank loans are growing at levels that are both sustainable and compatible with risk, while delinquency is showing signs of decline. Consequently, given the continuing upward social mobility, the outlook for the banking and insurance industries remain favorable. Within this context, Bradesco keeps investing in technology and its organic growth, pillars of our strategy to gain market share in the banking and insurance markets.

On slide two, you can find the highlights for the period. Firstly, the adjusted net income amounting BRL3.082 billion in the Third Quarter, up by 3.5% over the last quarter. And BRL9.003 billion in the first nine months, posting an adjusted return on average equity of 18.4%. Our credit margin, net of provisions for loan loss, improved by 8.2% in the quarter and 12.8% in the nine months periods, showing the improving (part) of our loan portfolio.

Our delinquency ratio over 90 days went down by another 10 basis points this quarter, reaching 3.6%. This ratio had (inaudible) had decreased by 30 basis points last quarter. This new drop suggests that the reduction in the delinquency is sound and is likely to stabilize at this lower level. Some aspects have helped this movement, as follows -- changing borrowers' behavior, low unemployment rates and the constant improvement of our credit analysis and approval tools.

Our provisions for loan loss went down for the fifth consecutive quarter despite a reduction of a rounded BRL200 million over the previous quarter. Our coverage ratios continue improving and reached 190.3% for the loans overdue by more than 90 days, representing the quality of our results and the soundness of our balance sheet.

Fee income went up by 13.4% in the past 12 months as a result of our ongoing efforts to extend the offer of products to our clients. Along with this fee income growth and the strong cost control in search for higher efficiency, our operating coverage ratio reached 70.8%, the highest ratio for the past five years. Our insurance business, one of our pillars, recorded 13.4% increase in written premiums, affirming the quality outlook for this segment. Our total assets exceeded BRL907 billion and our expanded loan portfolio reached BRL412.5 billion.

I now turn the floor to Mr. Paulo Faustino, who is going to cover the next (inaudible) slides.

Paulo Faustino da Costa {BIO 6436050 <GO>}

Thank you, Luiz. And thank you all for joining our conference call. I will try to give you a brief presentation in order to save more time for our Q&A session.

I will start with slide three, that shows the reconciliation between our book net income and adjusted net income. This quarter, the only known recurring event was the constitution of the provision for civil contingencies which amounted to BRL30 million gross. I just inform you that within our Third Quarter book net income increased from BRL3.064 billion to an adjusted BRL3.082

billion. Also on this slide you can see that our adjusted return on average equity came to 18.4% in the first nine months.

On slide four, you can see that our Third Quarter net income growth was mainly due to, first, lower delinquency and the consequent reduction in loss expenses; and second, higher net interest income, both interest earnings and non-interest-earning portions, partially offset by the impact of the collective bargaining agreement which generated into operating expenses.

In comparison with the first nine months of 2012, adjusted net income moved up by BRL398 million, or 4.6%, due to, first, an increase in the interest-earning portion of the net interest income resulting from an increased volume of operations; second, the expansion of the client base and service channels, which helped push up the income as a result of the higher number of transactions; third, reduced delinquency; fourth, a strict cost control with operating expenses lagging behind inflation; and fifth, the good performance of our insurance business. The earnings per share in the last 12 months increased by 4.8%, BRL2.71 to BRL2.84.

In slide five, shows the relative share of our many operations in the net income. It is worth noting the expanded relative shares (are) below operations in both the annual and quarterly comparisons boosted by the decline in delinquency and the increase in business volumes.

The upturn in fee income in the annual comparison was due to the increase in the customer in the credit card business as well as the expansion of our service network and the consequent upturn in transaction volume. The reduced share of securities operations in both periods was basically due to lower arbitrage gains due to marked volatility.

On slide six, we see that the increase in the 12-month efficiency ratio was mainly due to, first, the reduction in the non-interest-earning portion of net interest income, which was mainly impacted by lower gains from market arbitrage and, second, the impact of the collective bargaining agreements in 2012 and 2013. As for the (Third Quarter) efficiency ratio, the biggest impact came from the 2013 collective bargaining agreement.

The blue line shows the efficiency ratio adjusted to risk, which improved by 10 basis points, reaching 52.5% in the Third Quarter, reflecting the reduction in delinquency. It is also worth noting our operating coverage ratio, the upper black line, which came to 70.8%, as we had already mentioned, the best figure for the past five years. The coverage ratio represents the ability of our fee income to cover our operating expenses.

Let's now look at slide seven. Unrealized gains amounted to BRL10 billion in the Third Quarter, BRL2 billion down on the previous three months.

The reduction was basically due to, first, the negative mark-to-market adjustments of our available for sale fixed income securities, which are linked to the Company's liabilities as a result of the asset and liability management activities carried out by our treasury department; and second, lower unrealized gains. So loan and leasing operations, particularly offset by the appreciation first of our investments, especially in Cielo shares. And second, of our equity securities.

These figures do not include the potential surplus, value of our properties in the total amount of BRL5.4 billion.

Moving to slide eight, we show the performance of our net interest income from both non-interest-earning and interest-earning operations. This quarter, the increase in total net interest income was due to both the interest-earning portion as a result of the increased business volume as well as the non-interest-earning portion, which reflected the higher gains to market arbitrage and includes a gain of BRL30 million from the sale of BM&FBovespa shares as well as a loss of BRL60 million from the sale of available-for-sale securities.

Meanwhile, reduction was mainly caused by lower gains from the non-interest-earning portion in turn due to reduced gains from market arbitrage, partially offset by the growth in the interest-earning portion results. Generalized net interest margin reached 7% in the Third Quarter, as expected, 20 basis points down on the previous three months, mainly impacted by the reduction in the securities and insurance margins and the slight decrease in spreads, partially because of the new mix of operations.

In slide nine, it is the breakdown of the interest-earning portion of net interest income, which was positively affected this quarter by, first, the credit margin due to increased business volume. And second, funding, reflecting the period upturn in interest rates. It is worth noting that this increase was offset by the reduced securities margin, which includes the gradual drop of the gains from the pre-fixed portfolio, both in annual and quarterly terms. In the annual comparison, the highlights were loans and issuances which were positively affected by the upturn in business volumes.

In the interest-earning portion of net interest income performing below expectations, mainly as the consequence of, first, the lower than expected loan growth and, second, a change in loan mix -- our loan mix coverage, lower risk and return operations. Second (chip) was duration the performance of the interest-earning portion of net interest income up to this quarter and expectations for the Fourth Quarter, we are revising the guidance for the year to an increase from 1% to 3%.

Now I would like to call your attention to slide 10, that shows our net credit margin, the blue part of the graph, which increased by 8.2% in the quarter and 12.8% in the nine-month period. This margin was positively affected by higher business volumes and delinquency costs. The red part of the graph, which went down for the fifth consecutive quarter, does consume less of the credit margin, around 37%. As of 2012, it was 46.3%. This performance pushed out the net spreads by 40 basis points in the quarter.

Slide 11 shows our (BIS) ratio and the behavior of our excess of capital. The BIS ratio for the Third Quarter at 16.4%, while the Tier 1 capital ratio stood at 12.7%. These increases were mainly due to the reduced capital allocation to market risk. This slide also shows assimilation of our Basel III ratio, which is above minimum requirements possibly and mediate full compliance of the existing regulations, which came into effect last October 1. Many adjustments refer to tax credits and the minimal capital requirements for insurance activities.

In slide 12 -- moving on to slide 12. As we have already seen, our total assets exceeded BRL907 billion, BRL51 billion or 6% up on September 2012. The return on average assets stood at 1.3%, while the adjusted return on average equity stood at 18.4%.

On slide 13, we see that our expanded loan portfolio amounted to BRL412 billion in September 2013, 2.5% up in the quarter and 11% up over September 2012, led by micro, small and medium companies' SMEs, which increased by 2.7% in the quarter and 12% in the year. In addition to the individual portfolio, the highlights were, first, on payroll-deductible loans, which moved up by 10% in the quarter and 52.5% in the last 12 months; second, mortgage loans up by 9% and 33.1%; and third, credit cards up by 3.4% and 16%.

I would like to emphasize that if the acquired portfolio and if the (inaudible) portfolio of individuals were left out, the expanded loan portfolio would have gone up by 13.9%. The Fourth Quarter is likely to be similar or a little better than the Third Quarter, thus loan growth rates should remain close to the current level, closing the year at the bottom of the guidance range.

Slide 14 shows our delinquency ratios. As expected, our delinquency ratio over 90 days went down again, reaching 3.6%, led by the individual ratio which fell by 30 basis points. The behavior of the 60 to 90-day delinquency ratio in the order of short-term delinquency ratios lead us to expect a stability for this ratio for the next quarters.

Slide 15 shows that our provisioning ratios remain robust, exceeding central bank's requirements by BRL4 billion. Assuming the maintenance of the 12-month growth in net loss ratio as of September 2012, we have booked the excess provisions of BRL8.4 billion in relation to expected gross losses in the next 12 months. The (dark) part of the blue line (inaudible) BRL11.80 billion in relation to loss net of recoveries, the dark part of the purple line.

Also worth noting on this slide is the increase in the coverage ratios for loans overdue by 90 and 60 days, reflecting the period reduction in delinquency. These aspects bolster the fact that our level of provisioning in relation to loss, in accordance with central bank regulation, is in line with our provision in the risk assessment policies, ensuring a comfortable margin for any stress (inaudible).

Slide 16 shows that the Third Quarter fee income amounted to BRL4.977 billion, in line with the previous three months despite the excellent performance of our underwriting fees in the Second Quarter, which did not happen again this quarter because capital markets were constrained in the period.

In comparison with the first nine months last year, the best performers were fees from underwriting, which moved up by 30.5%; cards, 19.1%; constructions, 16.4%; and checking accounts, 11.6%. It is worth drawing attention to our continued investments in information technology and the organic growth, which led to an increase in our customer in the credit card base, in turn allowing us to continually increase transaction volumes, thereby pushing up fee income.

Moving to slide 17, third-party operating expenses increased by 3.1%, mainly impacted by the collective bargaining agreement, despite the increase in these expenses, being caused mainly by salary increases arising from the 2012 and 2013 collective bargaining agreements, 7.5% and 8%. Our operating expenses went up by only 4.2% in the (inaudible) comparison.

Administrative expenses went up by only 2.5%, lagging behind our consumer price index, IPCA, of 5.9%, despite the period upturn in the operational pieces volumes, which reflect the ongoing pursuit of cost reductions led by our efficient and purchasing committees.

Slide 18 shows revenues from our insurance pension plan and the capitalization bond activities, which fell by 16.4% over the previous quarter, largely due to the improved performance of life insurance in the pension plans in the Second Quarter, leading to a 34% drop we have in (inaudible) it. In general comparison, there was an increase of 13.4% led by the health in capitalization bond segments, both of which recorded double-digit growth.

Third quarter net income fell by 5.7%, mainly due to this period's (having no) performance. The 4.4% upturn in net income in the annual comparison was essentially due to revenue growth and the improved financial results.

Slide 19 shows some of the main figures from our insurance activities. The combined ratio came into 86.9% in the Third Quarter. Our financial assets amounted to BRL143 billion, while the technical provisions came into BRL134 billion, BRL160 billion of which whole life insurance in (patient fill) products.

And on slide 20 you can see that we revised our guidance for the interest-earning portion of net interest income. As I mentioned before, it was mainly impacted by below than expect loan growth and lower spreads, which in turn were due to a change in lower mix. On the other hand, we are maintaining our guidance for the other lines, in line with -- of their recent performance and the expectations for the next quarter.

Now, as we have reached the end of the slide show presentation, I would like to thank you all for your attention and open our Q&A session with Mr. Angelotti. Thank you.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have two questions, if I may. The first one is trying to understand NII year-to-date and what that tells us about next year. At the beginning of the year, you thought NII was going to be 7% to -- NII growth was going to be 7% to 11%. You're now expecting 1% to 3%, even though your loan guidance didn't change much, right? Well it changed. But obviously not as much as you expecting, 13% to 17%, now it's 11% to 15%.

So what do you think happened that you guys didn't account for back then? Certainly, you were expecting rates to be low at 7.25%, I believe, at the beginning of the year. And they're now probably going to end up closer to 10% so that certainly would have helped. So just want to understand what exactly happened that you had to reduce your guidance so much. And what does that tell us about 2014 and where do you think that's going? That's the first question.

The second question -- I'll ask my second question later, sorry. Go ahead.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. About the NII, at the beginning of the year our expectations for the GDP growth was around 3.5%. Then, our loan growth expectation was 13% to 17%. But during the year, the economy -- the Brazilian economy doesn't grow same way we expected. Then, we are -- in June, we needed to revise the loan growth and we changed it to 11% to 15%.

The loan revenues represented around 7% of our net interest income. Then, if we have at last growing the loan size, then this was -- we were affected our NII, then this is the main event that we needed to change -- reduce our expectations.

But now, our expectation was that in the second half of the year we will reach now all the 13% in the end of the year. This is our expectation. But we finished this Third Quarter with 11% in our loan growth. And we understand that probably in the last quarter of the year we will have something similar that we had in the Third Quarter. Could be a little better. But probably we will finish the year with the growth around 11%.

Then, considering that probably we will finish the year with the lowest level of our guidance for the loan growth, we needed to revise our net interest income guidance, then we reduced it to 1% to 3% because this affected our loan growth will be lower level of our expectation. And we had another fact in the loan revenues, that is the mix, that we are having the growth in some operation, some portfolio that we have the lower spreads. They were loans in the mortgage operations and this is reducing a little the revenues and the -- is affecting the growth for the net interest income.

This is one part of the effect. But we understand that probably, considering this level that we expect to finish the year in the loan portfolio growth, 11%, we understand that this level for the 1% to 3% growth for the net interest income is more reasonable. And the main fact that we need to revise the guidance for NII is the loan growth portfolio.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. And so what does that tell us about 2014? It seems that you are expecting the economy to grow even less than this year. You have 2.1% GDP growth versus 2.4% this year. What are your preliminary thoughts in terms of NII growth for next year?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We don't have now the guidance. So probably will announce the guidance in the beginning of 2014. But we expect for 2014 the GDP growth around 2.1%. In the system -- for the total system, we expect the loan portfolio growth will be something around the 13.2%. It is the number that our economic department has.

Then, it probably will be a year very similar that we are having now in 2013. We expect to have a positive growth in our NII in 2014. But we don't have now the guidance. But I understand that probably will be a year very similar that we are having now in 2013.

One thing that probably we understand is that the delinquency ratio that this year we had decreased, probably we expect to have more stability for 2014, then probably the net interest income after delinquency ratio will be better for 2014.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you. And my second question is regarding your profitability. For the first nine months of the year, you generated 4.5% earnings growth while your assets grew 11%. So that means that your return on assets fell from 142 to 134; ROE didn't change much because the leverage went up. If you had capital leverage unchanged, your ROE would have been around 17% instead of the 19% you reported.

So as you think about the next 12 months, how should we think about return on assets and leverage and return on E -- and return on equity? Are we continuing -- I'm assuming we will continue to see earnings growing below asset growth and to what extent you can continue to use leverage to keep ROEs where they are. And so, in general, where do you see the combination of ROA, ROE and leverage over the next 12 months?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

You understand that probably the ROE, we will have to maintain on the 18% to 20% is the level that you understand is more reasonable for the next periods. We understand that probably in 2014, considering the lower level for the delinquency ratio that we expect, probably we will have a better contribution for the profitability considering the growth that we expect. Understand that it will be a very similar year.

Then, a more reasonable level for ROE is 18% to 20%. And the ROA, we have 1.3%, probably will maintain stable -- I think that we probably this ratio will be stabile for 2014.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Jorge.

Operator

Our next question comes from Mr. Mario Pierry with Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. Let me ask you two questions. The first one is on asset quality. We have seen a significant drop in provisions; and provisions today, they represent 3.7% of your average loan portfolio. Should we expect to see this ratio continuing to improve, especially as your loan mix is changing, as you mentioned, to lower spreads businesses? And I assume also these are lower risk businesses as well. So first question is related to asset quality, what do you think provision levels can stabilize at?

Also, if you could comment, we saw a deterioration in NPLs to corporates from 0.2% to 0.4%. Just wondering if this is related to any specific corporates, or if you could give us any color on that.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. About the asset quality, we have this quarter a new decrease in our ratio and we finished with 3.6%. We understand that probably we expect now more stability for the next quarter. Probably during 2014, considering the effects of the mix, could be that we have some -- a little more decrease. But we understand that it is more reasonable expectation about stability. This level, 3.6%, is reasonable for this year and for the next year.

The expenses. Probably , we will finish this -- the last quarter with something very similar that we have in this -- in the Third Quarter, around the BRL2.9 billion after recoveries. Probably, the expense for the last quarter will be a little similar that we had. And for 2014, we understand that we consider there will be stability probably.

The expense will be to continue stable. But we can have now, considering the increase that we will have in the portfolio, that we expect something around the system will grow 13%. Then, probably we will have some growth very similar.

Then, we can have for the next year some growing expense. But they are only considered because of the growth we expect for the total portfolio. Then, probably this is the behavior that we expect for the expense.

About the corporate (events), we understand that it is a specific situation, not represent anything (inaudible). It's our own specific situation. Then, it's not any affecting any segment or any (pain) seen in the portfolio.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, very clear. My second question, then, it related to -- as you showed on your slides, your coverage ratio of fees over costs. This has been improving considerably. I was wondering, do you have a specific target for this ratio? How much more can we see of an improvement?

Also, by you showing such stable costs, if you could give us any color of the benefits of all the investments that you have made in technology over the last few years, are we finally seeing those benefits coming through and how much longer can we see these benefits?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We don't have a specific target for the coverage ratio. What we expect that this ratio needs to be the highest that is possible. We are working both sides -- in the revenues, in the fees -- and we are investing in the channels to offer more products per client, improve the number of the clients or the number of credit cards.

Then, with this movement, we are -- we have power to improve the number of transactions and, consequently, the fees revenues is increasing. Then, this is the way that we are working for this. We expect that we will continue for the next year to grow our fees probably. We expect to maintain double-digit growth for fees the next year.

And the expense side, we are working for improved efficiency. We are -- we have the efficiency committee and another committee that is for (purchases). Then, we are working for to -- try to have opportunities for reducing costs with revising process inside the bank in all departments, in all areas. And we are having some success.

And probably, for the next year we expect to maintain the expense -- the operating expense growth. And other the inflation growth. That is what we expect for the expense side. Then, for the coverage ratio, we are working both sides in improving revenues and reducing costs.

Q - Mario Pierry {BIO 1505554 <GO>}

Very clear. Thank you very much.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Mario.

Operator

Excuse me, our next question comes from Mr. Eduardo Nishio with Brasil Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hi. Good morning. Thank you for taking my question. I have several questions regarding the IT project. Can you give us an update of your move to your IT project that you expected to finish this year? What do you see as important there? What's going to change? Which module is being finalized now? I believe that you finalized the most important module now, which is the current account module. And what that means for Bradesco.

What can this completion mean in terms of additional gains to Bradesco and in terms of cross-selling, in terms of cutting costs? And also, any sort of idea if the IT CapEx will fall next year because you're completing this project this year? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Thank you, Nishio. Our IT revitalization plan, last year we -- we are now in the last front of the IT revitalization plan. We changed everything in the bank about IT. We changed the hardware, the environment, the technology. And now, the last front that we have is rewriting our systems. Last year, we finished around 8% -- 18% of our total systems.

We are rewriting new language and unique language and more simple to do. And this year, we expect to -- and the end of it -- probably we'll be finishing around 100% of the systems -- the rewrite of the systems.

We need some time also to do the tests, then probably for 2014 we will be concluding the tests. And the systems that we start running, they start to give us some benefit. Then, some examples that we have is in our branches now we have our new -- new systems for the cashiers. They now -- they need less time for attend to clients. This system is running. At the end of 2012, we did an implementation. Then, now our cashiers, they need less time for to attend to clients. They now can attend more clients. They need only 25% less time.

And today, now we start to sell products. In the past, they didn't sell products and now they start to sell products. Example, payroll loans now is possible now in the cash to sell -- to offer payroll loan. Then, this is the one example that we will have. Another example is the -- the system that we have for the companies, the Net Empresa. The Net Empresa is a new system that we start to running now for the clients, considered a new technology. Then, for to develop this new system we needed less time for developing this new system with less costs. This is a new benefit that the new technology offer for us.

Another example is for approvals for credit operations. In the past, some operations we need around 16 minutes for to do the approvals. And now, with the new systems, we need only around 9 seconds. Then, we have many examples that will help us to have -- to be more efficient in the operations or to reduce costs or improve revenues with the new technologies. And as a cost of maintenance of the systems will reduce around 10%. And we understand that we will be faster for to develop new products or new systems in the future with less costs.

Then, we understand that we will have many advances or many gains with this new technology that will help us reduce the costs or improve the revenues in the next periods. The total investment that we did in the nine months for infrastructure and the technology information, the telecommunications, is around BRL3.5 billion, including infrastructure investments. One part of this investment is related to the IT revitalization. But is a small part, because we are now concluding this investment.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you. Just a follow-up, in this particular module that you are launching, finalizing this year, do you see any additional gain because of that? You mentioned some gains from systems improvement you've done in 2012. But this particular one, I think, is the main portion with the core current account legacy system that you are substituting.

Is there any additional gain with that? Do you think that there is more cross-selling, there is more improvements that those systems there that have already finalized are -- can leverage on top of that? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

There's some benefits that we have with these systems as start to run -- that start running this year. But we don't have how to measure to inform you that how much is the effect in there.

But this -- we have many fronts that -- and many systems that will debut affecting a positive way the profitability for the future because this -- we will have more efficiency, we will have more assertiveness and offer products for our clients because of the more information that we will have about the profile of the client.

Then, we don't have how to measure these benefits or inform you how much we have in this -- in our guidance. But we have this -- we expect to have this positive effect in the next quarters.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Just then, let me rephrase my question. Your cost to income soft guidance for 2014 is 39%. You're running right now at 42%. Do you still reiterate this 39% for next year?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We are working hard to reaching this target in the end of the year. You understand that is challenges. But we are now finishing the budget and our objectives for 2014. And one of the targets is this (inaudible) 39% and we are working hard to reaching this target at the end of the year.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Thank you. So much.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Our next question comes from Regina Sanchez with Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Hello, everybody. I also have two questions. The first one is related to the BIS ratio of the bank. We saw that it did increase 100 basis points quarter-over-quarter, mainly because of a reduction on the risk-weighted assets related to market risk exposure.

Then considering the risk of this line increase its market risk component in coming quarters and that loan growth tends to be not so strong in coming years, as well as growth will probably come in safer loans that will have lower risk-weighted factors, can we see the bank increasing its payout ratio or buying back more shares in the future?

Then, I have a second question. But it's also related to buyback. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Regina. With this decreasing the market risk that we had in the last quarter, we wanting that -- I want to comment that we usually -- we are the bank that usually the internal model that is approved to the central bank. And the number that we have, considering our internal model -- if you compare with the external model, the external model will be around 6% of the number that we have.

Then, because of the extent of our internal model considering (appearance) around the sixth month of the volatility. Then, probably in the next quarter we expect to -- that our market risk allocation -- capital allocation will continue decreasing and we will have more spacing for two to improve the growth. But we are now in the period that we are starting the implementation of Basel III, then we have some modifications in the guidance, in the calculation, some new adjustment that we need to consider.

But we understand that we won't have any problems for continuous growth in the investing -- to do operations with our clients in end segments. And probably, this operation that has lower risks (inaudible) payroll loans and the mortgage, will continue having a huge growth for the next quarter. Then, probably we will have some more space for to grow because this last capital allocation that we will have for -- in the future.

But we cannot forget about the Basel III implementation that probably the central bank in the future will require some additional adjustments or some additional buffers. And we will say that we will not change any our dividends policy or the way that we will maintain our capital. Then, we then said then to have how to do the implementation of Basel III without any problem for the future.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you. And my second question, it's also related to buyback. We saw that it increased the amount of shares in the treasury and bought back during the Third Quarter this year. We saw that it increased around two million shares. But only non-voting shares.

Can you confirm whether the decision to buy non-voting shares was also a sign that management believes that non-voting shares are undervalued relative to voting shares?

Considering the non-voting shares receive 10% higher dividends than voting shares and if this buyback was just the decision is also when you see opportunities or at least some excess capital in the short-term? It was not a major amount. But it caught my attention that it was the non-voting shares instead of voting shares. So if you could share that with us I appreciate. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

I don't know if I understood your question. Can you repeat --

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, sure. I saw that you bought back shares in the second -- in the Third Quarter, around two million shares.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

A very small portion. It's a late movement. It's a very small portion --

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Okay. But my question was that I saw that you only bought back non-voting shares. And I want to know if this is a sign that you believe that non-voting shares are undervalued. You could have bought voting shares, the all-in shares. But you only bought back non-voting shares.

Is that because you think it's really undervalued relative to the voting shares, considering that the (BN) shares, the non-voting, received 10% higher dividends than the voting shares? That's my question. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

When I bought -- when we bought, I think it was an isolated operation. We don't have anything (inaudible) to -- it's a very small quantity. Then, we understand that the price -- or the market price is the correct price. And the market has the information for to pacify the shares. But we don't have any intention to continue to buy back the shares or -- it was an isolated operation that we did, which is a very small quantity, two million shares, very small.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. So are you saying that the market price is correct? I remember in a public meeting, I don't know if it was a year ago or some years ago, you showed the slide when the voting shares were actually trading with more significant discount relative to the BN shares. And they said that probably it should be more with a lower discount, maybe around the -- if I recall correctly. So like 3.5%.

I know that the market is the market. But if you could just confirm that the non-voting shares receive 10% higher dividends and then I'll be fine with that. It's just that we have seen people -- wondering why the voting shares are actually trading with a premium when we saw even management showing a slide in this public meeting from -- this year ago that it should trade with a small discount. But some discount. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

As I told you, the (much is due to) depreciation of the shares. We had some movement at the end of the year that we have now more demand for the (inaudible) shares. Then, I understand that this price that we had in March is the correct price that we have in the system.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you.

Operator

Excuse me, our next question comes from Mr. Philip Finch with UBS.

Q - Philip Finch {BIO 3252809 <GO>}

Good morning, everyone. Thank you for taking my questions. I've got two questions. First is regarding your NIM outlook. We saw your net interest margins come down to 7% in the Third Quarter. Can we assume whether this is going to be the trough level. And going forward -- and if this isn't the level of the trough, when do you think we could see an inflection in margins?

And the second question is regarding your capital position. So just a follow-up on that. Tier 1 ratio improved nicely to 12.7% in the Third Quarter. What, in your opinion, is the optimal level of Tier 1 you would like to have going forward? And secondly, related to this, what is your Tier 1 ratio under Basel III capital rules? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Philip, for the question. About the NIM that we had, we finished with 7% the NIM in this quarter. Probably, we expect to finish the year with a similar number. And for 2014, probably we expect some stability in this ratio. Could decrease a little because of the mix in the fixed. But I think probably is a more stability that we expect.

About the Tier 1, we -- this quarter, we had an improvement in Tier 1 because the -- we have now less market risk capital allocation. This is because we had an improvement in the Tier 1. But we have now in this month of October the start here in Brazil the implementation of Basel III. Then, we are in a movement for to do the transition. Probably, we will maintain the level for Tier 1 for the next periods with some margins.

We don't have the final number. But considering the lower level that we expect to have for the future for Tier 1, the minimum requirement, we will maintain some margin at this level that we have in the simulation. 9.3%, that is in slide 11, is the simulation that we did for Tier 1 equity, is without any subordinated debt -- prepare to also subordinated debt that we can -- include in this level.

Probably, considering the future, the requirements, we will have a margin around 2% -- or 2% more than the minimum requirement. But you have some space for to grow according our needs or our expectations. This is what to expect for the Basel ratio for the future.

Q - Philip Finch {BIO 3252809 <GO>}

Great. Thank you very much.

Operator

Our next question comes from Mr. Francisco Kops with Banco Safra.

Q - Francisco Kops {BIO 17215088 <GO>}

Well. Good morning, everyone. Two questions. I think that the most general ones were already made. Just I would like to talk a little bit more about the credit mix movement you guys are doing. Well the results show that you guys are basically changed, higher risk, higher spread credit for low risk, lower spread lines. Of course, this is having an impact on NII. And this has been a strong movement, like -- right, like the auto loans, the vehicle loans are being dropping and payroll loans are being growing faster.

My question is, how long this movement will take? And I'm doing this question because your competitors are doing the same movement. And I believe some market, as the payroll market, for example, is starting to get very, very competitive right now. So if you guys can give us a color of how long this movement should take, which is important for us to predict our NII numbers. I think that's my first question.

Then I'll come up with the second. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you. How long we expect to maintain? Probably, we -- these two products -- payroll loans and the mortgage operations -- that we have a lot of space for continuous growing. Mortgage is something that -- in the country, only around 7% of our GDP is now the total portfolio that we have in the system. And probably we expect that will be doable until 2020.

Then, this is the one product that we understand that we have a lot of space for to grow and the next is huge. Then, we were only at 30% in the last year. But we expect for 2014 probably a similar growth.

Payroll loans, we understand that we have a lot of opportunity in our client base. We have around 80 million pension -- retired people that receive their pension through Bradesco. And now inside the bench we have call to to offer for these clients the payroll loans operation. That, in the past, wasn't possible for us. And now we have how to do this.

Then, around 50% of these clients, they don't the operation with us they're not. We feel our special (inaudible) growing in these two products. Then, how long we expect that will maintain this effect? We don't have how to give you this information. We understand that probably these operations will impact a little -- will reduce a little the revenues or the cost of the lower spreads. But the margin after the increased ratio will be better and we will probably continue growing. Then, this is what we expect for the future, considering this expectation that we have for these two products.

But we have the other -- many other opportunities in the portfolio for to continue growing SMEs, is something that we expect to continuous invest and in the last 12 months have had the high (inaudible) to grow around 12% in our portfolio. And it has a good margin in the smallest companies. And they're not part of this portfolio. We will -- for the future, we will continuous growing in these. We are offering now -- we start with a special line, around BRL6.5 billion for the (inaudible) operations.

Then, there's one segment that probably we expect to -- that we will continuous growing in the future. And then we will help improve the spread for and the balance the effects of these operations that has lower spread -- payroll loans and the mortgage.

Q - Francisco Kops {BIO 17215088 <GO>}

Right. So if I understand, you guys don't seem to, in the short-term, this trend to change. But you guys, of course, have -- see opportunities on the other side as well. Thank you.

And my second question is just a follow-up of the efficiency ratio subject. You guys did a movement -- correct me if I'm wrong -- about two years ago of increase the bank's footprint. And I think with more than 1,000 new banks. And I would like just to hear from you guys how you guys -- I think a long time passed from that decision. How you guys analyze that strategy? Do you guys think it was right? How we can see the results of that strategy on your P&L, for example? If you guys can give us a little bit more color on that, I think will be great. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. We understand that we did the correct decision to increase -- to open the 1,000 branches. We understand that we added value to the Company. These branches that we opened, 800 was because the decision that not continues with the postal agreement that we had with the postal company for to offer financial products in their branches.

Then, we understand that with the decision that we had, we opened these 1,000 branches last year, the majority of these branches, they reached the break-even point and now these branches continue increasing their revenues. And they probably -- they will have the same backup for these investments in more one year, one-and-a-half year of these branches, we will have the payback.

Then, we understand we did the correct decision, opening these 1,000. And we could maintain the coverage, the clients that we have in -- that we acquired or that we're improving with the agreements of the postal banks during the period that we had, around five million clients that we transferred for our branch, for they continued doing operations with Bradesco.

Q - Francisco Kops {BIO 17215088 <GO>}

Okay. Thank you, guys.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Our next question comes from Mr. (Anibel Osdez) with Barclays.

Q - Anibel Osdez

Hi. Good morning, everyone. I just wanted to go back to the question related --.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Please, Anibel, can you speak a little loud?

Q - Anibel Osdez

Yes, sure. Can you hear me well?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Yes. Thank you.

Q - Anibel Osdez

Yes, I'm sorry. I just want to go back to the question on the risk-weighted assets drop. We saw that risk-weighted assets went down by 6% quarter-over-quarter. And that's basically what drove the BIS ratio up. And I just wanted to understand -- to make sure I understood well, you guys mentioned that the reduced exposure limits the market risk that we saw. It's because you switched from the standard model to an internal model for market risk measurement? Is that correct?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Okay. Bradesco is the only Brazilian bank that uses an internal model for market risk. And this internal model, compared with the standard model, we consider a period for to do -- to do the calculation or to the effects of the position on the 60 days.

Then, our model. And considering that the number that we finish now this quarter, the total capital allocation that we have, compared with a standard model, the standard model represents around

60% of the capital allocation. Then, within probably in the next periods our capital allocation, considering our internal model that we use, we will have the decrease considering that we will have an evolution in the periods.

We are using this internal model during this year. And in June we are -- the number that we have for capital allocation, considering this internal model. And in June the number that you have we've reduced now to around 50% and now in September. And this number that we have in September compares with the standard model. The standard model represents around 60% of the number.

Then, probably for the next quarters, our capital allocation for -- we will reduce because the volatility and the position that we have now in the treasuries, we will require less capital.

Q - Anibel Osdez

Okay, understood. So I understand it the way to calculate, you have an allocation for market rates. But what drove down the risk-weighted assets of the bank?

A - Paulo Faustino da Costa {BIO 6436050 <GO>}

Okay. In the beginning of the year, the central bank did a permission for -- to adopt some new rules that are acceptable for Basel III. And we had -- we used -- it's normally for (442) operations, operations with companies that has more than 100 million operations -- in operations in the system. And the operations guarantees mortgage operations that we had a permission for reducing the risk-weighted. Then, this drop that we had in the risk-weighted is because the new rules that the central bank are adopting in Brazil.

Q - Anibel Osdez

Okay. So should we see any further risk-weighted assets, like sharp movements, during the year, for next quarter, for example?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

No. Probably now we'll maintain these for the risk-weighted assets. We don't have any modification, a new modification in the rules. Probably we will maintain the same criteria as part of the future. And we don't expect any modification, only probably the modification will be because of the growth of the assets that we expect to maintain for the future.

Q - Anibel Osdez

Okay, understood. Thank you very much.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Our next question comes from Mr. Boris Molina with Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Yes. Thank you for taking my question. I had a question regarding costs. If we took total operating expenses, excluding taxes on revenues, which were unusually low. And intangible assets, including amortization, which are non-capital expenses, your cost growth was 11% year-on-year, largely driven by other operating expenses.

So I know that you don't provide guidance for cost growth, for other operating expenses. But could you please give some clarification? Because in our view, actually -- efficiency is actually deteriorating and costs are accelerating. So is this a sustainable growth, an acceleration in costs, or is there other non-recurrent issues in this line?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

We understand that is sustainable because we are inside a bank. We are changing procedures or we are changing the way that to do things. And with this movement that are we doing, we in some talking about the administrative costs. We are -- we have how to reduce the costs because we are changing the procedures internally. And we understand that probably we will have how to maintain for the next year the expectation that we have for to grow less than the inflation in the operational costs.

We understand that probably we -- we understand for the next year we don't have now the guidance. But we will grow less than the inflation growth. For the next quarter, for the next year, we expect to maintain this the standings for the next periods. Then, inflation level, we understand that is the limit for to grow operating expenses.

Q - Boris Molina {BIO 1904979 <GO>}

And I was referring more to the other operating expense line, that is not personnel or admin. But other operating expenses, that was pretty high in the quarter. Do you have any color on what drove this increasing other operating expenses?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

And yes, why we don't have the administrative costs is the (inaudible) adjustments and acquisitions for -- agreements for -- that we do acquisitions, payments.

Q - Boris Molina {BIO 1904979 <GO>}

Okay, I understand.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

There are several agreements that we have, we buy the rights to do the payments for some principality, for some companies. And the design we have this expense.

Q - Boris Molina {BIO 1904979 <GO>}

Okay, I understand. Now, my second question is related to the slide number 34 in your presentation, where you include how tax credit have been increasing as a percentage of your equity and reference capital for regulatory purposes.

Now, we know that there is a regulation in Brazil that allows you to avoid deducting temporary differences from within -- from your capital ratios under Basel III. However, do you have any guidance of what the Basel III ratio would look at, that one that you have in the slide, if you deducted the deferred assets that are allowed under the current regulation?

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Now the Brazilian regulation, we have two kinds of tax credit. One part of the tax is related to provisions for loan loss. We don't need to deduct for the Basel III ratio. We would deduct only the other tax credit. We don't have any guidance because this tax credit is -- they grow according our operations.

Probably, we will continue growing and the tax credits, they will continuous growing in the future. But we understand that these adjustments not to affect in the Basel ratio that we will give or we (inaudible) with some limitation for to do the operation -- continue to do the operations.

We working in the way that to be more efficient in the tax -- in the tax calculation -- in the tax expenses. But according to rules, our provisions that we will have in Brazil need to be added and we will have these tax credits. And considering that our operations will continuous growing, the future of these tax credits will grow. But we understand that we will -- this will not affect us and cause some limitation for the future.

Q - Boris Molina {BIO 1904979 <GO>}

But do you expect it as a percentage of your equity? You have the (inaudible) that went up sharply. And I don't know if you have any explanation of why they rose so sharply and where they should come down, back to the high teens that we were about a year or so ago.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

I think from (inaudible) 30 -- the tax credit now that we have, around 38%, if you're considering --.

Q - Boris Molina {BIO 1904979 <GO>}

(inaudible).

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

-- the full contact spread. Sometime ago, it was around 30%. Probably will be running between 30% and 40% for the future.

Q - Boris Molina {BIO 1904979 <GO>}

Okay, wonderful. Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Our next question comes from Ms. Regina Sanchez with Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Yes, hi, guys. Thanks for taking all the questions from me. It's just that I think in the English conference call we haven't talked about the non-interest financial margin and we saw a material decline in the trading value risk to BRL42 million, from BRL162 million the previous quarter, which I like to see that, by the way.

And I would like to know that as a result of this lower value risk, if it's reasonable to expect the non-interest financial margin into both figures maybe closer to historical level, at least above BRL200 million, it was BRL107 million this quarter and BRL80 million last quarter.

Especially considering it will be unlikely for the treasury to have losses again, as it has reduced its exposure, is it okay to work something between BRL200 million and BRL300 million for this non-interest financial margin -- margin (inaudible), that you call in Portuguese -- for coming quarters? Thank you.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you, Regina. The beginning of the year, we had these -- an increase in the volatility in the market. Then our credit department, they worked according to the limits that we have inside the bank and the internal governance that you have. All time, they worked concerning these rules that you have internally.

But with the increase of the volatility in the systems, our -- the operations that we have, there were -- had some increases during the First Quarter and the Second Quarter. The credit department start to do some movements, trying to work in the reduction of this VAR and now we have on lower level.

About the non-interest earnings, we understand that probably -- for the future we understand that we will have how to return for the average that we had in the past. Something around BRL200 million is the way -- or is reasonable for our credit department, that is they could have -- or they could maintain the level similar that they have in the past.

I think that's possible, this number, BRL200 million is the level that we expect for the future, considering the positions are the treasury has referenced the rest (technical difficulty) that our credit department has.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thanks. Thank you. So much. And thanks again for taking all the questions. Bye-bye.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

Thank you.

Operator

Excuse me, ladies and gentlemen. Since there are no further questions, I'd like to invite Mr. Luiz Carlos Angelotti to proceed.

A - Luiz Carlos Angelotti {BIO 4820535 <GO>}

In conclusion, I would just like to say that given the challenges this quarter we believe our operating performance and results were solid, reflecting not only our strong market position, characterized by business diversity and penetration. But also our ability to adapt to different challenge and scenarios.

Bradesco has assumed its positive outlook for Brazil in the long-term, which can be evidenced by its investments growth strategy, which are focused on organic growth and consistency, whereby we seek to take advantage of how the business opportunities generate by our banking and insurance activities. Thank you, all and have a nice day.

Operator

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