Q3 2011 Earnings Call

Company Participants

- Domingos Figueiredo de Abreu, IR Director
- Unidentified Speaker, Unknown

Other Participants

- Eduardo Nishio, Analyst
- Fabrizio Gatu, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst
- Yuric Bridman, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to Banco Bradesco's Third Quarter 2011 Earnings Conference Call. This call will be conducted by Mr. Domingos Fiegueiredo de Abreu, Executive Vice President and Investor Relations Officer; Mr. Luiz Carlos Angelotti, Deputy Officer; Mr. Paulo Faustino da Costa, Market Relations Department Director.

This call is being broadcast simultaneously through the Internet and 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, it should be mentioned that forward-looking statements are being made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Bradesco's management and all 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 result to differ materially from those expressed in such forward-looking statements. Now, I'll turn the conference over to Mr. Domingos Fiegueiredo de Abreu, Executive Vice President and Investor Relations Officer. Please go ahead, sir.

Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you. Good morning, everyone and welcome to this conference call. Despite the concerns of the international environment, which have increased every day in the fact that we are not totally immune to a global economic slowdown. It's clear that Brazil is currently much better prepared for an adverse global scenario than it was three years ago.

We have already seen a moderation in the pace of domestic growth, mainly due to the introduction of the monetary and the macro-prudential measures. However, we believe that the demand generated by a still headstong [ph] market results in signs of excessive household indebtedness will allow the continuation of the indebted [ph] economic growth. Next to the scenario Brazil remains confident in the expansion of this business, aiming to implement initiatives that generate sustainable growth and add value to society.

I will begin with the highlights for the period on slide two. I would particularly like to emphasize our year-to-date adjusted net income, which totaled more than BRL1.4 billion, 18.4% up on the first nine months of the last year. Our total assets will exceed BRL722 billion and our expanded loan portfolio, which increased by 22% in the last nine months, reaching BRL332 billion.

On slide three, I would like to draw your attention to our assets under management, which closed last September at BRL973 billion, 16.1% more than at the end of September last year. And the delinquency ratio, which stood at 3.8%, remaining stable in the 12 months operations.

On slide four, we show the reconciliation between book and net income and adjusted net income. This quarter, we reversed provisions for tax contingency in the total amount of BRL2.126 billion, which was absorbed by the increase of our additional provision for loan losses in the amount of BRL1 billion and by addition of BRL500 million to the provision for labor claims following improvement to its calculation methods and of BRL280 million to the provision for civil contingencies, BRL110 million of which went through contingencies for economic plans.

After adjusting for these events, our book net income for the quarter increased from BRL2.815 billion to an adjusted BRL 2.864 billion [ph] in the quarter, while year-to-date net income increased from BRL8.3 billion to BRL 8.4 billion. Also on this slide I would like to emphasize our return on average equity, which came to around 23% in terms of both book and net income and adjusted net income.

Slide number five. The Third Quarter improvement in our net income was mainly due to the increase in net interest income, reflecting the higher business volume and increased fee income, partially offset by the increase in personnel expenses arising from the collective bargaining agreement and the administrative expenses primarily due to organic growth as well as high provision for loan losses basically due to the increased one-off loan [ph] operations and a slight rise in delinquency, as we shall see later on.

In the year-to-date comparison, adjusted net income grew by BRL1.3 billion, or 18.4%, reflecting increase in the net interest income, the highest income. And increased revenues from our insurance group, partially offset by the increase in personnel and administrative expense.

Slide six. This slide shows our efficiency ratios. The blue line shows our efficiency ratio adjusted to risk, which increased by 20 basis points in the quarter, which is 52.4%. And fell by 90 basis points over the Third Quarter of 2010. The fee reduction was due to reduced provisions. The 12-months ratio, the red line, remained flat in the recent quarters despite a growth in the number of service points and the consequent expansion of the workforce.

As we have mentioned several times, the maintenance of our efficiency ratio at the current levels despite a stronger than growth [ph] improvements to our segmentation, which also absorbs substantial investment and the progress of our IT projects, could be considered satisfactory. We believe we will be able to maintain these indicators at their present levels in the short-term. But this should improve in the medium-term with the maturation of all these investments and the production audience we expect to extend for our new system architecture.

Slide seven. As you have seen, our total assets came to BRL722 billion, a growth of BRL110 billion or 18% over September 2010. Our return on average assets remained flat at 1.7% while adjusted return on average assets stood at 22.4%. The EBITDA ratio closed the Third Quarter at 14.7%, remaining flat over the previous quarter.

Slide eight. This slide shows the relative share of our main operations in the net income. This quarter, the increase in the share of securities activities was basically due to higher trading gains. In year-to-date terms, the higher share of funding was mainly due to the increase in business volume, the improved funding mix, which generates greater gains. And, obviously, the increase in interest rates during the period. I'd also like to emphasize the important contribution of our insurance segment, which accounted for 28% of our net income in the first nine months of the year.

Slide nine. Unrealized gains have been at high levels. The quarter variation was basically due to the valuation of our equities caused by market volatility in the period, partially offset by the appreciation of some of our investments, especially in Cielo and Odontoprev. Once again, I'd like to remind you that this figure does not include the potential goodwill from our own properties in the total amount of BRL3 billion.

Slide ten. On this slide, I would like to highlight the consistent evolution of our net interest income from both non interest and interest earning operations, which grew by around 21% in the nine-months comparison and 8% in the quarterly comparison.

The performance of the interest earning portion was mainly due to the increase in average fees as well, especially in the (inaudible) portfolios during the last quarter. The improvement in the non-interest portion was essentially due to a higher trading gain.

Slide 11. Net debt incurred increased by 5.5% in the quarter, mainly through the higher volume of business. As a result, the analyzed net interest margin remained flat over the previous quarter at 7.6%. We expect that the reductions in facility [ph] rate, base rate, which began last year, will have very little impact on the net interest income in the short-term. Given that the reduction in revenue from investing our working capital will be offset by the accrual of additional gains in our (inaudible) portfolio.

Slide 12, as I give the breakdown of our net debt income in both the quarter and year-to-date comparison, the biggest increase came from funding activities due to, as we mentioned before, the higher business volume and increase in average spreads from (inaudible) by the improved funding mix. In the nine-month period, insurance operations reported a growth of 36.4%, also due to a higher business volume and increase in average (inaudible).

Slide 13. This quarter, gross interest income from loans -- the gray part of this slide -- increased by 5.8% [ph] to BRL6.928 billion, again sustained by the high business volume. The red area shows the provisions for loan losses, which account for 40.1% of gross interest income, reflecting the slight increase in the details [ph].

Slide 14. This slide shows our total expanded loan portfolio, which closed September 2011 at BRL332 billion, 3.9% up in the quarter and 22% up on the same period last year. This improvement was mainly due to the increase in loans to micro business SMEs with the movement up by around 6% in the quarter and 26% in the last 12 months and they rose to large corporates, which grew by around 4% in the quarter and 27% in the last 12 months.

In the year-on-year comparison, the corporates which already highlighted were (inaudible), partially due to depreciation of the dollar, mortgage loans and the other capital market related operations with loan risk comprised debentures and other securities.

Slide 15. This quarter, our total delinquency ratio for loans overdue by more than 90 days went up by 10 basis points over the previous three months, which was 3.8%, mainly due to the increased delinquency ratio on loans to individuals, partially explained by the change in the criterion for registered delinquencies on credit card operations. We can talk further about this matter later. Given the behavior of the short-term delinquencies, we expect this ratio to remain stable in the coming quarter or even record a slight reduction by the end of the year.

Slide 16. This slide shows delinquency ratio for loans overdue between 50 and 90 days in comparison with the market. As you can see, our short-term delinquencies have remained more stable in the second half of the year as we have pointed out on previous occasions. It's worth noting that for comparison purpose with the figures disclosed by the Central Bank, the figures on this slide refer to the same portfolios used in the Central Bank calculations. And therefore do not reflect the delinquency of our entire loan portfolio.

Slide 17. This slide shows delinquency ratio for loans overdue between 61 and 90 days, which has remained stable. This may also indicate the stability for delinquency for loans overdue by more than 90 days.

Slide 18. In response to recently raised question regarding the possible effects of an increase in the level of pre-negotiated portfolios on delinquency ratios, on this slide we present a comparative historical series showing the evolution of our loan portfolio and delinquency for loans overdue by more than 90 days, which end result the re-negotiated Fourth Quarter.

And an image of these figures clearly shows the loan unstable represents activeness [ph] of the renegotiated portfolio in relation to the total loan portfolio, around 3.2%. And true that delinquency which end result in the same renegotiated portfolio, has similar trends, showing that the negotiation portfolio has no effect whatsoever on the delinquency curve.

Looking specifically now at --. Slide 19, sorry. Looking specifically now at the renegotiated portfolio, you can see on this slide that its associated delinquency has remained stable and that our provisioning levels have also remained stable and high at 62.3% for a delinquency rate of 24.8% in September 2011. In other words, for each one reais of delinquencies in this portfolio -- again, more than 90 days -- we have BRL2.50 in provisions. And this ratio has remained fairly stable in the last three years.

Slide 20. This slide highlights our high provisioning levels, which were further strengthened this quarter when we constituted an additional BRL1 billion in provisions for loan losses to cover integrated deterioration in the global economic scenario and the possible impact on our economy.

It's really important to emphasize that this is not the working scenario for the coming months as we do not believe there will be further deterioration in our delinquency ratios. However, we believe it's important to increase our provisions closure [ph] in times of greater uncertainty.

As a result, we had a surplus of BRL4 billion in relation to the amount required by the Central Bank, or BRL9.5 billion in relation to expected gross losses in the next 12 months, the dotted part of the blue line, or even BRL12.3 billion in relation to expected losses net of recoveries, the dotted of the purple line, also for the next 12 months.

Slide 21, reflecting our reinforced provision in this quarter. Our coverage ratio has recovered and now represents 194% of the grads [ph] overdue by more than 90 days and around 160% of the grads overdue by more than 60 days, one of the highest levels among Brazilian banks.

Slide 22. Third quarter fees income moved up by 3.3% over the previous quarter to around BRL3.9 billion, mainly due to higher revenues from consortiums with 7.8%, asset management with 6.8%. And cards with 5.1%, reflecting the high volume of operations and expansion of the grant client space.

In the nine-month comparison, fee income grew by 13.6%, mainly due to higher revenues from consortiums, 24%, credit cards at 21%. And checking accounts orders around 19%, basically due to the increase in our client and card base, which helped mitigate the low growth of capital market related fees and fees dependent upon the behavior of the stock markets such as underwriting, brokerage. And asset management.

Slide 23. Operating expense increased by 8.7% in the Third Quarter mainly due to the impact of the collective bargaining agreement and an increase in the number of service points, especially the opening of 271 branches and the net addition of more than 3,000 employees in the period.

In the nine-month comparison, the increase in personnel expenses was primarily due to the 2010 and 2011 collective bargaining agreement, together with the expansion of the workforce with a net addition of more than 9,000 employees in the last 12 months.

It's always very important to emphasize that expansion of our workforce is concentrated in our sales force, related to both organic growth and improved segmentation.

Slide 24, to give a better idea of the behavior of our operating expenses, on the right we have it broken down the impact of our organic growth. As you can see, if this impact were excluded, our administrative and personnel expanses would have increased by 14.7% over the same period last year. That is considered consistent with the development of our business during the period.

Slide 25, administrative expense, moving up 7.1% in the quarter and 70.5% in the 9-month period, driven by higher variable expenses related to products placement, for example, cards and direct consumer credit and the revenues, for example, no bank correspondent. As well as, expenses to equity related to organic growth.

We believe these ingredients are compatible with the growth of our staff [ph] network, which extends by 10,000 own and 35 sales points in the last 12-months, including 447 branches.

Slide 26, this slide shows income from our insurance segment, which fell by 6.3% over the Second Quarter, primarily impacted by the exceptionally strong growth of the pension plan segment in the previous quarter. In the nine-month comparison, however, there was an increase of 20.4%, led by the saving bonds, health, life and pension plans segment.

Third quarter the net income from our insurance segment totaled BRL780 million, very close to the previous three-months. In the nine month comparison, the 10.2% improvement was basically due to the 20.4% increase in revenues by the reduction in the claim ratios and an improved financial position.

Slide 27, this slide show some of the main figures from our insurance activities. The combined ratio record a 86.2% in the Third Quarter, 40 basis points higher than the previous three months. This is actually due to reduced revenues from life insurance and pension plan products, partially offset by higher revenues from the savings bonds and the health segments and the reduction in the claims ratios. The financial assets total BRL107.2 billion while technical provisions stood at BRL97.21 billion.

Slide 28, this slide shows our economic departments GDP, interest rate, inflation and exchange rate estimates for 2011 and 2012, considering the current scenario of inflationary pressure and devaluation of the real. Despite the reduction in the expected economic growth, we believe this scenario is still highly favorable for the development of our business in regard to both financial and insurance activities.

Slide 29, this slide shows our guidance for 2011. Even though we are very close to the end of the year, we believe it's important to revise our guidance for operating expenses, given the strong second half acceleration of our organic growth process, as we prepare for two important projects, that's off in next year.

The first one refers to the non-renewal of our contract with the Postal Service, which, as a result, will prevent us from using this distribution channel and require the opening of new points on and third-party point in order to maintain high quality customer service. And the second one, to the acquisition of Banco do Estado do Rio de Janeiro to which we are acquiring the rights to pay civil servants in the state of Rio de Janeiro. And it should bring us around 450,000 new clients, equivalent to one-third of our current client base in that state.

We shall certainly have through the strengthening our field service network. On the other hand, we believe we'll close the year with slightly higher fee income than originally estimated. And have also revised our guidance to growth of between 10% to 14%.

In conclusion, despite the heavy investment in organic growth, we could certainly put additional personnel on our operating expenses. We have experienced another quarter of good results and have further strengthened our balance sheet by increasing our provisioning levels. Our figures are continuing to move up at a steady pace despite the slight upturn in the delinquency ratio this quarter. And our indicators have remained within our strategic parameters, both of which, on a solid and sustainable base.

On investment. Investment in infrastructure, technology and the people generate singular high quality products and services which are available through our extensive network, despite the current domestic and global economic challenges, our long-term vision of Brazil remains positive, based on upward social mobility which will continue to increase demand for banking and insurance products.

Thank you very much for your attention so far. And we are now able to answer any questions you may have.

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 from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you. Good morning, everyone --

A - Unidentified Speaker

Good morning.

Q - Jorge Kuri {BIO 3937764 <GO>}

I have some questions if I may. The first one is, I appreciate that you're trying to strengthen your balance sheet by creating additional provisions with the BRL2 billion tax reversal, rather than just booking it as a profit. But, given that you already have significant resource for loan losses with a coverage close to 200% on unrealized gains of close to BRL9 billion as you mentioned in the presentation.

I wanted to understand the thinking behind creating provisions rather than booking profits and paying higher dividends, which I'm sure your shareholders would appreciate. Can you walk us through the decision on why you created the provisions, under what scenario you think it's prudent to add BRL1 billion to your provisions for loan losses. And how likely is this scenario to play out?

Also, why exactly do you need BRL500 million in provisions for labor? What exactly are those and why are they needed now? So I'll give you a chance to answer my first question before asking the second one. Thank you.

A - Unidentified Speaker

Jorge, we don't have our basic scenario for the global economy, it's a scenario where Europe will continue to grow in a lower pace. We're not seeing another stress -- big stress in the scenario but we continue to grow a lower pace.

And we have a slowdown in the China economy, right. In the Pop Tulane [ph] in China. But we cannot discard if you have another stress in the economy, that's why we are -- we understand it's important when you have conditions to strengthen your balance sheet if you have condition to do so.

Again, it's not our current scenario. Our current scenario is for delinquencies continue relatively stable. But in an environment where we have a lot of challenges to face, it's important when you have condition to do so. It's a way to think away, specifically about -- we already talk about delinquency provision but keep at -- I talk the BRL500 million in provision for labor cost.

We make a revise our method of calculation. We make this based on some, using statistically with the model, we make some improvement. I don't know specifically -- I'd say maybe we raise the -- it's upon a measure average --

Average.

Average, that we have in the past, we make some increases like this, it demands that you reinforce provisions for BRL400 million for the most [ph]. The second question?

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm sorry I didn't understand the last part. So why do you need the labor provisions now?

A - Unidentified Speaker

The labor provision, no it's a discussion with the labor that we have. We have had plans for -- we have a lot of discussion with employees that we have filed the best. So we have -- you see the number has been increasing in the past. We are increasing our number of labor workforce, you see that we grow more than 10% in the period. So it's important -- we have seen that the number has been growing. So that's why it's important to emphasize -- to reinforce these numbers.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks. My second question is, you mentioned that lower Selig [ph] rates are not going to have an impact on your margins. You said they're not going to have a significant impact on your margins in the short-term.

A - Unidentified Speaker

Correct.

Q - Jorge Kuri {BIO 3937764 <GO>}

Can you help us understand, more in detail, what the expectation is for both short-term and long-term? What is short-term for you? Are we talking about 36 months --?

A - Unidentified Speaker

One year.

Q - Jorge Kuri {BIO 3937764 <GO>}

What impact do you think that the decline in Selig is going to have, say a year from today? Looking at your disclosure, in US GAAP, where you provide a very detailed repricing of the balance sheet, it seems that the bank is asset sensitive. Beginning in nine months after the repricing. So, we would expect margins to come down as a result of lower Selig rates.

You are forecasting Selig to go from 12.5% to 10%, which is a very significant and rapid decline. So how many basis points do you think you're going to see in the short-term? How many in the long-term? Just a little bit more detail would be appreciated, thank you.

A - Unidentified Speaker

Expectations for Selig is continue to grow in a pace like 50 basis points in the coming couple of meetings [ph] to reach something close to 10% as you see the benefits. While we said that in the short-term, we don't see a big impact in the margins, it's because we have two effects.

One of them, we have a reduction in the gains that we have in our working capital, you know that the investment is basically in Selig. Want to think if you have 12%, Selig. They think you have 10% Selig. Then averaged, it will be lower the next 12 months, that it is -- has been in the last 12-months.

But it has a positive impact. The situation that you are, when you think about -- in peak [ph] portfolio, depends on the moment, if you have this movement in reduction, you have return also. We fortunately were in the position, when they have had this movement reduction in the long-term interest rate -- the future interest rate and in Selig, in a position that we don't have all the portfolio peak portfolio hedged.

We have in that portfolio, again, extra gain, would say, when you compare it with the new environment of the cost of funding. That will provide us good revenues that would be enough to replace this reduction in the gain in the working capital. That's what I say.

When you say short-term, we understand that this is an asset for phase [ph] to something close to 12-months. In the long-term, as we understand, that we have a structural change when we think about reduction interest rate in Brazil. If you observe what we have seen in the last 10 years, the last five years -- so certainly positive.

We understand it is positive. Maybe you can reduce on the net interest margin. But for the net interest income, for the bank, it's positive, you have space to grow more volumes and to reduce delinquencies. So I think it's natural to think cost.

Q - Jorge Kuri {BIO 3937764 <GO>}

So how is the answer you're providing right now different to the disclosure you have? Because I'm looking right now at the disclosure on the 20th, which does include the derivative positions and it says you're asset sensitive after 91 days. And also, actually in your Brazilian GAAP disclosure, the same is true. You're asset sensitive. And it also includes derivatives. So I'm not understanding why your asset liability disclosure says you're asset sensitive and, yet, you don't think you're going to have declining margins? I'm sorry.

A - Unidentified Speaker

Jorge, to be honest I don't have, in our hands, to see exactly what you are seeing in order to compare --

Q - Jorge Kuri {BIO 3937764 <GO>}

No. It shows on the Brazilian GAAP disclosure on both.

A - Unidentified Speaker

Okay, we can see that. The Brazilian GAAP, you see that we have a footnote page -- one moment please. It has a footnote you see very clear, that an impact -- the result that we can have an impact in that rate. You see that you have -- sorry (inaudible).

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm seeing that after six months the cumulative GAAP is positive by around 14% of your earning assets.

A - Unidentified Speaker

(inaudible). We are trying to find it here.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, look, I don't want to hold the call. I would just appreciate --

A - Unidentified Speaker

(multiple speakers).

Q - Jorge Kuri {BIO 3937764 <GO>}

A bit more clarity on this because clearly, your discussions are different.

A - Unidentified Speaker

(multiple speakers).

Q - Jorge Kuri {BIO 3937764 <GO>}

All right --

A - Unidentified Speaker

(multiple speakers)

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you.

A - Unidentified Speaker

We are (inaudible). But in fact we are confident about what I talked about.

Q - Jorge Kuri {BIO 3937764 <GO>}

Okay. Thank you.

Operator

Excuse me, our next question comes from Mr. Saul Martinez with JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, guys. I also have a couple of questions. First, I wanted to talk about, on a broad level, about the outlook for 2012. You have a real GDP growth forecast of 3.7%. But, as you've noted, there are some risks to the base case. Maybe more risk to the base case now then previously.

In an environment where growth is slower, perhaps low single digit, kind of real GDP growth, how does your outlook for 2012 change in terms of credit growth? Does your view on delinquency rates change? And just more broadly speaking, especially given that you are in growth mode and expense growth should continue to be elevated next year, how difficult will it for you to be to sustain, sort of a, 22% ROE and low double-digit earnings growth in an environment where growth is a bit slower than what you have in your base case scenario?

Second question is on Basel III. Can you walk us through what the impact will be? I don't know if you have the specific numbers but, obviously, the deferred tax assets are going to be an impact. But, for you, the insurance -- the treatment of capital for your insurance businesses could be pretty significant. Can you walk us through what you think the impact will be and whether you feel comfortable with your current capital position in light of that?

A - Unidentified Speaker

Okay, let's start with the first one. You see that our expectation of the GDP 2012 is 3.7%. Your question, okay, well how sensitive -- that you can have, in terms of credit growth and the delinquency for the environment situation? I'd say that will depend. If your economy is growing less than 3.7%. But because of the global effect in our growth, if your internal demand is continuing to grow on the level that we have, I don't think the big impact in our numbers would have a big impact.

If it depend on, how is -- let's say the share of this growth, or I depend on how is the driver of this growth. If the demand, internal demand, continue to be strong, that we understand that you continue to be -- because the environment for an employment rate and for increased salaries in Brazil, be continue to be present in 2012.

Of course we have other inflation pressure in this environment, yes. But I don't think we see too many risks in this field for our economy. We can have at the end a reduction in the GDP, more driven by a global -- a more difficult global environment. So in this impact, I don't think it to be significantly -- to have a significant impact in this sense.

We don't have a range [ph] for 2012 in terms of credit growth but we can imagine something close to 15% of growth is not a big challenge, you understand. If you assume that your economy could be growing something close at 10% in nominal terms, one include around 3% to 4% of GDP and the inflation around 5% to 6%. So it's not a big challenge, you understand, to have growth.

In terms of delinquency, we can have some improvement, if you assume that the interest rate will continue to be in the lower base. So I don't think it's a big -- beginning to continue improvement. But we can have some -- expect some improvement from this half.

Q - Saul Martinez {BIO 5811266 <GO>}

One follow-up on that, Domingos, because it's a question, I'm sure you get -- we get often is if unemployment does pickup, even if it doesn't spike, considerably. If it's from historically low 6% to --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

Like 7%, 7.5% which is still low by historical standards. But it's an uptick from where we are now. You mentioned that if the slowdown is externally driven, it's one thing. But if it's internally -- if there an -- a drop off in internal demand, it's another. In a scenario where unemployment goes up 100, 150 basis points, is that a scenario that would worry you?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Our scenario is we have, even in 2012, a marginal improvement in the unemployment rate. Of course if you have different environment, the situation is completely different. But talk about another type of economy like this. We are talking about, we're not seeing our economy growing in negative base, for example.

We can expect to grow that we have in mind before. But it is environment, you don't see the pressure in the unemployment rate.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

In terms of the Basel III, we know that we have a lot of things to understand, yes. To be clear -- things to be clear for Central Bank of Brazil. Just telling us that they are about to present what is their plan to -- the way that they plan to implement, they are about to send something to discuss about that.

But you know that we have two challenge in Brazil to implementation of Basel III, one of them is, in terms of tax credits, the weight of the tax credit in the capital. They are planning to put more pressure on this side. And the other one in insurance -- the way that see the insurance business. We don't have yet the total impact, because, again, we need to see exactly the way that you implement.

But we truly believe that we have some implementation to, in terms of capital requirement in insurance business. Also like they called, solvency II, implementation. But to understand -- but for the biggest part of the required capital for an insurance we have a part of that in terms of provisions.

So again, we need to see exactly that way that will be implement. Okay? We make some exercise that will probably the rate [ph] of insurance in our capital, which would demand us for something close to BRL6 billion in new capital, in a consolidated base. But again it's too early to see that it's good or not to see the rate, we need to (multiple speakers)

Q - Saul Martinez {BIO 5811266 <GO>}

And obviously, your expectation is that it's going to be implemented -- well it's obviously going to be implemented over a number of years as well

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Saul Martinez {BIO 5811266 <GO>}

Right.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. We need to see exactly. But we're assuming that the way that you see that we have -- in terms of the provision in insurance, we are stronger in provisions if you compare it in terms of the market. We understand that we don't have enough -- bigger challenge to adapt to that. I'll say again --

Q - Saul Martinez {BIO 5811266 <GO>}

Thanks a lot.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

It's important to see.

Q - Saul Martinez {BIO 5811266 <GO>}

Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Victor Galliano from HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi Domingos, I was just --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Hi.

Q - Victor Galliano {BIO 1517713 <GO>}

Following up on the capital adequacy, it looks like even though the overall capital ratio remains the same, there seems to be a big reduction in the Tier I. Can you walk us through what's happened here? Is this the introduction of the higher capital waiting on consumer credit that's feeding through? What happened with the Tier II? Was there an issue there that you did in Tier II capital to bolster that?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We have, in fact we -- remember that the macro [ph] potential that was implemented at the end of the last year, that we claim our capital for consumer then and for pay -- for long-term. The effect --

Q - Victor Galliano {BIO 1517713 <GO>}

Yes.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

The effect, in fact to have an effect of that measure started exactly in July of this year --

Q - Victor Galliano {BIO 1517713 <GO>}

Yes.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

So you'd see this impact. I think it's explained more this reduction in Tier I, in terms of Tier II. And we don't think we have more pressure in the same sense. I think once we implemented this and we have this effects now and we don't expect to have a big impact for this (inaudible).

In terms of Tier II, in fact, we have just renew a part of subordinate debt that we have in Brazilian. Inside Brazil, not outside Brazil, we knew some of them. We replaced some -- we have some that will have one year of maturity and we actually prevented the possibility to replace these for another ramp of six-year, for example.

So we basically, to make this -- we replaced this subordinate debt. When you see the total subordinate debt that we have, we didn't see a big growth. Exactly because we have this -- we just make, we increase the tenor of subordinated debt that we have.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay?

Q - Victor Galliano {BIO 1517713 <GO>}

Yes. Just one quick follow-up, if I may, on cost and OpEx looking forward.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Victor Galliano {BIO 1517713 <GO>}

I think the guidance remains very much that there will still be an inflation plus effect next year; and will probably still be double digit growth in OpEx for 2012. And then a slowdown in 2013, is that correct?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. This is our expectation because 2012, certainly will be a year where we have a consolidation of this movement that we are doing in organic growth. We don't expect -- we still will have some movement in organic growth in the next year because we are in the process offer to open new branches. So we will continue.

But we do not expect to continue this new huge movement -- big movement. But we still have the effect of this growth that we had this year into the next year. In other words, our costs in December of this year is much higher that was in January this year. So we should just make this carryover of this process. We already have commitment of growth in the expenses of next year. So you would say that this is a little bit higher of inflation. Again, we don't have (inaudible) to need to see that. But it would be -- we may measure [ph] bit lower that we have this year.

But we still will have some pressure in costs next year. In 2013, we expect not to have the same pressure, of course, because we don't see this big movement that we have seen.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Jason Mollin from Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Hello.

Q - Jason Mollin {BIO 1888181 <GO>}

I'll try and keep my questions brief. Firstly, on spreads, we saw lending spreads to individuals continued to increase for the system in September, according to Central Bank data. Can you tell us at Bradesco, excluding the impact of mix, are we seeing spreads increase in lending to individuals and companies? So trying to exclude the impact of changing mix, what does that look like?

Secondly, on the issue of your branch expansion strategy, you talked a bit about growing your branch network by 271 branches in the quarter. Can you give us an update there on what you're thinking and the sensitivity of that strategy if growth gets a lot slower going forward? Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

The spreads -- we are keeping the -- try to keep the spreads in higher level. And we have been able to keep that in both, individual and the corps segment. But, of course, as you mentioned, we have the effect of the mix. We are going more in portfolio with lower spreads. So would have this impact on it. But in line-by-line we are seeing, not a big movement of growth in the spread. But we are growing a little bit.

And we still have expectation of -- to continue this way. In terms of branches, we open 271 branches this quarter. The biggest part of them was involving -- in the projects for -- to further the Postal Service, to replace the Postal Service in some place.

It's a small branch, the biggest part of that, a small branch with small number of employees in this branch. It's not comparable. Just to have an idea, this kind of branches, in terms of investment, represent close in an average BRL200,000. While in the common branch, we invest close to BRL1.3 million. So to have an idea what you see.

In terms of numbers employees, in a normal branch we will have, in an average, something close to nine employees. While in these branches we have, on average, something between two to three employees. So a small branch is the biggest part of this movement. But we'll continue to have some movement in Rio de Janeiro to reinforce our network in that state. In this case, it should be normal branch, the biggest -- not more bigger but the average branch that we have. So we have this impact.

In terms for next year, we continue to have just to post the new branches that we started during this year that is not able to finish doing this year. But we don't have plan to have a big movement of continue that to open 200 new branches a year, like we had so far. I think we'll continue to see opportunities after opening new branches going forward. But, to understand, it's more marginal growth. I don't know if I got exactly your point in this question, Jason?

Q - Jason Mollin {BIO 1888181 <GO>}

No. That's very helpful, thank you, Abreu.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. Thank you.

Operator

Excuse me, our next question comes from Mr. Mario Pierry from Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. And congratulations on a very good quarter --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you.

Q - Mario Pierry {BIO 1505554 <GO>}

Most of my questions have been answered. But Abreu, recently, the local press in Brazil reported that the Central Bank is considering changing the remunerational savings deposits.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

I'd just like to have your reaction to this. If this would be beneficial for your funding costs? For volumes or what do you think of what has been said when they say now that they will not tie-in the remuneration savings deposits to the Selig rates. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I think it's a very important point in the Brazilian economy. It's something that we need to face sooner or later, because, the problem in save and deposits is that you have the remuneration are fixed by law, in law. Need to pay ADR plus 6% -- 17% a year. So it's important, it was created in a moment when the Brazilian economy use to leave with a very high level off interest rate.

So once you have improved -- the continue improvement in our bonds will have condition to leave with lower level interest rate. We understand it's important to take from our economy these kind of things. Is one of that -- those things preferably [ph] the save and deposit fixed remuneration need to face that.

We saw some signs that it's important to emphasize that it is an investment. It has a difference between all of the investments in our economy, because they don't pay tax, the individual that invested this. Normally, is for what -- the sales is investments for low-income people. But we don't -- it's a simple investment so it's very easy to understand. But you don't pay tax for that. That's why the remuneration of debt has been, for a long time -- even though it's fixed, it due in many years, it has been lower than the other investments.

We agree that we need to do something in this direction, yes. But they need to be very careful the way that we put that. They don't -- they cannot do things in the way that it can't make it at this balance and the -- all the other investments. So they're right, you can have this balance in our economy.

Like we saw some sign like this, it could pay 80% of Selig plus DR [ph]. I don't think it's sustainable in this way, because this investment should be much more competitive when you compare -- even with the government bonds for example. So the situation would be misbalanced situation that the biggest part of the investment would try to put in these kind of investments and then they will want to have, for example -- to have a reduction in the asset management industry, for example.

That's if they -- at the end of the day, is that the industry that financed the government debt. One thing that would be very -- I think it's important to resume our position in this matter. I think they need to be done, we understand. It's needs to be done, did some move in this direction. But they need to be very careful in the way that they would put that. It's one think that be the discussion, not to digest to put in, the way that we have put into so far.

Q - Mario Pierry {BIO 1505554 <GO>}

Do you have an expectation for when this change could happen, I thinking --?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

No.

Q - Mario Pierry {BIO 1505554 <GO>}

The press has just speculated. But, if you've heard --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. We're going to have --

Q - Mario Pierry {BIO 1505554 <GO>}

-- anything concrete?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

We saw some speculation in the newspaper at the beginning of this week. You saw that (inaudible) they say that they're not thinking about some things like this. And now we saw all the other matter. But not in bank central take so that as is important to say, they need to be made by law. It's not a matter that the Central Bank could change. They need to make a law from the government, like --.

A - Unidentified Speaker

(multiple speakers)

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Maybe the previous order [ph] for example or things like this. They need to come from -- or the President or from the Congress.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay thank you Abreu.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Yuric Bridman with Merrill Lynch.

Q - Yuric Bridman

Hello, everyone, Abreu, Paulo.

A - Unidentified Speaker

Hi.

Q - Yuric Bridman

Thanks for the opportunity to participate in the call. I have two questions. The first one is related to the reverse of the fiscal provisions that they had considered in the prior quarter. I welcome balance sheets strengthening but I noticed that you just revered BRL2.1 billion of the fiscal provisions. And I had understood the tax credit has generated, sum it up, BRL2.9 billion.

A - Unidentified Speaker

Yes.

Q - Yuric Bridman

So my question is, do you still have some balance of additional fiscal provisions to revert? If that is the case, do we have an idea of the destination and timeframe for such recognition?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. In fact, you only BRL2.1 billion. We revert all this BRL2.9 billion, already reverse because a part of that we use in other fiscal contingency, all right? That's why the net of the fiscal contingency reverts was BRL2.1 billion.

Q - Yuric Bridman

Okay, perfect --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

And --

Q - Yuric Bridman

Understood. The second question is again related to organic growth efforts. You gave us a lot of color on that. But, I'd just like to know how many branches you still plan to open to replace postal offices? I see that you have a footprint of more than 6,000 branches. You opened in this quarter close to 300. What is still plan to do? How many branches and how many people you believe you will need to hire in the next two quarters? If you have some internal targets for efficiency going forward? Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay, Yuric, we are not disclosing, yet, the number of branches. But certainly, it won't be 6,000. We don't want to replace all the other postal services. But it certainly will be much lower of that. But we expect to make -- sorry, I'm not disclosing right now but, we expect to do this very soon. So we are just finishing all the details of the plans to be able to disclose.

In terms of -- we don't -- our expectation -- thanks for your question because we want to emphasize this point, that even though we are stationed in this very strong movement of organic growth, we have been able to keep our efficiency ratio very stable. We could even expect to have some deterioration there. So to keep it in the level is really -- left us very happy with the result at the end this (past).

In the long-term, it's not really a guidance or that we have for efficiency ratios. But we have our internal challenges to reach something close to 39% by the end of 2014. It's internal challenge we have -- it's important to understand. We have efficiency commit that we create. And we put to ourselves this challenge to reach 39%.

We understand that it's possible if you with this maturation of all these investments that we are doing now and, at the end, we expect to have in the IT improvement process. So we understand it's possible. But, I don't want to -- that you and all of the investors assuming this is a guidance of this situation because we need to face many different situations going forward. It's a long period to 2014.

Looking forward the way we are now. And the expectations that we have, we think it's possible. What we need to understand, what's going to happen going forward. The environment, the scenario, the economic scenario. So we think that we need to think about going forward.

Q - Yuric Bridman

Okay, that's perfect, I appreciate it, thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Marcelo Telles with Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi. Good afternoon everyone.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Good afternoon.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello Abreu.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Hello.

Q - Marcelo Telles {BIO 3560829 <GO>}

Once again. Well most of my questions have been answered. So I'd like to ask you something a little bit more top-down. There has been, in our recurring discussion, about what the level of recurring profitability of Brazilian banks --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

Will be in the years to come. There's a lot of debate around that theme. One of the issues, that I'm struggling with, is that going forward if you have that 13 [ph] growth to income at pretty high levels already. It seems like it's not increasing further. So it's rely on the increasing in the wage bill.

Do you think that you can see Bradesco with a -- coming back to the ROEs of 23% to 24%, let's say, three years from now or two years from now, once you pass by this asset quality to ratio cycle. I say that, because, I don't know if you see spreads coming down in the future given that in order for individual credit to be more affordable, you might have to move towards lower yield segments. Or even lower spreads within your current segments. So how do you think about, in the long-term returns, for Bradesco?

A - Unidentified Speaker

Look, Marcelo, it's very difficult to talk about that. But in general terms, we have a positive prospective for our business, in terms, even in insurance, consider insurance, consider bank side. We are positive. We understand -- nowadays with the profitability around 22%. We understand, for example, that 22% today is better than it was when it was 35%, for example in five, six years ago. In face I don't really but 10 years ago.

We have some slide that show that. Because we have a reduction in the risk in the system -- in the cost of capital, like the base capital like in Selig. And that time we used to have 26% -- 29%. Selig nowadays, we are talking about 12%.

To say that, in nominal terms, to be 22%, 23%, we don't see that it's good for us. But it is better to see that. We expect to continue to have improvement in our -- when we talk about efficiency ratios to be improved -- by not only reduction in the cost but because we are expected to have more growth in revenues. We have good expectation that, in the business itself, we are conditioned to keep the level that we are in the revenues that we are originating with a lower risk.

It depends the way that you see it. Sometimes we are posting a very big return but with a much higher risk. In the environment that we expect to have reduction of risk it's better to expect to have even results from that. But I think in the short-term, like in five years, I think it's possible to be think about something from 18% to 20% at that. But to have 22% -- this I think is too aggressive in our opinion.

Q - Marcelo Telles {BIO 3560829 <GO>}

Excellent, actually it's a very fair assessment, thank you. I just want to follow-up on a certain question. Looking to 2012, you seem to have a more bullish view for the Brazilian economy --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

Especially like the performance of domestic growth and employment --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

In case you have a lower growth scenario, do you believe you have the capacity maybe to reduce costs? In time that you make up for a lower top line?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Marcelo Telles {BIO 3560829 <GO>}

Growth scenario? Or in terms of slowing down branch expansions? Anything you can do, in that case, to maybe control your expenses a little bit more?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes. We have some space but it's very small space in the sense, Marcelo. Because we know the biggest part of our costs is fixed costs. Of course in an environment when you have lower growth, certainly we talk about a lower number of transactions. So we have some costs that are linked to the transaction we have. We have a reduction that becomes can space to reduce costs in publicity, for example, it's 24 [ph] we can cut very fast. But the rest is very difficult to manage. You can have this space to plus [ph] in the sense.

In a process like this to open branches, we are in the process to build the branch. We cannot cut in the middle like that, to stop in the middle. So it's very difficult to see. But we have some space but we don't consider this to be a good impact, a big impact, it's just not necessary.

Q - Marcelo Telles {BIO 3560829 <GO>}

Perfect, I appreciate our time, thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Eduardo Nishio from local headquarter [ph].

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hi, thank you for taking my questions --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Thank you.

Q - Eduardo Nishio {BIO 15333200 <GO>}

I have two questions. The first one is a follow-up question on branches. How much of that, especially on the small branches, are capitalized and how much is expansive?

You basically anticipate some of your plans this year. I would like to know if you see that it will also shorten your long-term strategy of opening branches throughout Brazil that I believe it was before losing the postal banking, JV [ph] was to end in 2013. So that will basically go to 2012 or so. That was my first question. My second question is regarding delinquency ratios in short-term. You said that trend is basically flattening in the Fourth Quarter or in the short-term. Or even declining and I would like to have a little more color on your comment --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Yes.

Q - Eduardo Nishio {BIO 15333200 <GO>}

If you can give to us --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay.

Q - Eduardo Nishio {BIO 15333200 <GO>}

And also the issue on the credit cards, thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay. Eduardo, in terms of branches, the only thing that is capitalized is the investment in the branch. Investments in IT, for example, provide computers and the development of the branch. The part of structural, other part. All that rest is in expense.

In terms of we -- when I said that we anticipate a part of the organic growth, certainly, we had expectations that, sooner or later, in terms of Banco Postal, we should do this moving that we are doing now. But we didn't have an expectation for it. To have this now, we have expectation to renew the contract. But unfortunately, it was impossible to renew. And you need to dissipated its productions.

In terms of falling [ph] expansion going forward, I think the biggest -- when you analyze our distribution network, we were weaker in some places, like (inaudible) and Rio de Janeiro. This two movements that we made, penna [ph] book we bought -- the pair of the penna which were also, at the beginning of this year.

We made the effort to reinforce our network there. We are doing this in Rio de Janeiro, certainly, if you reduce our necessity of expand new branches going forward. Of course, we'll be looking for all the importance. Certainly, that's why I said that you don't expect Bradesco -- don't see Bradesco continue to open 200 new branches for the coming -- the next four years going forward. But certainly we have some space to continue to improve our network.

But not the same pace that we are doing so far, all right? In terms of delinquency we have expectations to keep the delinquency relatively stable and even to have some expectation to reduce. If you can see the early stage of delinquency, we have talk about delinquency more than 90 days. You've see the early, delinquencies see a very stable in movement. We are not see all the movement of reduction of improvement. That's why, in the transmission of debt for delinquencies more than 90-days, is relatively stable.

Normally, in the end, the last month of the year we have a good moment for delinquencies. Because the higher liquidity in the system that we have. Remember that you have the payments. The company pay the third for the employees. So they have space to reduce their exposure that moment. That's why we take a risk to say that we can even expect to have some reduction going forward. You had a specific question about the impact of the credit card portfolio?

Q - Eduardo Nishio {BIO 15333200 <GO>}

If you can --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

(inaudible).

Q - Eduardo Nishio {BIO 15333200 <GO>}

Explain a little bit.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Explain the effect of the credit card?

Q - Eduardo Nishio {BIO 15333200 <GO>}

Yes.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

When I make this disclosure about our delinquency ratio for individuals, without the credit card portfolio. Exact because I don't know if you remember in the Second Quarter of the year we mentioned about this impact of the demigration that we made for our portfolio credit card for the new system.

In a way that we now are capturing the delinquency in the access the way we can see. This movement, by itself, cannot bring us more losses in the portfolio. But it's dissipated the way that we see the delinquency, all right? Remember that -- I don't know if you've had a chance -- to resume what happened. That kind of business, when you have more than one installment, when you buy -- sometime you use your credit card and pay more than one installment.

In the past you used to consider delinquency. When you don't pay your bill, for example, in a month. You have your bill for this month, you don't pay that, it's included just one installment that for the total that we compromised that we'll assume.

Nowadays, we are able to capture when they don't pay their first one. We consider -- you don't pay the first one -- your bill inside your bill and the other nine [ph] installment, for example, in the same month. In other words, we are anticipating the delinquency that's it. When I said that, okay, we understand that this jump delinquencies that (inaudible). A part of that is explained by this movement in the portfolio credit card exactly because that.

When you see the other portfolios without these credit card, you don't see the same movement in delinquencies. Even -- it's very difficult for us to see that -- to tell that it's just because of that we have this impact. But we have some indication, in our other line of business that gives us this direction. Because it was the only portfolio that we made this change.

In the other portfolio we have a very stable behavior. So we are not seeing distinct, that right. But to tell you that we had not see all the movement in -- a deterioration delinquency credit card, we don't have even the condition to tell that we had that. Assuming all the portfolios in credit card that we have that does not -- that didn't past for this process, we see the movement is very similar that we have in this noted curve that you see in the slide 15.

That's why I gave is this -- a kind certainty that the big movement was because of that.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay. Thank you. Just a quick question again on the branches. Let's say that you have a branch that is -- cost you BRL200,000, roughly how much that's capitalize, how much is expansive?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

When I say BRL200,000 exactly the investment the (multiple speakers)

Q - Eduardo Nishio {BIO 15333200 <GO>}

(inaudible)

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

All of this is capitalized.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Capitalized? Okay.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

And when I say that, okay, we have at one point BRL3 million in an uncommon branch, in BRL200,000 in an average branches, with the small branch. All of these I talk is capitalized. Right?

Q - Eduardo Nishio {BIO 15333200 <GO>}

Right.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

The expenses came for the ranges of the pay, for the -- I'll say some part of that could be expenses, yes. Sorry, I think a bigger part of this can be -- but with the same effect you see in expenses but in five years, probably. Because a part of that is -- or you have capitalized or you have leasing for the equipment for IT, for example or it depend on the moment we have.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mrs. Regina Sanchez with Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

Hello everybody. My question is --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Hello, Regina.

Q - Regina Sanchez {BIO 16404038 <GO>}

My question is regarding payroll loans. I notice that you have a very good organic growth in this portfolio in the quarter. But the acquired portfolio actually, reduced, shrink in the quarter, I want to know, are you no longer interested in acquiring portfolios. And are you waiting for the change in accounting treatment next year for the smaller banks that you use to sell this type of portfolio?

And will be willing to buy portfolios without recourse? Or if you think that after the change, that the likelihood of maybe large banks, being interest in maybe buying -- acquiring smaller banks, would be the case? Because in mean [ph] the large banks have a huge competitive advantage in terms of funding cost. I appreciate your comment on that, thanks.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

First of all, really we want to grow our own portfolio. Of course, it's better for us. We have better spreads on this.

What's happen with our credit portfolio? In fact we didn't change our policy of buy-portfolio, we are open to buy other portfolio but dependent that you have other condition that we can analyze the way in the (technical difficulty) security that we can have in the different contracts with the different super [ph] banks.

What is sure in fact, I don't see the small banks looking for this kind of funding in the recent months. But in terms of that [ph] if you have condition, we understand that once you have capital for doing that and you have good spreads in the process, we can do it. We are doing that. Sorry if I don't remember if I got exactly all the points you mentioned, Regina?

Q - Regina Sanchez {BIO 16404038 <GO>}

When you speak -- some consolidation could happen --

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

In the (multiple speakers)

Q - Regina Sanchez {BIO 16404038 <GO>}

Bradesco or the large banks will be of interest in acquiring, if there is any interest in looking for that?

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look, we are very well concentrating our project to organic growth. Specific in this market. When we bought BMC, you understand that we acquired what we need to develop this business, right? So we don't see -- I wouldn't tell you that we cannot see -- take part if you have some opportunity on doing that.

But looking for now -- looking for what we have inside the bank, the projects that we have inside. We'll not see a necessity of Bradesco to buy other small banks for doing that.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, perfect. And my other question, Abreu, is regarding the strength in the balance sheet. I really welcome this higher provision allowance. And I see as a caution -- maybe precaution for -- maybe it's too uncertain diverse scenario. But when can we expect to see a discussion flowing into the bottom line of the bank, it's only when the scenario would be clear, less uncertainty, or do you think during next quarters we can see this going through?

Or could be a one-time estimation, if the Basel III regulation, tends to require a more common equity Tier I and then in order to offset the impact of the deductions, you end up reverting, maybe all the excess provisions for the little [ph] office which today amounts to BRL4 billion. Thank you.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Regina, in fact we can consider those excess provision would too consider a part of capital, of course we can understand how it should be the implementation of Basel III and how it to affect you can change the way we have think about this, in the month.

When you make discussion provision for credit, it's very difficult to imagine that we can revert going forward. But you can revert only not constituting more, like if you see that our billing in good time so then we'll continue to have good times, going forward.

What's going to happen, we continue to grow our portfolio and we continue, certainly. And the correlation tends to reduce -- if you see the slide in 21, you see that we were in this process, right. We reach a point but was a 197%, for example, is a coverage ratio in terms of more than 90 days. And we started moving to reduce but not creating more to increase (discussion) problem.

It would just stay not -- it would naturally be reduced discussion if you just not to constitute (inaudible). We're talking a nominal term -- in the normal terms, expecting that your economy will continue to grow, we'd continue to grow credit. See we don't have these effects that we can expect. We don't see necessity to revert that but we can keep discussion if you reduce naturally.

Of course if you have an event, like you mention like Basel III conception, we can see discussion could be even penalize of capital someway, we can think about another environment to revert to each other the aspect.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, perfect, thank you very much.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, our next question comes from Mr. Fabrizio Gatu with Barclays capital.

Q - Fabrizio Gatu

Hi Abreu, thanks for taking these questions. As a follow-up on the margin discussion, I understand the importance of looking at the repricing gaps, I do it myself, as a way to gain more insight as to the trend of bank margins going forward. But looking back several years, even in the case that margin in Brazil are much more a function of spreads charged, rather than the level of benchmark rates

Can you please help us better understand these trends. Then I have a second question, thanks.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

If you're not sure if I got your point, exact, Fabrizio. But -- in knowing --

Q - Fabrizio Gatu

My point, Abreu, is I think that banks margins are more a function of the spreads charge. So it doesn't really matter where the level of benchmark rates are because banks are actually in the business of charging a spread on intermediation rather than making money out of government securities. So that's what we wanted -- we all wanted to understand better from you. Thanks

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Look we have an effect of the base rate in margin, where I agree with you that the spreads is more a function. But the spread's a function of risk, if you are reducing you are able live with lower level of base rate, certainly you reduce the risk in our client. So we can even reduce the spreads, we can have this positive effect.

That's why, you saw this movement in the process, the spreads in Brazil, nowadays is still high in some line of business. But in an average you see in the long term, you see that it had been reducing in the past. So I think this movement will continue to go forward.

In the long term we don't see this with the margin around 7.6% the way that we are now, we can see some -- it used to be around 10%, 10 years ago probably. So nowadays we continue to have this project -- this process. It's necessary, we talked about long term. But in the short term, of course, we have some effects for reductions Selig, the effects of that.

In nominal terms, in normal terms we understand that reduction in interest rates is better for the business, as a whole. Maybe not -- if you look only for the margin, you can see a reduction but when you consider altogether the volumes, the expectations of growth in the volumes and the reduction in delinquencies, it's positive.

It's very clear when you look 10 years, we would compare the Brazilian banks 10 years ago and compare nowadays, you see very clear, this movement. So we -- I do recommend if someone make this exercise, it's really -- it's something that we can -- we always have been questioned about what expect for the margin in the coming year?

I think you should see a more or less the same movement we had in the past. So we see already compression in the margin, yes. But not necessary to be bad [ph] for the banks, be positive in also. I don't know if I got the exact point if I --

Q - Fabrizio Gatu

Yes, I guess, that's a fair answer. Thanks Abreu, for that. And if I may, a very quick follow-up, I know it has been already a long call. But when it will be the time for Bradesco to fully benefit from all these investment infrastructure? Or maybe, let me rephrase myself, when will efficiency improve at Bradesco, based on your base case scenario, please? Thanks.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

Okay (inaudible) give a direction by the end of 2014. But for example, depend on the movement, for example. These especially that we are doing in postal services, about to replace postal services. We will see at the beginning of next year, because we are replacing a cost, a fee cost that we pay for the postal service. In this case we have -- nowadays we have, with the weight of this new cost. But at the beginning next year, we'll these impact.

The effort that we are doing to grow in Rio de Janeiro, we can see some improvement in the next year, because we expect to have revenue with the clients at beginning next year. But in the total effort that we are doing in organic growth, I think by beginning 2013 you'll see the best moment, probably. Because we have all this branches which already have been reaching there be giving [ph]. So we see a better way.

In terms of IT projects, we know that we are about -- we have expectation to be very, very close to the end of this new system I keep [ph] (inaudible) by the mid of the next year. So we have -- it doesn't mean that we have the impact immediately. Because when you have all the systems that we are writing again -- rewriting we need to have to test, you need to have a time to implement and it would so -- it takes time to have that.

That's why we have expectations and we have in these expectations by more -- by the end of 2014.

Q - Fabrizio Gatu

Okay. Thanks, Abreu.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

You're welcome.

Operator

Excuse me, ladies and gentlemen. if there are no further questions, I would like to invite Mr. Domingos Figueiredo de Abreu to proceed with his closing statement. Please go ahead, sir.

A - Domingos Figueiredo de Abreu {BIO 4820507 <GO>}

I do like to talk you, all of you for the comprehension and the time that you spend with us during this conference call. This has been really a long conference call and I'd like to emphasize that your investor relations team will be your all disposal to any further questions you may have.

I'd like to take opportunity to invite all of you to take a part in -- we want to have a Bradesco day in New York in stock exchange in next -- in November 21st and I would like to invite all of you. I don't know if it's all of you aren't [ph] there but, Ivanie [ph] is telling me that there's no space for all of you. So we need to say that you want to go.

In London you have the same event in November 2000 [ph]. Do like to invite the people that are listening us from London too to join us. I would be very happy to see that. Thank you very much.

Operator

That does conclude the Bradesco's audio conference call today. Thank you very much for your participation and have a good day.