Q2 2014 Earnings Call

Company Participants

- Andre Esteves, CEO
- Marcelo Kalim, SVP and CFO

Other Participants

- Carlos Macedo, Analyst
- Mario Pehi, Analyst
- Patricia Medina, Analyst
- Philipe Aqudoni, Analyst
- Salu Martinez, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Good afternoon. Welcome to the Second Quarter of 2014 Results Conference Call of BTG Pactual. With us here today we have Mr. Andre Esteves, Mr. Marcelo Kalim, Mr. Joao Dantas and Mr. Pedro de Rocha Lima.

We would like to inform you that this event is being recorded. And all participants will be in a listen only mode during the bank's presentation. After BTG Pactual's remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. (Operator Instructions)

Today, we have a simultaneous webcast that may be accessed through the website, www.btgpactual.com/ir. There will be a replay facility for this call for a week from August 6th through August 12th.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results. And those related to the growth prospects of BTG Pactual. These are merely projections and, as such, are based exclusively on the expectations of BTG Pactual's management concerning the future of the business.

Such forward-looking statements depend substantially on changes in market conditions, government regulations, competitive pressures, the performance of the Brazilian economy. And the industry, among other facts and risks disclosed in BTG Pactual's file disclosure documents and are therefore subject to change without prior notice.

Now, I'll turn the floor to Mr. Andre Esteves who will begin the presentation. MR. Esteves, please go ahead.

Andre Esteves {BIO 1939152 <GO>}

Well thank you all for being on our call. Well we are very glad to announce revenues of 1.742 billion euros for the quarter and net income of 962 million which we consider an excellent result especially given not very hot environment in our economy or capital markets, not only in Brazil but throughout Latin America.

This net income is 16% above last quarter and 48% higher than Second Quarter of last year. In reality, this quarter is the best quarter ever of BTG Pactual as a public company.

This translate in a return on equity of 22.4% for the quarter which is in line to one of the few guidelines that we give -- we provide you which is an expected return on equity above 20%. So and we are especially glad of providing this good return with all-time high of equity in the unit so shareholders equity finishes the quarter at 17.4 billion euros which is strong capital base and is always impacted by only by our results and last dividends so very simple to understand the evolution of shareholders equity.

We achieve these good returns keeping cost income and compensation ratio at very good levels, 42% for the quarter net cost to income and 23% of compensation which is quite good for franchise like ours. And also, coverage ratio above 150% which is also quite good.

Total assets were stable at 192 billion euros so we didn't increase assets in the balance sheet to achieve these results and there's a ratio was 16% which is very well capitalized franchise -- marginal increase in VaR to 66% of average out efforts which is slightly above the last 12 months.

We don't see a big trend here. It's just a normal quantity of volatility. We will be distributing dividends and JCPs combined of 448 million as we always do in each half of the year. This translates in $0.50 per unit in terms of distribution and exactly like we have been doing the last four quarters -- feels we are public company.

Just so to talk about the consolidation the first half of 2014, the total revenues which are 3.4 billion with net earnings of 1.8 billion which are also half year base very significantly well above less the first six months of 2013.

Return on equity of the first half of the year was 21.4 so above the 20% guidance that we discussed. As I said, will be significantly higher shareholders equity.

Cost income was 40% which is quite good, also below the level of 2013 that was 43 so very, very interesting -- compensation ratio the same the two quarters, 23% -- alcove ratios in line -- it's 106% so we are very glad with this first-half of the year and especially these results were achieved under not very constructive capital markets, environment in our core markets in Latin America so this is quite positive and shows the strength and dedication of our franchise business.

I have -- before I hand over to Marcelo Kalin, who soon will talk in more details about each business unit, I'll make a specific comment on BSI which was a relevant acquisition that we are also doing this quarter.

As you know, BSI is Suisse private banking classic business more than 140 years of history. They're a good brand -- offices in different parts of Switzerland, Europe and Asia -- approximately 2,000 employees.

BSI also announced that results in the last days and I'll just mention them here. So BSI had 62.6 million of Suisse francs of net earnings for the first half of the year which was in line to our expectations -- a little bit better than market expectations and that good news came on the asset under management side where the whole BSI franchise which is 91.4 billion Suisse francs and for the first time since the margin, Banco de Cutado a few years ago, BSI crossed the 9th billion career which we consider quite good especially that all of this happened in a moment of strategic review of the business -- so shows that this draft of the brand and quality of management.

Important to say that the combined wealth management, asset management business of BTG and BSI will be more than 200 billion which is very significant even for global installments. BSI net equity at end of 2013 is about 1.7 billion Suisse francs and acquisition price was 1.5 billion Suisse francs.

As was announced during the deal, 20% of that will be paid with directions of BTG units to generally and 80% will be paid in cash when the deal is approved which we consider that will happen by the end of this year, beginning of next year.

So this is overview and of course, we're ready to take some questions around that. I will hand now to our CFO, Marcela Kalim.

Marcelo Kalim {BIO 16142515 <GO>}

Thanks, Andre. Good afternoon, everyone and I think we can turn to page eight of the presentation where we have our total revenues by business units.

And here I would like to comment two things. One is the -- once again, the diversity of our revenues. You can see pretty much all the areas contributing to the results. And one specific comment about interest and audit just to point out again, we represent all the areas except Banco Pan, net of our funding costs. So this is just a value added of each area.

And the interest and audit reflects the interest on our own capital. Seems our capital is pretty much liquid -- basically very minor portion is good where all described don't return yield it's a pretty significant amount and are capped at 17.4 billion represents this revenue that we show in the Second Quarter, $438 million.

If we turn to page nine, we have our investment banking carrier and here we had revenue of $197 million euros which is our best quarter ever as a public company which is, I wouldn't say surprising but very interesting.

Things as Andre mentioned, capital markets in our core markets, Brazil and Latin America to a certain degree has decreased the pace which I think shows something that we've been saying for quite a while now shows this trend of the diversification that we have both in the products and geographically -- so, we had a very strong financial advisory revenue this quarter and also other areas of Latin America that performed well that make up more than enough for the Brazilian market, let's say has flourished environment on capital markets so we could record -- so we could have record revenues in that quarter.

And we expect this to continue to be true to all the new. We see opportunities in all those markets, financial advisor and in other environments so I think that this trend of the model that we put in place even in a not-so-good environment we are able to deliver very strong results.

Turning to page 10, we have our corporate lending unit and I think here the picture that we would like to point out is the stability or consistency of not only the revenues but also the portfolio. This steady growth of revenues that this quarter which is 199 million euros and very steady growth on the broader credit portfolio, which reached 40.9 billion euros, I think is exactly what we want to see in an area like that which shows that TTD is completely under control even as I said in a very -- in a slower, economic growth pattern for the Brazilian economy.

We don't see that impacting delinquency rates on our corporate landing books and we expect also that to be true for the future.

So being able to have an area like that with this kind of consistency gives us very much comfort going forward in the next quarters and growing this area.

On page 11 we have sales and trading and this area we see 647 billion euros of revenue, a very strong quarter I believe like the third largest revenue per quarter in this area and here the story is really very good performance from all of our trading index.

There is nothing specifically relevant in each of the debts but just very strong results from all the areas -- rates, FX, commodities, equities and this is also shows the strength of our model when we don't have anything specific but the market and the client flow to allow us to generate more business and we are going to see a little bit of that when we go to talk about federation is that Suisse will increase a little bit better rate which will equate to a better ratio, we are able to turn out more revenues.

And this is a very satisfying quarter because it was a quarter that all the areas -- all the debts form clear of.

On page 12, here we have asset management where we reached revenues of 268 million euros. The seasonality is that the Second Quarter is usually the smallest revenue quarter of the year and that was true last year. And the fact is in the Second Quarter is the quarter that we had less performance fees accrued since they are paid basically on a half year basis, on a yearly basis so seasonality for the Second Quarter is low.

And here, the picture is that I would like to point out is the following. Although we had negative net, no money for the quarter, 1.5 billion euros and reached 190 euros assets under management, our revenues on a year-over-year basis for the quarter increased 25% and this is a direct reflection of something that also had been seeing there for a while which is a stronger revenue mix that we are showing.

So basically, we have been losing money on less value added products and adding money on the more valued products, maybe in private equity or hedge funds or equity funds and this is deliberate strategy that we have for our business and it's very good to one year after that to show that pretty much we had stable assets in the management, 186 to 190 but 20%, 25% more revenues.

So I think now we are in a position that probably will be able to start growing all different strategies and show positive management money but with a more stronger mix of assets under management so this is a pretty good picture going forward.

On page 13, we have wealth management where we had revenues of 91 million euros and here the picture is more or less the same then we had in asset management however with a more positive number on that new money which this quarter was 2.5 million euros and total assets reach 70.5 billion euros.

So here we expect with a better mix of revenue that we have higher assets under management we will be able to start showing higher revenues or the next quarters as well.

On page 14 we have principal investments. Here we have a mix bag of results. We had positive revenues for capital markets, 99 million euros which is a good number of using let's say a challenging quarter was the second one -- positive revenues of 173 million euros for real estate which is basically the valuation of our BR Properties paid and reflects the dividend of BR Properties paid during this quarter.

And we had a negative number for Merchant Bank, minus 347 million euros. The total revenue for the area was negative 74. So let's talk a little bit about this negative number for the Merchant Bank.

This basically reflects the internal funding cost of all of our Merchant Bank investments but mainly reflects a negative share of profit of the amortization of exploratory contents in

Petroatrica [ph] so basically this exploratory contains that the profit ahead in two specific countries in Africa came to an end without showing any oil so a county feels that you had to ride down old investments on those fields and these are accrued during this quarter and by equity pick-up model we reflect that on our balance sheet.

That doesn't say too much about investment in Petroatrica which we are quite pleased but it's a country rule. You'll be investing on those oil fields for a couple of years and if there is oil, you can activate that -- if there's no oil, you have to delve and that's exactly what happened -- so this is something that's what's been happening as I said for the last couple of years -- nothing new but the county rules played that way.

On section two, we can talk about the expenses and on page 16 we have our expense and migrations and here I would like to point out that although administrative expenses grew to 260 million euros coming from 178 from last quarter, we still believe expenses are under control.

An explanation for this increase I mean we went off event. We had two transactions in this quarter, BSI which was the main one and also the reinsurance area re-transaction that we had some costs regarding to do business and do the transaction as well and we had went off marketing expenses during this quarter mainly related the oil corp.

And we believe that in the next quarter we are going to show numbers much closer to 178 million of the last quarter and our ratios that I mentioned in the beginning are pretty much under control -- 42% of cost income ratio for the quarter -- 40% for the first six months of the year which are pretty much in line with what we expect for the business.

On section three we have our balance sheet. On page 18, the balance sheet analysis -- benefit was pretty stable at 192.4 billion euros coming from 193 and more important than that the shape of the balance sheets is pretty much the same quarter over quarter.

I think this shows the maturity of our business and the stable nature of our balance sheet and we expect this to continue to be true going forward.

On page 19 we have our unsecured funding base and here's the same story. Steady growth and the same shape which also shows the stability and maturity of our trending base.

Finally, on page 20 we have the Basel Ratio and the value at risk. Value at risk increased slightly to 66 basis points coming from 54 which shows as I said more activity on our sales in creating business and this direct -- this impact directed the Basel Ratio which came from 17.1 to 16% -- it's still very robust and I would say even with some spare capital or more capital then what we believe would be the optimal level to run the bank.

This concludes our presentation. Now we can open to questions and answers, please.

Questions And Answers

Operator

Thank you. The floor is now open for questions for investors and analysts. (Operator Instructions) Our first question comes from Carlos Macedo from Goldman Sachs. Please go ahead.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good afternoon, Andre, Marcelo, thank you for the opportunity to ask questions. Actually I have one question that's in two parts. It's on your sales and trading business. You know revenues were down in the quarter but still very strong. There's been some volatility in the last few quarters as you show in slide 11.

You talked about the commodities desk and how that has improved the profile of the business and added a new revenue line there. You also talked about how your VaR increased relatively materially in the course -- still a low level but an increase over 20% to quarter-on-quarter.

What should be the outlook for this business specifically? Does the level that you reported this quarter were "all desks did a good job" and had you know positive revenues? Is that a base going forward? Should we expect you to generate more revenue as your VaR goes up as it did over the last quarter? How should we look at this going forward?

A - Andre Esteves {BIO 1939152 <GO>}

Well thank you, Carlos. One structural comment on your question is we expect a new level of sales and trading revenues with the consolidation of commodities and in a certain way we have seen that in the first two quarters of this year so we started planning commodities two years ago.

We started implementation 18 months ago. We started soft trading one year ago and basically from last quarter of 2013 on, we started I would say real business. And this business is still growing and consolidating.

Of course what will happen in the next two years, the same thing that's happened in the last two years but it's probably a new level on our sales and trading having commodities the same size of our fixed income and the fixed and equities. So having said that, other than that is the normal progress of our business.

If you consider for example moving average of long period of time since we published quarter results on this unit, this is some volatility from quarter to quarter but it's a very clear trend line that's no more than four years quarter per quarter on a structural base the business increased revenues and I don't see any reason why the next four years will not follow a similar pattern in terms of trend line than the last 40 years so that's I think the best way of answering your question.

Regarding specifically de Banc, at some times in just the normal client activity, if you have little bit more of facts it consumes under Brazilian Basel rules a little bit more than interest rates so inside interest rates if you have more inflation linked it actually consumes more than fixed kind of product.

So it's -- I would say that this level of increase or decrease is normal variation of the opportunities in the quarter. I don't see and we are not managing the bank on a structured trend or increase in volume. I would say behind a similar mood than we were last four quarters. So we could see additional variations but nothing changed structure in our risk policy at this stage.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay thank you, Andre, thank you for your answer.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Carlos.

Operator

Next, we have Mario Pehi [ph] from Bank of America, Merrill Lynch, please go ahead.

Q - Mario Pehi

Hi everybody. Good afternoon. Let me ask you two questions. First one is related to these losses that you had in the Merchant Banking, the $350 million real loss. Can you confirm if all of this was related to your investments in Central Africa and what is the size of your total investments there?

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Mario. I think not all of that but I would say that the relevant part of that because the balance is related to basically cost of funding of the operations. Of course that as we said previously our holdings that are publicly listed which are just too big profit and via farmer we mark to market on an average of 30 days with a discount of 20% so we marked with a discount to the price of the market.

So these two things marked daily and the rest is cost of carry updated to our best view of the value of the investment owned. Central Africa we do the equity pick-up system and we obliged to mark down this near the end of exploration CapEx whatever the cost is so it's nothing different -- no deviation from the initial view on the investment.

The investment as you know is mostly related to producing oil fuel so it's a relatively simple investment. Of course, it's enough to have some country risk that should be considered there but it's a little bit more than the oil thing, it's more relate to a fixed income pattern than an exploration pattern.

So this quarter was an exception probably in what we can expect from this investment in the next quarters.

Q - Mario Pehi

Okay. So just to be clear, I'll make sure I understood. So there were fields that you were -- that they were searching for oil and there was no success? The bulk of the operations are already producing, correct?

A - Marcelo Kalim {BIO 16142515 <GO>}

Yes, exactly, hi Mario, it's Marcelo commenting. Just to explain. So let's suppose the revenues for this company are in the hundred and then every month you take 20 of this hundred and expand on exploration.

Let's suppose you do that for two years. So basically the accounting as you generate revenues of 100 and investment of 20 at the end of the two years you have expended 240 on those oil fields and there is no oil, you have to write down the 240 that you -- I'm sorry one, 240 on the oil field.

However, from an investment perspective from our side, we always look at the 80 revenues per month because we always understand there is a risk proposition on looking for oil on new fields. So that we are saying in our view is basically an accounting right now doesn't change our perception on the investment.

A - Andre Esteves {BIO 1939152 <GO>}

And more important than that Mario, the relevance of the investment is much more related to the produce in oil fields than the exploration. We didn't have an expectation of finding amazing oil fields necessarily.

It was of course we always have a chance of achieving that but it was everything from related much more to the producing of a few tethers than exploration costs or additional discovery so that's general and clear as I can explain it what happened here.

So probably next quarter will be similar to the previous quarters where we will book revenues via normal equity pick-up accounting.

Q - Mario Pehi

Okay, that's clear. So then the second question I have is related to the DSI acquisition. We also have a very positive view in this transaction. I think it's transformation of your business but they may push back we get some clients are related to concerns as to why this money will stay in Switzerland once the secrecy laws are gone. And if there are any concerns that you can see outflows just because of a changing control of the bank.

A - Andre Esteves {BIO 1939152 <GO>}

Yes. It's a good question Mario. I think the size of the opportunity is exactly that -- this position with them so as you are -- some of your clients said correctly, secrecy is behind us. There is a turning point in Switzerland so secrets to service and we think that our history and our capability are much more relate to the new era of Suisse private banking market then the past history of Suisse private banking market.

So that's exactly the size of the opportunity. Suisse money is still one of the most respected fiduciary tempers in the world -- eventually the most respected, most traditional with trillions of dollars booked there and it's very stable institutionalized -- triple A company.

It's a very good, well related, very strict rules and the strategic direction that Suisse regulators want for their asset managers to move between the countries is exactly what we think we can offer to the clients there.

It's to provide them with good risk management, with proper alpha generation, diversification, portfolio, budding techniques so we think that's exactly the opportunity.

So we are very excited about that -- not only do we think it was good transaction but more important than that, we think we can add value to the already very good platform of BSI, exactly in line to what will happen in the next decade in Switzerland.

And for us, we are very positive as you said in your question. Our revenues will be almost 50% coming from an asset management and wealth management. We should consider an excellent mix and especially if you can see that it comes from different places, right?

We have wealth management clients in Brazil, wealth management clients in other parts of the worked. We have passion America passion funds, several funds, trillion in Columbia and Peru, lots of funds so different sorts of clients -- different sorts of products and different sorts of geography -- so diversified, very scalable and good land in different parts of the business so we like very much this topic and very upbeat with these opportunities.

Q - Mario Pehi

Okay. So the idea is to keep the BSI brand?

A - Andre Esteves {BIO 1939152 <GO>}

Yes. The idea is to keep the brand. It's a great brand. It's as I said before 140 years of history -- very well accepted in Europe, in Asia, in Middle East so yes, we will use the brand.

And so far it's the opposite. You also described we got in flows. The acquisition was very well received as you know the assign was under strategic review by general which is very uncertain umbrella for a business like that and now there is no more uncertainty about that and people took that positively, the analysts, the media, the stakeholders in the different parts, here and Latin America or in Switzerland or Italy, Asia so. So far they will receive the transaction and we don't expect any friction of funds.

Q - Mario Pehi

Okay, perfect, thank you very much.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Mario.

Operator

The next question comes from Tito Labarta from Deutsche Bank. Please go ahead.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good afternoon. Thanks for the call. Just a couple questions. First just a follow up on Mario's question on the Merchant Banking. Could you actually quantify how much you had to write down from the amortization or if not, at least you know what would be kind of a recurring level of returns you'd expect on your principal investments?

I understand it'll be volatile on a quarterly basis but you know how should we think about this line sort of like on an average basis in a longer term.

Then the second question, there was recent article in the Financial Times where you mentioned you know you would like to expand further into Mexico. I just want to get a sense you know, what kind of position would you like to have in Mexico?

I mean would you like to just expand your investment banking presence, enter a commercial banking or asset management? How do you see the opportunity in Mexico a little bit? Thank you.

A - Andre Esteves {BIO 1939152 <GO>}

Well thank you Tito. I will start from the end. I think this news in the Financial Times were maybe a little bit over-emphasizing position in Mexico. I think we have a good presence there that is based for growth but at this moment we are more concentrated on digesting the BSI transaction integrating, taking percentages off of that so you should not expect any relevant move in Mexico in any other place in the next quarter.

So I mentioned Mexico in this report as I do see some room for growth there in terms of the Latin America full fledge strategy but not necessarily that we are doing something or that we will do something in short medium term.

So it's as I would say a little bit over-emphasized in this report. Going back to the first part of your question regarding private equity, I would say that it is around a half or is likely around half of the negative results in private equity so that's more or less the number.

Q - Tito Labarta {BIO 20837559 <GO>}

All right, great. Thank you very much.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you.

Operator

The next question comes from Salu Martinez from JP Morgan. Please go ahead.

Q - Salu Martinez

Hi. Good afternoon everybody -- two questions as well. First, can you just give us a sense for how you feel currently about your capital position as you highlighted if you saw reduction in line with the uptake in your VaR with liquid assets for market risk going up.

And I think in the past if I'm not mistaken you've talked about 15% or not being sort of a floor at which you wouldn't want to fall under. So in light of the investments that you are making, just could you give us a sense of how you feel about the evolution of your capital position and whether you may need to think about certain capital options -- not necessarily common equity but other capital options that could sure up either your tier one or your tier two.

And secondly, just a follow up I suppose on sales and trading. The answer to the earlier question was helpful in the sense about thinking about the trajectory as a trend line over time and you're going to have a lot of volatility around that trend line.

I guess what I struggle with is identifying what that trend line looks like. The steepness of it -- where we are relative to the trend line currently so I guess my questions is the 647 million this quarter, how should we think about this.

Given your current revenue capability in these businesses, is this an abnormally strong quarter -- are we above the trend line, below the trend line and how to think about what the base looks like upon which you project that trend line?

A - Andre Esteves {BIO 1939152 <GO>}

Okay, well thank you, Salu for the good questions. First, regarding capital, well, we are very comfortable with capital levels and especially because if you can see the balance sheet and when you look at interest and not revenue, a lot is related to that.

The levels of before tax assets or tax shields of all species are premium for acquisitions to be amortized. We are in a very low level which means very cash reach of balance sheet. We need to -- in order to conclude the acquisition, BSI is the key capital in there like for the future for the next let's say 12 months.

You have the normal development of business but we have one acquisition. We have certain news for capital before capitalization but there relatively is more less concentration on BSI which is more relevant.

BSI is an interesting topic regarding capital because at the end of the day, BSI is not only liquid assets which is common characteristic of the Suisse product Nike industry so it's very positive for overall liquidity of the bank, capital reach and also brings very interesting domestication in terms of revenues without capital use.

So we are specifically talking about volatile capital because everything else it will be clearly acquiescence. Regarding regulatory capital, 20% of the transaction refinanced by common equity issues, directly to general and not going to market, as you correctly said, we don't have intention of issuing additional equity, additional common equity in the foreseeable future so we intend to finance the balance of these acquisitions using other sorts probably to be a combination of tier one, tier two, hybrid instruments where we have some counsel investors that would be willing to acquire this kind of assets from us.

So at appropriate time, probably we should go to the market or do some private issues in combination of tier one, tier two to fuel this gap and also important, consider that we accumulate quarter after quarter relevant assets.

Of course this also helps to use -- to provide source for liquidity capital. Having said that, we don't intend to change our 15 Basel, let's say direction before or after the acquisition so we are likely above that now and between 16 and 17, the last quarters maybe we can go to 15 around the acquisition of the closing of BSI but we don't intend to go to below that in the foreseeable future.

So we're continuing this direction. Going back to the first part of your question regarding sales and trading, we are in this first half of 2015 probably above -- '14, sorry, we are above the trend line of growth in sales and trading.

It is not once in a lifetime event. It's probably because the commodity vision is picking up inside sales and trading so it's above the trend line but it's not a one-time event. And looking for the future, I see some variation from quarter to quarter but when you look at the previous years before the ITO that we disclosed this factor and the quarters after the ITO you see a pretty clear trend and a pattern for the volatility between quarter to quarter.

So I think now it's already four years of history in different sorts of market with different strategic initiatives, different strategic expansions so I think it's now you can take a good pattern from these previous results and we continue to see that as a trend line.

We continue to be optimistic with our business. This first half of the year was quite good but I like -- we like to see this trend line as a good way to foresee future revenues.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay, that's helpful. Thank you. So much.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Salu.

Operator

The next question comes from Patricia Medina from ING Investment Management. Please go ahead.

Q - Patricia Medina {BIO 18092503 <GO>}

Hello, thanks for the call. I only have one question on the investments and plan. When do you expect their turnaround to be completed and what will be the capital ratio on tier one after the capital increase? Thank you.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Patricia. In reality, you should analyze funds from different aspects. One is the quarter results that is public and they announced that these numbers are easy to see but clearly the bank has the wrong capital structure, right and more than 100% of the equity is composed by tax shields which is not a healthy way.

And of course we know that and our partner, Geisha also knows that and we will wait exactly to have a more clear operational control or in other words conclude -- getting close to conclude the turnaround of fur in order to come with the capital increase and in the last quarter we found that we basically are closing off to the end of the operational turnaround and we trigger the capital increase using a combination of common equity and reform redeemable equity acquisitions.

We like very much the transaction that while we outline it there and this new capital structure will provide the borrower with what they need to be profitable. They don't need more to change their operational business. They don't need to increase branches or produce branches to increase cost or reduce costs.

Everything is in line other than the capital structure so we expect that as soon as we complete the capital increase which probably will happen in the Fourth Quarter of this year or in other words, next quarter it will be profitable so you should expect a profitable turn for 2015 and maybe even for the last quarter of 2014.

But certainly when all the money is there, the capital structure will be almost fixed and then the operational agenda will be the driver for results, not the capital structure so we expect that to be profitable as soon as we conclude the cap increase.

Q - Patricia Medina {BIO 18092503 <GO>}

Okay, thank you.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you.

Operator

Next question comes from Philipe Aqudoni [ph] from Larasial [ph]. Please go ahead.

Q - Philipe Aqudoni

Thank you for the call. I would like to know the revenue breakdown by business unit after the consolidation of BSI business? So I wonder next year what will be the revenue breakdown?

A - Andre Esteves {BIO 1939152 <GO>}

As we said, basically BSI contributes with classic wealth management and asset management revenues and if you take something combined, asset management and wealth management of a little bit more than 45% of total revenues of BTG in 2015, of course this is also related to the revenue composition of BTG next year but you could assume that after the acquisition because consolidation, the asset management and wealth management combined will be close to half of our revenue.

And you could also consider that BSI basically contributes in terms of revenues in these two areas and we expect extra synergies in all sorts of business but basically the combination is -- the contribution is focused on these two areas.

Q - Philipe Aqudoni

Thank you.

A - Andre Esteves {BIO 1939152 <GO>}

Thank you, Philipe.

Operator

Thank you. That brings us to the end of the question and answer session. I will now return the floor to Mr. Andre Esteves for his closing remarks. Please go ahead.

A - Andre Esteves {BIO 1939152 <GO>}

Well once again thank you very much for being together with us and being close to our stock and you're always welcome in this interaction. Well thank you very much once again. Bye-bye.

Operator

Thank you. This concludes today's presentation. You may disconnect your line at this time and have a nice day.