Q3 2014 Earnings Call

Company Participants

- Luiz Carlos Angelotti, Managing Director & Head-Investor Relations
- Paulo Faustino da Costa, Market Relations Departmental Officer

Other Participants

- Boris D. Molina, Analyst
- Carlos Macedo, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Patricia Medina, Analyst
- Philip J. Finch, Strategist
- Saul Martinez, Analyst
- Thiago Bovolenta Batista, Analyst
- Tito LaBarta, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. We'd like to welcome everyone to Banco Bradesco's Third Quarter 2014 Earnings Results Conference Call. This call is being broadcast simultaneously through the Internet in the website www.bradesco.com.br/ir. In that address, you can also find the 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.

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

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Paulo Faustino da Costa, Market Relations Department Director.

Paulo Faustino da Costa {BIO 17286050 <GO>}

Good morning, everyone, and thank you all for participating in our conference call about the results of Bradesco in the third quarter of 2014. We are here to provide you with all the information you need about our numbers. And this is in line with our goal of always increasing the transparency of information disclosed to the market.

We have here today Mr. Alexandre da Silva Glüher, Bradesco's Executive Vice President; Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer; and Mr. Moacir Nachbar Junior, Executive Director.

I will now turn to our Managing Director and Investor Relations Officer, Mr. Luiz Carlos Angelotti, who will lead our conference call. After his presentation, we will be open to answer your questions. Mr. Angelotti, please go ahead.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone, and thank you for taking part in Bradesco's third quarter 2014 conference call. Let's now look at slide two. Here we have the highlights. And our adjusted net income reached R$11.227 billion in the nine months of 2014, and growth up 24.7% compared with the same period of 2013. In the quarter, our adjusted net income is R$3.950 billion, up 3.8% compared with the second quarter.

We're posting ROE (sic) [ROAE] (03:24) reached 20.4%, our interest-earning portion of NII increased by 10.5%. I wish to draw your attention to our efficiency ratio, at its best level ever at 39.9%. The fee and commission income increased 11.6% year-over-year. The OpEx expense went up by 320 bps below the inflation, IPCA. Our total assets reached R$987 billion. Our expanded loan portfolio reached R$444 billion, 7.7% up in the last 12 months. About our insurance business, the net income reached R$3.170 billion in the nine months period in 2014. And the premiums increased 9.8%.

Going to slide three, here we have the reconciliation between our book net income and the adjusted net income. In the third quarter, our book net income is R$3.875 billion. And we had some non-recurring events in this period. One of them is the reversal of provisions for tax risks related to a favorable court decision about a couple things, a lawsuit.

And then we had a reversal of R$1.3 billion. And during the same period, we had another adjustment, one that is related to impairment of assets, the shares of Banco Espírito Santo, R$598 million. And we did some labor provisions for specific situations in the amount of R$488 million. And one provision for tax risks is another piece in the amount of R$212 million.

After the adjustments, our adjusted net income in this quarter is R$3.950 billion. And for the nine months period, it is R$11.227 billion. Our adjusted ROE (sic) [ROAE] (06:33) is 20.4%. We are now maintaining this ROE (sic) [ROAE] (06:41) above 20%.

Going now to slide four, we have here our adjusted net income growth. In the quarter – the third quarter compared with the second quarter, we had 3.8% growth. And the main adjustment – the main specific growth we had in the NII interest-earning portion because of the more – higher volume in the transactions. And in fee and commission income, we had a growth of around R$311 million related to our investments in increasing the channels and increasing our base of clients.

And in a negative way, we had an impact about – an increase in our PLL provisions for loan loss, in part, due to increasing the risk of one-off events in our operations with corporate clients, which started on the second part of 2014 and continues up this quarter. And in the operating expenses, we had the effect of the BACEN [Banco Central] agreement. And in this quarter, our NII non-interest-earning portion decreased around R$169 million.

Looking for the year-over-year comparison, we had an increase around 25%. And the main topics are related to the growth in the NII interest-earning portion, R$3.3 billion, related to the higher interest-earning portion and more borrowing transactions.

Fees, we had grew around R$1.7 billion because of continuous investments in improving the channels and in the base of clients. In the negative way, we had the growth in the operating expenses, R$720 million. But the one important thing is that this growth that we had is less than the inflation in the period. And in the other adjustments, R$1.7 billion, the main expenses are related to tax and in social contribution.

In slide five, we present the breakdown of our net income, which remained virtually stable both in quarter-over-quarter and in the year-over-year.

Now looking at slide six, we have here our efficiency and the operating coverage ratios. Our efficiency ratio in a 12-month base reached now at 39.9%. We had an improvement of 1% compared to the previous quarter. It's the best level in the last six years. And in the quarter, we could maintain our efficiency ratio in the level around 38%. Our target for this year is finishing the year with 39%. And we expect to continue improving this efficiency ratio, probably will continue – we expect to finish the year more close to 39%.

Our risk-adjusted efficiency ratio finished the quarter at 48.7%. And our coverage ratio, the black line, we finished this quarter with 75.9%, the best level of coverage ratio that we have. This ratio represents our capacity to improve our fee and commission revenues for it to cover our operational expenses, the personnel and the administrative costs. We expect to continue improving this efficiency ratio – this coverage ratio for the next three (12:09) quarters.

Moving to slide seven, we have here our unrealized gains. This quarter, we finished with R$19 billion, R$2.7 billion less than the previous quarters. And the decrease is related to our investments in Cielo shares that in the third quarter the market value decreased 12%. And in this position, this number, this R$19 billion, we don't have our goodwill in the real estate. That is R$5.3 billion, additional R$5.3 billion.

On slide eight, we have our NII, the interest-earning portion and the non-interest-earning portion. In this quarter, our NII increased R$215 million, more related to the loans and securities portion, and offset by the decrease of the non-interest-earning portion due to the lower market arbitrage gains.

In the year-over-year comparison, we had a growth of 10.5%. And our NII reached, in the nine month period, around R$35 billion. In the year, the main impacts were that the insurance interest-earning portion grew, and the funding position. Our NIM in the quarter finished with 7.5%. And we expect now for the next – this is probably (14:34) around this level, 7.5%.

Moving to slide nine, here we have our NII, the interest-earning portion. We finished this quarter with R$12.2 billion, R$384 million higher than the previous quarter. And the main growth came from the loans and in securities and other operations.

For the nine months growth – the year-over-year growth, we finished this quarter with 10.5%. And we revised our guidance up. That was 6% to 10% to now 9% to 12%. And then we expect to finish the year with the growth in a similar level that we have now in the third quarter. And in all lines that we have here, loans, funding, insurance, and securities and others, probably the growth will be very similar in the end of the year with the level that we have now in this position.

Moving to slide 10, we have the credit margin. Our net credit margin increased at 1.6% compared with the second quarter, and then 6% when we compare with 2013, the nine month period. We expect that our expense, with the PLL that this quarter is R$3.3 billion, will remain stable, will stabilize now. The increase that we had in the last period was related, to some extent, by an increase of risk of one-off events in our operations with some corporate clients, which started in the second quarter of 2014 and continues to this quarter.

In slide 11, we have our Basel ratio. In this quarter, we finished with a total Basel ratio of 16.3%, and the Tier 1 ratio, 12.6%. When we do a simulation of a full impact of the Basel ratio, we start with the 12.6%. The additional adjustments that we have represent 2.5%. And we are doing this year one reallocation of funds through Bradesco Seguros, and we will have an improvement in our Basel ratio in 1.4%.

And then, consider that until 2018 we will have how to do the consumption of the tax credits that we have from tax loss, we will have an additional 0.6%. We expect to finish our Tier 1 ratio in 2018 at around 12.2%. We will do an initial - we will do a subordinated debt Tier 1, more - one additional 1.5%. And our total ratio in 2018 will be around 13.7%. It's an effort to cover our requirements that we have now for Basel ratio. And we understand that we will have the - we don't have any difficulty to do the implementation of the Basel ratio in our capacity to do operations with our clients.

Moving to slide 12, we have here our total assets that amounted to R$987 billion, 8.8% growth year-over-year. And our return on average assets reached 1.6% in this quarter. Our shareholders' equity finished with R$79 billion, and our ROE (sic) [ROAE] (19:56) is 20.4%. We expect to maintain the current level of profitability, the ROE (sic) [ROAE] (20:04), around 20% for the coming quarters.

Slide 13 shows our expanded loan portfolio, that in this quarter we finished with R$444 billion, with 7.7% growth year-over-year, and the main growth that we had in the corporate segment at 10.1%, followed by the individual segment with 8.6%.

At the right-hand side, you can see another graph that shows the evolution of the segments in the expanded loan portfolio. And you can see that the SMEs segment is decreasing 1.8% in the last eight quarters. And the corporate segment and the individuals is improving their participation in our loan portfolio.

We revised our guidance for the loan growth and the new guidance now is 10% to 11%, and that probably we expect to finish the year between 8% and 9% growth in our loan portfolio.

In slide 14, we have our delinquency ratio. The delinquency ratio over 90 days finished this quarter with 3.6%, a small growth when you compare with the second quarter, 0.1%. This small growth, in part, is related to the deceleration of the loan growth portfolio. It is a mathematical effect. And another effect is related as specific operations of corporate clients. That doesn't represent any expectation we have changing in the expectation of the stability in the delinquency ratio for the next quarters.

As you can see in our chart of delinquency ratio that we have on the right hand side, it shows a 3.7% ratio compared with the 3.9% ratio in the second quarter. Then our expectation is that for the next quarters, our delinquency ratio will maintain reasonably stable, between 3.6% or it could increase 0.1% or decrease 0.1%. But we don't see any reason to have a modification in the tendency of our delinquency ratio for this year and then towards 2015.

Moving to slide 15 that shows our provisioning ratios that remain sound, assuming the maintenance of the 12 month net loss ratios. As of September 2013, we have R$12.9 billion of excess provisions versus a loss net of recoveries, the dotted portion of the purple line. In September of 2014, the coverage ratios for loans overdue by 60 days and 90 days have remained at comfortable levels, reaching 154% and 187%, respectively.

Moving to slide 16, we have the fee and commission income. We finished this quarter with R$5.6 billion, an increase here of 5.8% compared with the previous quarter, and 11.6% year-over-year. In the quarter basis, we had a huge growth in the loan operations, asset management, and the custody and brokerage services. In the annual basis, the higher growth came from cards, checking accounts, loan operations, consortium. That contains – they grew around 20%.

This higher growth that we had, 11.6%, is related to our investments in improving our channels, our client base. And we expect to maintain or increase the number of products per client. And probably for the next periods, we will maintain to double digit growth because of the investment that we are doing in the channels. We did a modification in – we revised our guidance for the fees. Now the new guidance is 9% to 12%, and probably the new guidance for our fees is 11% to 14%. And we probably will expect to finish the year more close to the center of the guidance.

Moving to slide 17, we have our OpEx. And we finished this quarter with 2.4% when you compare quarter-to-quarter growth. This growth was more related to the effects of the union agreement that we had in the third quarter. When we look to the year-over-year basis, we grew that 3.6%, less than the inflation this period that is 6.7%. As you can see, the administrative costs grew only 0.2%. There was a near zero growth in the period, and this shows our commitment with the cost control.

As a result of our investments in IT, the IT revitalization plan, that's now our new system that we are implementing, we are having some additional benefits. And we had another front that is the efficiency committee that we are in hopes that everyone in the company – all areas in the company are looking for opportunities for reduced costs. We expect to maintain the cost growing less that inflation this year. And probably for the next two years, we expect to do this similar job.

Moving to slide 18 that shows the insurance written premiums, pension plan and the contributions, and the capitalization bond income. That posted a 7.8% decrease quarter-over-quarter, mainly coming from the outstanding 46% growth in the segment of life and pension plans in the second quarter of 2014. On an annual basis, we have seen an increase of 9.8%. It's regarding the fact of withdrawing from the DPVAT association.

I would also like to highlight the performance of auto and P&C, 30.9%; health at 21% growth; and capitalization bonds, 17% growth. The net income for the quarter decreased 1.3% basically as the result of a 7.8% decrease of the revenues and 2.5% decrease in claims ratio and a decrease of financial results, partially offset by a 70-basis-point improvement in selling expenses and a higher operating income and equity in the earnings of unconsolidated companies.

Year-over-year, the net income increased 15.7%, and is mainly explained by an increase in revenues, improved financial results, and the maintenance of claims and expense ratios at September 2013 levels.

Slide 19 shows some of the main figures of our insurance activities. Our financial assets amounted R$158 billion, while the technical reserves stood at R$146 billion, R$107 billion of which is from the life and pension plan.

In slide 20 we have our guidance. For loan portfolio, we revised the guidance, now we have 7% to 11%. The previous guidance was 10% to 14% that was our expectation when we announced the GDP growth will be around 2.1%. And now we revised this, the guidance for the loan portfolio. We expect to finish the year around 8% to 9% growth in the loan portfolio.

When we look for the NII, the interest-earning portion, we did an improvement in the guidance. The previous guidance was 6% to 10%, and now we have 9% to 12%. And we expect to finish the year now more around the 10.5% level. That's at a similar level that we have now in the third quarter.

Fee and commission, we revised the guidance and now we have 11% to 14%. We expect to finish more close to the center of the guidance in this year. And we maintain operating expenses and the insurance premiums guidance at the similar level. And probably we expect to finish more close to the center of the guidance these two operations.

And in conclusion, I would like to emphasize that we consider our performance in the third quarter of 2014 very good, which allowed us to maintain our 20% ROE (sic) [ROAE] (32:11) per year, and then efficiency ratio below 40% as our target. Our coverage ratios continue to be robust, and they actually increased this quarter. These factors reflect the actions associated to our strategic planning and to promoting consistent and sustainable results.

Thank you for your participation in our conference call. And now we'd like to invite you to the Q&A session.

Q&A

Operator

Our first question comes from Mr. Mario Pierry with Merrill Lynch.

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

Hello?

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Good morning. Let me ask you two questions, and congratulations on your solid results. The first question is related to the recent increase in Selic rates that we're seeing. The expectations now are for maybe 100-basis-points increase overall. If you could just remind us, what is the impact of a 100-basis-points increase in Selic rates to your net interest income and then to your net income?

And the second question is related to delinquencies. We saw the corporate delinquencies. They have increased now for a second consecutive quarter. I know you don't disclose details on specific clients, but just trying to get a better feeling for what sectors are we talking about? Are there any specific sectors that are showing more concerns as the economy slows down, as the currency devalues? How should we think about corporate delinquencies going forward? Thank you.

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

Thank you, Mario. About the increase in the Selic, 1% increase in the Selic in a full year represents around R$400 million in profit before tax. But this level, 10.5%, will be – we have some positive and negative effects. It will be one quarter of this R$400 million. Then I think it will be a small factor if we have only 0.25% at the level that we have now.

About the delinquency ratio, I think the small increase that we had is more related to some specific operations. These groups or these operations are the loans as far as some specific segments. But we are not comfortable to talk about it, because I think it could be some visible (35:22) situations. Then I think we don't see, in our portfolio – I am talking about our portfolio, we don't see any risk in the SMEs or the corporate segments. Our expectation is that our delinquency ratio will maintain stable for the next quarters. I don't want to comment – I don't like to comment or I can't comment about the clients or the segments. But our expectation is that for the next quarters, probably the delinquency ratio will remain stable. As you can see in the chart, delinquency ratio and our NPL creation, that starts to decrease. And this shows that for the next years or the next quarter probably the delinquency ratio will be stable or could decrease a little.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. I was just wondering, then, we have seen several economists reducing GDP growth forecasts for next year. So I was trying to get, then, a feel from you, if we do see zero GDP growth next year, would you be more concerned about the asset quality outlook?

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

I think a small decrease, a 0.5% or 1% decrease, I think not will affect the quality of our portfolio. Probably, we expect that we will maintain more stable. We don't see any risk in our portfolio if we have a small decrease in the GDP or a small increase in unemployment ratio, because if you look for the last year or the last two years, we grew in our loan portfolio in a consistent way. We are looking to maintain the best quality.

We are working to maintain the best quality in our portfolio. We did the high investments in our credit analysis instruments. And now, we understand that we have a good quality in our models. Then probably, when we look for the future, a small decrease in GDP or increase in the delinquency – in unemployment rate not to affect our expectation of stability in the delinquency ratio for this year, 2014, and in 2015.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

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

Thank you.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. I have two questions as well. First, just on the NIMs also, and speaking a little bit more broadly than the impact of interest rates, you're at 7.5% NIMs. You kind of indicated that you see it stable in the coming quarter. But as we look out over the next year, where does it go?

And do you think it could even expand? Is that being too aggressive, especially since we are still seeing the repricing of the back book? I understand that you said on the call – I think the Portuguese call, that there's no more room for spread increases on new loans, but just from simply the repricing effect, obviously higher Selic, do you think that there's even the possibility of a bit of an increase in your financial margins in 2015?

The second question is a little bit more specific, and maybe we can kind of go over it offline as well. But in your MD&A, you guys used to give very good disclosure for example, reconciling your book income statement, your managerial income statement, and your non-recurring events. And the managerial reclassifications this quarter, you simplified. You used to give a lot of detail. I'm wondering why you made that decision, because especially for net interest income this quarter and in recent quarters, there've been a lot of managerial reclassifications. So can you give us a sense of what, beyond the hedge, is in that number?

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

Okay. About the NIM, we have now 7.5%. We expect to probably be stable for finish this year and probably for 2015. We said that this stability will come from – we don't expect a high year growth in the loan portfolio. Probably the system next year will grow next year at 12%. And probably we expect to grow a little less than the system, and probably a little more than we will finish this year.

But the revenues, some additional revenues, will come from the funding revenues. We expect the Selic will be in a more higher level. Insurance probably next year will come in the 10% to 15% growth as the average of this business for us. And probably we expect some stability in the – executing orders at the level of the revenues that we have now this year, could increase a little. But it will be a small growth, and it will compare then the growth that we had in 2014.

Then I think the NIM will be more stable and we will have some repricing in the loan portfolio. But I think the more positive – the more conservative position is about the stability, and it could decrease a little.

About the reclassification or the new way that we show our adjustments, it is one decision that we are simplifying the way that we show the position. We decide to do this modification. Probably in the next quarters, we will (42:55) some other simplifications in the way that we show our numbers, for it to be more close to the level of the other participants of the system.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. That's helpful. Maybe we could go over it offline. But is there anything unusual in the managerial reclassification? Are there any big items other than the hedge that are worth mentioning?

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

Can you repeat, Saul, please?

Q - Saul Martinez {BIO 5811266 <GO>}

Yeah. We can go over it offline. I just was wondering if in the managerial reclassifications, is there anything other than the hedge strategy of 2-5-3-6 that is significant?

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

We consider the hedge for investments – normally we do this reclassification and we are considering the margins. It's a normal reclassification that we do. You see, normally, it's the higher figure – number normally, because of dollar variation. But we didn't change this pose. We maintained a similar pose.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Okay, thank you very much.

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

Thank you.

Operator

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

Q - Philip J. Finch {BIO 3252809 <GO>}

Good morning, Angelotti. Thank you for your presentation and the opportunity to ask questions. I have two questions. First, I would like to go back to the loan repricing that Saul just asked. Could you just elaborate a little bit more on how much of your loan book has actually been repriced, how much is outstanding, and over what timeframe that will take to reprice, given current lending rates? And even, what segments have been repriced? Is it more consumer? Is it SMEs? What hasn't been repriced so we just want a little bit more color where we stand today on this repricing issue?

And secondly, more to do with your dividends' growth potential, clearly your capital position is moving up very nicely under Basel III rules. You're slowing your loan growth expectations. Balance sheet growth is slowing. And you said you're not that worried about delinquency risk. Does that mean we could start to see a more positive growth potential for dividends going forward? Thank you.

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

Thank you for the question. About the repricing, we still look at the portfolio. Probably we have the impact of the – example, we have the main – in the system, the repricing happened in the first half. And in some products, maybe we have overdraft accounts, credit cards, and the personal loans, these effects we had this because – now for the future, probably the repricing is, I think, in a more small part of the total portfolio because of the new origination.

And probably looking for 2015, we had – in our other effects, that is a mix with the growth of the real estate operation and then the payroll loans. Probably that is pushing down the total spread. The level that we have now, 10.1%, probably in 2015 we will be -we will start the year in a stable way, but it could decrease a little during the year. Then on the repricing effect, when we see – look for the spreads, we expect probably during the year some stabilization with the possibility to have a small decrease.

But in the margin we expect some more benefits in the funding line that probably reduce in the funding line the effect of the – we are reducing the cost of the funding position. We have space in 2015 to continue with this movement. And the higher cost funding that we do during 2015 will start – need to be renewed. We will have some – probably will have some benefits with the decrease of these costs. And with the increase of Selic now, probably we'll have some additional revenues.

Insurance probably will maintain the growth, 10% to 15%. And the execution orders, in this line we have our other assets and liabilities of the balance sheet. And probably for 2015, we expect some small growth, not higher growth in this line. We don't have now the guidance, but the main contribution probably will come from funding next year, because the potential that we have here for reduce the costs.

Q - Philip J. Finch {BIO 3252809 <GO>}

Great. Thank you. And on your dividends?

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

Sorry. About the dividends' growth, this year probably our – when we compare our profits with 2013, we had a 25% growth. And probably we'll pay dividends – we will maintain our dividends' policy. And then, this year our dividends will grow a little more than 10% when you compare with 2013.

For the future, we expect to maintain the ROE (sic) [ROAE] (49:28) at the level around 20%. And probably our dividends will continue its growth, but we expect to maintain the dividends' policy, paying the 30%. It's the minimum dividend that we expect to pay for the next periods. And we expect that our dividends year-after-year will continue growing, as our expectation is to maintain our profitability growing for the next periods.

Q - Philip J. Finch {BIO 3252809 <GO>}

That's great, Mr. Angelotti. Thank you very much.

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

Thank you.

Operator

Excuse me; our next question comes from Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have a couple of questions. First, let me go back to the issue on the margins and the simplification. I sort of like did the math on your managerial numbers. And once excluding BIS (50:39) and once excluding the hedges, there is still R$742 million of managerial additions to the margin that you booked this quarter. Without this, your net interest income would have actually declined sequentially.

As the previous question, you mentioned you no longer disclose the adjustments on the managerial, which some may see it as simplification, some may see it as less transparency. But regardless of that, in the interest of transparency, can you explain what those R$742 million are?

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

Well, we gave a disclosure about the non-recurring events. The other events are recurring events, the normal events about other operations that we have. We did the normal reclassifications. But these are normal operations that we have in other lines.

Q - Jorge Kuri {BIO 3937764 <GO>}

Well, I mean, we would appreciate it if you could go back to the disclosure you had in the second quarter. I think that makes it more transparent what is impacting your net interest margin. That's a suggestion.

So let's move on. Also on the margin, I noticed that you had a pretty big jump in your portfolio of securities this quarter. You basically added almost R$50 billion to it. That's an 11% sequential increase. That is the fastest we've seen over the last five years. And so, just wondering what's the strategy behind it. Yes, your NII grew a lot, probably because of that, but your NIM came down, probably because of that. And hence, your return on assets is coming down. So can you just walk us through the thinking behind that move in the quarter?

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

Well, this increase in the securities portfolio is related some operation with funds. That's the normal operation that you have in one, (52:55) increasing during the quarter. One part of this operation is repo operation. We say that it's the normal operation that we have. But when we do – when we have specifically a repo operation, normally we exclude it from the calculation of the NIM, and we show this in the legends and subtitles, footnotes. We have this information there. Then it's a normal operation with some funds.

One big part of them is more repo operation. Probably, we will maintain this operation. Some of them will continue in the last quarter, but we don't have any expectation if it could increase or not. It is a more normal operation with the clients. The status that we have in other operations is, with this normal funding, we are giving priority for the retail funding in some situations and reducing the cost in term of the policies. And that is the main benefit, that we are reducing costs with the renewal of the funding.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you.

Operator

Excuse me; our next question comes from Carlos Macedo with Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Hi. Good afternoon, everyone. Just have a couple of questions. So the first one is a little bit more specific, the number of working days in the quarter increased by five. That's 8%. If you'd just comment a bit about the impact of that – but the number of days didn't really increase. If you'd just comment on the impact of that on both your interest income, interest expense, so then interest income as well as your fee revenues.

The second question is a little bit more general. Looking at your expectations in terms of – and to follow-up on Mario's question at the beginning, looking at your expectations for the Brazilian economy over the next two years and comparing that to consensus, you're a lot more positive than consensus in a number of items, including inflation, rates and growth. Of course, you're saying that if things change a little bit, you don't get growth and rates go a little bit higher, the impact on the bank is not very significant. How sensitive is Bradesco to the cycle? Are you saying that Bradesco – despite most banks being procyclical, Bradesco, as a result of the last few years, has become less procyclical?

In other words, it doesn't matter really what happens to the Brazilian economy, Bradesco will do more or less the same? Thanks.

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

Okay, Carlos. The working days, this quarter I think we had 66 workings days. And in the previous quarter it was 61. Then we had five working days more. The main effect is more in fees. If you look only at the quarter and compare with the second quarter, you can see this effect then. When you compare in annual basis, this effect is – I think it disappears, don't have it.

Then the effect is more in fees and only when you compare quarter-with-quarter. In the NII, this number, 7.5%, is – the fact is this quarter is more in a normal way. I think the second quarter we had the problem that we had in the higher increase, the 7.7%. This is not a normal level. The 7.5% is more the normal level, and this is why we expect to – are looking for the future that this is the level that we expect to maintain.

And about the economic expectation, I think we feel okay. Bradesco, we are working to have sustainable growth in the profitability, in the loan portfolio. Then we had some periods when we had higher competition in some products, and we decide to boost market share. And after some time, we could maintain stable our profitability when some participants of the system, they had problems.

This is the way that Bradesco works. I think we are working for it to have a sustainable growth, a sustainable ROE (sic) [ROAE] (58:12). Then when I look, example, our portfolio – our loan portfolio, we had some questions. We grew in the last year a little less than the average of some other participants of the system. But I understand that we could grow in a better way to maintain the quality of our portfolio. This is why, when we look for the future, we expect some stabilization in our delinquency ratio.

If we are looking for the economy in the future, we have a very small decrease in the GDP growth or an increase in unemployment rate, if we have a small volatility, we don't see the reason to have a modification in our expectations for the stability in the delinquency ratio. And in the other lines, in our other lines, we are working hard for it to improve the revenues and reduce costs.

In processes, (59:18) we are investing in our channels in looking for improving our number of clients. We did investments in our network, and now I think we have a very good position in the country to capture the growth that we expect in our regions and the bankarization that we will have in the country. I think we are working hard to maximize revenues and reduce costs. And if you look at Bradesco, we have – another special line is that the insurance business is a risk diversification.

When you compare with other participants of the system, I think we have the best combination between insurance and the banking.

There are some times the banking business don't go in a very good way but the insurance is more stable, and we can maintain the profitability and the process of growing. Then I think we look for now from the long term way, and I think we are working for maintaining a sustainable growth and a sustainable profitability.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you. But you are confident that, even if the economy is a little bit weaker, you still can sustain the levels of asset quality close to where they are? And even if rates do go up, the impact will be around R$400 million, really not much more, and things like that?

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

Our expectation for the next year is a 1.5% growth in GDP. If it grows 0.5% or 1% less, I think it not affect too much our expectations for the, example, delinquency ratio. Unemployment rate, if it increases a little more, 1% more or 2% more, then we expect probably not to improve our delinquency ratio. We think that will affect our expectations for the profitability or stability in our delinquency ratio for the next year.

Then a small volatility, I think not to affect too much our expectations. If we have nice spreads in the system or because of international effects, this is another situation. But in a normal situation, a small volatility is not to affect our expectations about the delinquency ratio stability or the growth in profitability.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Angelotti.

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

Thank you.

Operator

Our next question comes from Thiago Batista with Itaú BBA.

Q - Thiago Bovolenta Batista {BIO 15398695 <GO>}

Yeah. Hi, guys. Good morning. My question is related to the reallocation of capital in Bradesco Seguros companies. So Bradesco Insurance paid some extraordinary dividends to the holding company. Is this already part of the process to reduce the cap impact under BS III of the insurance business on the bank? And could we expect more of those extraordinary dividends on Bradesco Insurance level?

And my second question is regarding a recent change in the bureau loans, specifically on the expansion of the maximum term of the bureau loans to INSS, so the Social Security. How do you believe this change will impact your loan growth, and how are you seeing the competition in this segment?

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

Okay. Well about the Bradesco Seguros, the dividends' impact are – we had, in the last three quarters, some effects because we did some cash reallocation between the insurance companies and the segment of – the holding company that received this cash that we consolidated with the other – in limited (01:03:47) insurance and others.

We had some increase in the profitability of this specific situation. But when we talk about the dividends or the cash reallocation that we will do to reduce the impact in Basel III, probably we will do now during this last quarter of the year I think a big part of these movements.

We will transfer cash for the insurance companies. We will pay some dividends, internal dividends, and transfer for nonfinancial companies because we have some, we can say, excess capital in the insurance business, considering the minimum capital that this required for this specific business. Then our intention is to do the cash reallocation to improve the Basel ratio probably in the last quarter of this year, this quarter. And we will have the - we will consider this impact probably when we will announce the numbers at the end of 2014.

About the bureau, the new rules that will start in 2015, the first year I think will reduce zero our profitability in the product, and not to higher - don't have to a higher relevance, not to be a higher number. That will affect our total profitability in the bank. We are working to have a compensation in other products, in other lines in costs. And at the first moment, we will have some impact because the new accounting policy, that we will need to do the expense at the first moment until 6% of the commission that we pay for the past years.

But looking for the products for the future, I think the banks that have the network or the branches probably will have some advantage in the system, because they have more points or more space to obtain the clients in the INSS, the retired people. Our origination now is growing a little more in the branches that we have, and we expect to, for the future, improve more this segment or this origination, because in this case we don't need to pay the commissions, the fee for the (01:07:00). Then our final spread is better.

And then we have a little more than 8 million of retired people from the INSS that receive their pension through Bradesco. And more than 50% of them don't have the operation with Bradesco, and we see here a huge implication for improving our origination. Then I think after all we will have some small impact in the first moment, but for the bank profitability not will be something relevant.

Q - Thiago Bovolenta Batista {BIO 15398695 <GO>}

Okay. Thanks.

Operator

Our next question comes from Tito LaBarta with Deutsche Bank.

Q - Tito LaBarta {BIO 20837559 <GO>}

Hi. Good morning, and thanks for the call. Just a couple questions also. Just going back to the asset quality, I mean, you continue to say you expect asset quality to be relatively stable. If we look at the last two quarters, we have seen a slight reduction, I mean, still under control. But would it be maybe more safe to assume that this trend could continue where you see maybe like a 10-basis-point increase per quarter, and then by the time you get to the end of 2015, NPLs are back around the 4% level?

And also, when we look at your provisioning levels, they've been rising much faster than loans in the last two quarters. You're provisioning around 4% of loans. So I just want to get a little bit more color on that. I mean, do you really think asset quality can stay this low, or is the trend more maybe a slight deterioration, given the weak economy? And then, how do you see your provisions evolving into next year, given they had been rising faster than loans? So just how you see that kind of going into next year.

And then, a second question in terms of your fee income, which has remained very healthy. But given the weak volume growth that we're seeing, how sustainable is that? You mentioned you're increasing investments and then growing customers, but do you think you can continue to grow faster than volume growth in fees for next year? Thank you.

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

Thank you, Tito. About the delinquency ratio and the asset quality, we have now 3.6%. Our expectation is about stability, and we can have some small volatility, 0.1%. Probably we expect that our ratio could increase the maximum level, 3.7%. And it could decrease probably because our short delinquency ratio now shows that we will have some decrease in the next - in this quarter. Then for the future, our expectation is that probably we will have some benefits of this short delinquency ratio level.

Then we don't see the risk to have a delinquency ratio at the level of 4% this year or 2015. What we see is probably we will be running next year 3.6%, maximum 3.7%, but it could decrease in the future because our origination - the NPL creation is decreasing. Then probably for the future our expectation is that we will have it more stability with some possibility to have a decrease. Then we don't see risk ratio reaching 4%.

Fees, we understand that it's possible to maintain a double-digit growth for the next - probably the next two years. We are doing high investments in our channels, in the segmentation about our clients. In the individuals' portfolio, we have a lot of opportunities when we are now improving the segmentation. Then for our new segments, we offer new products and better service. But, we have some additional revenues because of the new packages that we are creating. And our clients, they add for these new packages.

And we have some products in the credit cards. That is a little more than one-third of the total fees. That card is growing now double-digit and actually 13%, 15% growth this year, and probably will maintain this growth for the next years because we are having a migration in the system.

The Brazilian clients, they are using less checks and carrying less money, and they are using more credit cards. And the volume of transactions is growing; the fees then, with the interchange operation is growing. The number of credit cards in our portfolio is improving. Then probably cards will give us - will help us to maintain this double-digit growth for the next periods.

And we have other good products, same in consortium, the loan operations that probably will maintain the growth next - 10% or 11% for the next year. Then the revenues follow a similar level. Then we understand that it's possible to maintain this double-digit growth probably in 2015, 2016 because these products that I told you.

Q - Tito LaBarta {BIO 20837559 <GO>}

All right, thanks. That's very helpful. Just one follow-up then, in terms of your provisioning then, provisions have been growing much faster than your loan portfolio. So given that you think you could see maybe some small improvements next quarter and relatively stable NPLs for next year, do you think your provisioning levels can maybe come down a little bit, or how should we think about that?

Would they grow in line with loans? How do you think about provisioning levels going into next year? Thanks.

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

You are talking about the expenses?

Q - Tito LaBarta {BIO 20837559 <GO>}

Yes, provision charges. Yes.

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

We expect now probably some stability. It's R$3.3 billion that we had in this quarter. Probably, I think it's a reasonable level that we will have in the end of the year and probably in the beginning of the year 2015. It could increase a little more in 2015, this provisioning, more related to the growth of the portfolio. But I don't see risk to have an increase because the increase of delinquency ratio or new operations are more higher volume.

Q - Tito LaBarta {BIO 20837559 <GO>}

All right, thanks. That's very helpful. Thank you.

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

Thank you.

Operator

Our next question comes from Daniel Magalhães with Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello everyone, Marcelo Telles from Credit Suisse. I have two questions. The first one regarding the increase in credit spreads, particularly with regards to credit cards. I remember when we had the (01:14:57) program from your competitor, you reduced your credit card rate by 50%. So the question here is are you back to the level that you used to have on credit cards, or you still have some more room to grow in that line?

And my second question is regarding costs and operating expenses. I mean, you've been doing quite well on that, and I was - at what point are we right now? I mean, do you think you can still grow operating expenses at inflation or below in the coming years, or you think we should start to see some pick-up in OpEx, let's say in 2015 and on? Thank you.

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

Thank you, Marcelo. Thanks for the questions. About the credit card rate, we did the movement, and we have in our client space different kind of clients. And according to the relation, they have different rates. We have maintained enough - big part of our clients at stable rates. And in some - on other parts of the clients and in new clients, in some of them, we have some other new rates.

Then I think we have some room if we need to decide - we don't want. But, if we need to decide to move to do a repricing in the total portfolio, we have some - one part of the clients that they are with the rate in a more differentiated level - in a more lower level. But, we don't want to change this policy because in this portfolio of clients we consider the total relationship that we have with these clients. They have our other products, and in these clients we maintain them with differentiated rates because the other products that they have with the bank.

About the OpEx, we expect to maintain the growth probably under inflation for probably the next two years, because we - one thing is the efficiency committee, that we are doing many implementations of the decisions that we have. That will give us some benefits this year and probably in 2015. And we are doing new movements that probably will help us to continue decreasing some costs, administrative costs, during 2015 because we are revising some internal process.

But, I think the main benefits will come from the IT revitalization plan that is - this year, the systems we are revising, probably will be very close to finishing - to have 100% of the systems rewritten. But you need to test and turn off the old and to maintain the new system running.

In this situation, now in 2014 we will have 50% of the systems - the new systems are implemented - will be implemented, running, and we'll turn off the old. And the all new systems that we have, they give us some benefits because they have more quality in the information. They are more automatized and more connected with other systems. Then we have more automatization in the information.

Then in the internal process, we have some benefits with reducing costs. We need sometimes less human presence or we have more quality in the information. Then we can improve the sellers or reduce internal costs. As the example, that we have in the branches the new system for our cashiers that is running, we need now less time to attend the clients. And our cashiers, they can sell products. Then we have benefits with reducing costs, and then we have the additional benefits improving the revenues. And then, in 2015 and in 2016 we expect to improve - implemented 100 more, 25% of the systems in each year for two, reaching next 100% in the end of 2016.

Then probably these new systems will give us some benefits. Probably one part of that will reduce costs, and then it will help us to maintain these costs running less than inflation growth. But we expect to improve our efficiency ratio, probably that now this year we will finish with 39%. Probably for the next two years we will have some improvement. And we don't have now a new guidance, but probably 1% per year we will expect to reduce. Then these benefits that we did, that we did huge investments in technology, will help us to maintain the costs running, the OpEx running less than inflation growth in the next two years that we expect to have this situation. Okay?

Operator

Our next question comes from Boris Molina with Santander.

Q - Boris D. Molina {BIO 1904979 <GO>}

Yes. I have an additional question regarding your margins. It's very interesting to see the debate about the managerial numbers, but this raises the issue of obviously what you do and what other banks do with managerial numbers. Now, when we don't use managerial numbers, we do see that excluding your insurance revenues, margins declined somehow. But for us it's very difficult to kind of like reconcile this. But we do our own internal calculation of your lending margins, and they're significantly lower than your 10% margins that you show. So my question is - well, two parts of the same question. First, what is the process of cost of funding allocation to calculate these 10% lending margins? And what lines do you include or don't you include?

And secondly, when do you expect that the Brazilian Central Bank is going to move away from this kind of like primitive accounting that you still have in Brazil where you mix FX with interest income? And it's very hard to reconcile these numbers compared to other countries with more developed accounting systems like Mexico or Chile. And when are we going to go to IFRS? Because this is - this debate about managerial, not managerial is pretty interesting. But we don't use them, and our numbers show that your lending margins are lower. They haven't had so much pressure as in your competitor, Itaú, but we would like to understand this. And I have an additional question.

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

So the first question was the margins. The way that we show it, we try to show in more detail and we are splitting in more positions. I think the loan revenues that we have, we compare with the cost of money. And there we have only the loan margins.

Q - Boris D. Molina {BIO 1904979 <GO>}

No, is this an internal - is the cost that you allocate, is that the cost of funding that the Alco allocates to the branches, or is it more related to the actual cost that...

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

the cost of money for the loan operations where we have three known - these are three allocations, like capital is at Selic cost. Where we have a simple specific funding, we use the normal funding of the operation, example, real estate credit or Alco business credit. Then we have it specifically funded and we use this cost.

Then we have the spreads or the margin for a credit operation. For the prefix operation, we use the cost of money at the moment that we do the operation. We look for the (01:24:45) and we can have in the system or the market here the cost. Then it is that we have in the loan operation, and the loan margin or the credit margin.

In the funding margin, there is the revenue that we have or the gains that we have when we have under the cost of money, example, our cost of money in the average is Selic. And there is few clients, we normally pay for the term deposits a little less than the Selic cost. Then we have the situation of some benefits or some revenues. We pay 90% of Selic sometimes, the average is 85% of Selic. This is why we have the funding revenues, and it is why we are - we say that we are doing a movement, that we are giving this thought for this retail funding, because the high cost funding that we have that came from institutional clients or corporate clients.

We offer a new - when they renew the cost, we offer a new rate. It is normally with less remuneration. And we are reducing our costs, and in some of these operations we are improving our funding gains. For the insurance margins, the total margin was our insurance business. And in the last line, we have the security and orders. That is all other assets and liabilities, excluding the three lines that we have before. Then on this last line, we have the equity of the bank excluding the insurance business. We have our bonds, the asset/liability management effects, the debentures. That is this that we have.

Probably we understand that we gave you more quality in the information, more detail. But, we can simplify in the future in drawing the lines. And we will have - we can have more than two lines. Probably for you it will be easier. Then we can show two lines only and reduce the details, the operation with clients and the operation with no clients within the marking. Probably with the marking. Probably with the marking in our separation, the last line I know is - with the marks, it will be our no interest-earning portion. With the markings, it is our cash gains and our concessions.

And the other way, we will have the only operation with price and the - we will detail only the pressing margin, and the rest are our other operations. You can do this adjustment if you want.

Q - Boris D. Molina {BIO 1904979 <GO>}

Okay, great. Thank you. Now, one final question regarding...

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

I think it will not be our decision. It's the Central Bank decision. And we don't have how to change our accounting procedures.

Q - Boris D. Molina {BIO 1904979 <GO>}

Yeah, I understand. One final question, when you calculate your full impact Basel III and you talk about the deduction schedule or the tax credits, are you still considering this full Basel III includes the deduction or recognition of deferred tax assets under Brazilian regulations that is not Basel III? Is this considered anywhere here?

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

We are talking about the adjustments in the insurance business, yes?

Q - Boris D. Molina {BIO 1904979 <GO>}

No, no. No, deferred tax assets on provisions for non-performing loans are not deducted in Brazil, which is a nonstandard procedure. We consider this Tier 2 capital or additional Tier 1 at the most. So when you calculate full impact, is full impact including the benefit from the non-deduction of deferred tax assets for non-performing loan provisions?

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

No, okay. The tax adjustment that we need to do for Basel III, we have one part of the tax that we will do the deduction. That is the excess of the minimum limits that are acceptable. Then we have this information in the slides. That is the number 2.5% in slide 11. The number 2.5% includes the tax deduction, the excess tax credit we need to deduct.

Q - Boris D. Molina {BIO 1904979 <GO>}

Okay. So but you don't- the part that is not excess, that is the mandated regularly, you don't deduct. This is the Brazilian – so, when you mean full impact, it's Brazilian Basel, not Swiss Basel.

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

We are deducting the tax – excess tax credit. One part – a small part of the tax credit we have in our balance sheet is related to a tax loss. Tax loss, you can recover this credit with your profitability in the future. If you – in our situation at Bradesco, we understand that our profitability for the next – until 2018 will be enough to do the compensation – to recover the tax credit, only the tax credit about the tax laws.

This is a specific situation. In this situation, we are very confident that we will recover this tax credit. And this is the adjustment that we have in slide 11, the 0.6%.

Q - Boris D. Molina {BIO 1904979 <GO>}

Yes. Okay, I understand.

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

It is always related to the tax loss that it is possible to recover and to the profitability. Then we understand that our profitability until 2018 will be enough to recover this tax credit. This is why we did this increase, because we are deducting now at the moment this excess tax credit. And the number is impacting the 12.6% because how tax laws is now deducted in 100%.

Q - Boris D. Molina {BIO 1904979 <GO>}

Wonderful. Thank you very much.

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

Thank you.

Operator

Our next question comes from Patricia Medina with ING Bank.

Q - Patricia Medina {BIO 18092503 <GO>}

Hi. Good morning. Thanks for the call. My question is on Basel ratio. The full impact exercise shows an additional 1.4% related to the reallocation of funds through Bradesco Seguros. Could you walk me through the assumptions used and what capital or other requirements have to be met on the insurance side for the addition to happen? Thank you.

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

Thank you. This adjustment that is 1.4% is the reallocation of funds is through Bradesco Seguros, what we are doing in the Bradesco Seguros group is in the group we have the insurance companies and the nonfinancial companies. The situation that we have today when we finish this third quarter is that the investment in the insurance business, the equity that we have there only in the insurance companies is more than - is the minimum capital that is required considering the level of the operations that we have in this business.

And we have, we can say, excess capital in the insurance companies. What we will do is to do the reallocation of this excess capital, excess cash, and transfer in the insurance group only. We are not transferring for the bank. We are only migrating part of the insurance group to other companies that is nonfinancial companies. And with this movement, what we need to deduct for Basel III ratio is the investments in insurance companies. When we look for the future, the investments will be less, will be smaller than we have now, because the excess cash or the excess capital we are transferring for nonfinancial companies, that will - in this situation, we are only to deduct the cash in nonfinancial companies.

And we consider that the minimum capital that we have now and according to the Brazilian rules for the insurance business, it probably will maintain in each company a small - some additional margin to consider in the event of spreads. But the movement that we are doing only transfers cash from the insurance company to nonfinancial and noninsurance companies.

Q - Patricia Medina {BIO 18092503 <GO>}

Okay. So if I heard correctly, you're assuming a minimum capital required to run the business both on the insurance and noninsurance side of these nonfinancial companies?

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

Yeah.

Q - Patricia Medina {BIO 18092503 <GO>}

And then - right, so you're keeping sort of a minimum level. So would you say that the addition of 1.4%, is that kind of like at the higher-end of what could be obtained from the insurance side?

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

We are doing this movement, but it's not exactly - we will maintain not exactly the minimum capital. We will maintain some additional margin. We understand that to be an offer to cover any event or movement or volatility that we have. It's not formal. We don't see the risk, but we maintain additional margin.

But, what we want to do in the movement is represent this 1.4%. That will be the impact in this movement. And we had conversations with the regulator of insurance companies and our Central Bank, and we have now authorizations to do the movement and following the rules or this - that we have. But we have the authorization to do this movement.

Q - Patricia Medina {BIO 18092503 <GO>}

Okay. So you need, I guess, regulator approvals for the reallocations, right?

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

Yes. We need the approval. But, previously we had conversations showing the movement that we want to do. We understand we have the agreement, or probably what we need now following the rules to do our movements to have this effect. And following the rules, we need to submit it for the regulators according to their influence to the business.

Q - Patricia Medina {BIO 18092503 <GO>}

Okay, great. Thank you.

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

Thank you.

Operator

Excuse me, ladies and gentlemen. Since there are no further questions, I'd like to invite Mr. Paulo Faustino da Costa to proceed.

A - Paulo Faustino da Costa {BIO 17286050 <GO>}

Thank you, all, for participating in this conference call. I would like to take this opportunity to remind you that our Market Relations department and our IR team are at your disposal, and that all the contents of our third quarter and other information concerning Bradesco is in our website. Thank you, all.

Operator

That does conclude the Banco Bradesco audio conference for today. Thank you very much for your participation. And have a good day.