Q1 2013 Earnings Call

Company Participants

- Luiz Carlos Angelotti, Executive Managing Director and IR Officer
- Paulo Faustino da Costa, Market Relations Department Director

Other Participants

- Boris Molina, Analyst
- Gustavo Schroden, Analyst
- Marcelo Henriques, Analyst
- Mariel Santiago, Analyst
- Mario Pierry, Analyst
- Philip Finch, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst

Presentation

Operator

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

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 6436050 <GO>}

Good morning, everyone. And thank you, all, for participating in our First Quarter conference call. We are here to provide you with all the information you may need about our numbers. This is in line with our goal of always increasing the transparency of the information disclosed to the market.

We have here today Mr. Julio de Siqueira Carvalho de Araujo, Executive Vice President; Mr. Luiz Carlos Angelotti, Executive Managing Director and Investor Relations Officer; Mr. Moacir Nachbar Junior, Deputy Officer.

I will now turn to our Executive Managing Director and the IRO, Mr. Luiz Carlos Angelotti, who will lead our conference call. After his presentation, we will be open to answer your questions.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning. And thank you for joining us at the First Quarter of 2013 conference call.

In the First Quarter of 2013, there was evidence of economic growth resumption in response to (inaudible) economic stimuli and due to a less risk-averse global scenario. The normalization of supply in trade and manufacturing gave room for a clear recovery of industrial production in the coming periods. Household consumption continues growing at a very good pace in a scenario of low unemployment rates and significant real family income growth.

It is also important to mention the excellent outlook for domestic agribusiness, favoring the development of the economies of small and medium-sized (inaudible) in addition to the expected (inaudible) in terms of balance of trade and mitigation of the current inflationary pressure.

Despite the several challenges the domestic economy has to face in order to reach a higher and sustainable growth rate, Bradesco maintains a positive, long-term view in relation to the Brazilian economy in an environment of historically low interest rates and loan volume growth at sustainable rates thanks to strict risk management.

The unique features of our national financial system, which has to do with intense and continued social mobility process, brings (inaudible) prospects for the banking in insurance industries in Brazil. This is the macroeconomic scenario, where Bradesco's results for the First Quarter of 2013 are (inaudible).

Let's start with slides 2 and 3, which show our highlights for this period. I would particularly like to draw your attention on slide two to our adjusted net income, which reached BRL2.943 billion in the First Quarter of 2013, 3.4% up on the same period of the previous year, a satisfactory result which came in line with our expectations.

Our total assets came to more than BRL894 billion, 13.3% up in the year, while our expanded loan portfolio increased by 11.6% in the same period, totaling BRL391.7 billion.

On slide 3, it's worth noting our assets under management, which ended March 2013 at BRL1.278 trillion, a 17.5% increase over March 2012.

It is also worth mentioning our 4% delinquency ratio, which confirmed our expectation of decrease and also our efficiency ratio, which improved 120 basis points compared to the First Quarter of 2012.

On slide 4, we show the reconciliation between our book net income and adjusted net income. In this quarter, the only nonrecurring event was the provision for civil contingents in the gross amount of BRL40 million. Adjusted for this item, our First Quarter adjusted net income came to BRL2.943 billion. Also on this slide you can see that our adjusted return on average equity came to 19.5%.

Slide five shows historical series of our quarterly net income. Income growth in the First Quarter of 2013 was mainly due to, first, lower operating expense thanks to the continued efforts to control expense; second, a higher operating income from insurance operations; and, third, a reduction in delinquency.

In comparison with the First Quarter of 2012, adjusted net income increased by BRL98 million, or 3.4%, thanks to, first, the upturn in the interest-earning portion of the net interest income due to the increased volume of operations; second, the increase in the customer base, which helped push up fee income due to the higher volume of transactions; and, third, increased revenues from insurance operations.

Our earnings per share in the last 12 months went up by 3% from BRL2.69 to BRL2.77.

On slide 6, I would especially like to draw your attention to the 12-months efficiency ratio. The red line remained stable in comparison with the previous quarter, reaching 41.5% in the First Quarter of 2013. The First Quarter ratio improved by 106 basis points over the previous quarter. This important performance was mainly due to our continued efforts to control expense. The blue line shows the efficiency ratio adjusted to risk, which improved by 10 basis points over the previous quarter due to the reduction in delinquency.

Moving on to slide 7, as we have already seen, total assets came to BRL894 billion, BRL104 billion, or 13%, up on March 2012. The return on average assets stood at 1.3%, while the adjusted return on average equity stood at 19.5%. The Basel ratio closed the quarter at 15.6%. And the increase was due to, first, the increase in (inaudible) risk-weighted assets. And, second, the negative mark-to-market adjustments of our fixed income securities registered as available for sale.

Slide eight shows the relative share of our main operations in net income. In the quarterly comparison, the drop in the relative share of securities was due to lower arbitrage gains. In the annual comparison, the highlight was the increase in the relative share of fees, mainly due to the increase in the customer base and, as a result, the upturn in transaction volumes. The annual reduction in funding was essentially due to the decrease in (inaudible).

On slide 9, we see that unrealized gains totaled BRL20.3 billion in the First Quarter, BRL4.5 billion down on the quarter before; basically, due to the negative mark-to-market adjustments of our fixed income securities, which had no effects on our results. These figures do not include the potential goodwill from our (profits) in the total amount of BRL3.7 billion.

On slide seven (sic; see slide 10), we show our net interest income from both non-interest and interest-earning operations. The quarterly decrease in total net interest income came from both the interest-earning portion and the non-interest-earning portion, reflecting the decline in spreads and lower arbitrage gains with decrease of over BRL200 million. In the annual comparison, it is worth noting the 3% upturn in the interest-earning portion, which was mainly due to the higher average business volume, especially in loans, insurance. And securities operations.

Let's look at slide 11. As we expected, the annualized net interest margin narrowed by 10 basis points to 7.2% in the period, primarily due to the reduction in the average (inaudible) margin, mainly impacted by the new interest rate policies for the credit card segment, combined with a change in the portfolio mix. There's another effect on some portfolios (inaudible) this quarter has fewer calendar and business days. We expect a gradual decline for the net interest margin, which should end the year at up to 7%.

Slide 12 gives a breakdown of the interest-earning portion of the net interest income. For this quarter, which, as I have already mentioned, was impacted by the lower results from the loan segment. These lower results were basically due to the new interest rate policy for the credit card segment, combined with the change in the portfolio mix. However, the effects of this new interest rate policy shall be offset by a higher credit card transaction volume in the next quarters. An additional effect is that the First Quarter has fewer calendar and business days, which reduced the accrual in some loan products, such as over the facilities for individuals and companies, working capital. And personal loans. The (inaudible) were the loans, insurance. And the securities margins thanks to the increased volume of operations. The reduction in the funding margins was due to the decline in the (inaudible).

On slide 13, we'd like to emphasize that the red area of the chart, the provision for loan loss, decreased over Fourth Quarter of 2012, as expected, due to the reduction in delinquencies, thus representing a smaller share of the credit margin. The gross credit margin, the gray area, shall resume growth as a result of expected higher volumes of credit-card-related transactions, now with more attractive interest rates and also because the coming quarters have more business and calendar days.

Moving on slide 14, our expanded loan portfolio totaled BRL392 billion March 2013, 1.6% up in the quarter and 11.6% up in the annual comparison. This increase were mainly due to higher loans to large corporates, which moved up by 1.8% in the quarter and 15.6% in 12 months. Excluding the portfolios of vehicles for individuals and the acquired payroll deductible loans, the growth for the quarter would be 2.2% and, for the year, 14.7%.

Confirming our expectations, on slide 15, it shows a reduction in the delinquency ratio to a 4% level due to a drop of 20 basis points in the individual segment, the blue line, even in an unfavorable period for this segment because the concentration of spending. For the coming quarters, we still expect a gradual decline in the delinquency ratio as a result of a favorable scenario with lower interest and unemployment rates.

Slide 16 shows that our provisioning levels remain solid. So much so that they exceeded central bank requirements by BRL4 billion. Assuming the maintenance of the 12-month growth and net loss ratios as from March 2012, we have booked a provision of BRL7.7 billion, more than expected gross losses in the next 12 months, the dotted part of the blue line, or even BRL10.9 billion more than loss net of recoveries, the dotted part of purple line, also for the next 12 months.

Slide 17, underlining what we mentioned in regard to the previous slides, we show the coverage ratios of the allowance for loan loss in relation to the credits overdue by more than 90 and 60 days, which have remained at very comfortable levels. It's worth noting the slight increase in the coverage ratio for loans overdue by more than 90 days, reflecting the period reduction in delinquency.

We can see on slide 18 that, in the First Quarter of 2013, fee income totaled BRL4.599 billion, 1.6% lower than the previous quarter, mainly due to the excellent performance achieved in fees from underwriting and financial advisory services in the Third Quarter of 2012. In the comparison with the First Quarter of the previous year, the highlights related to -- come from cards, which moved up by 20%, consortiums 16%. And checking accounts 11.4%. It is worth mentioning the investments in organic growth, such as the expansion and modernization of services channels, which has led to extension of our customer base, in turn leading to a continuous upturn in transactions volumes and, consequently, in fee income.

Looking at slide 19, in this quarter, operating expense fell by 5.6% over the Fourth Quarter of 2012. This reduction was basically due to, first, lower personnel expenses impacted by higher concentration of vacations, which is typical of the First Quarter every year. And, second, the seasonal effect of administrative expenses, which affect mainly advertising expenses in the previous quarter. In comparison with the First Quarter of the previous year, our operating expenses grew by 3.7%, once again underlining our strong cost controls, supported by an important contribution of our efficiency committee. The upturn in personnel expenses was mainly caused by salary increase in line with the collective bargaining agreement.

On slide 20, we see that the 8% decrease in the First Quarter administrative expenses was basically due to the seasonal effect of the Third Quarter of 2012, which affected advertising expense and the volume of business and services. In the comparison with the same period the year before, the slight increase of 1.6% reflects the results of our continued efforts towards to control of these expenses, which mitigates the effect of higher expense from the upturn in business and service volumes and the addition of service points.

Slide 21 shows revenues from our insurance, pension plan. And capitalization bond activity, which decreased by 17.1% over the previous quarter, primarily due to the concentration of pension plan contributions, which historically takes place in the last quarter of each year. In the annual comparison, there was a 16.3% increase led by life and pension plan, health. And capitalization bonds, which recorded double-digit growth. First quarter net income fell by 3.5%, mainly due to lower revenues. The 2.8% annual upturn in net income was basically due to, first, the 16.3% increase in revenues; second, the decline in the claims ratio; and, third, the greater administrative efficiency.

Slide 22 shows some of the main themes from our insurance activities. The combined ratio came to 86% in the First Quarter of 2013, falling by 60 basis points over the previous quarter. Financial assets totaled BRL142 billion, while technical provisions stood at BRL127 billion, BRL110 of which from life insurance and the pension plan products.

In conclusion, we believe our results in the First Quarter of 2013 were satisfactory and in line with our expectation, given the pace of economic activity in the period, which already shows signs of faster recovery. In this quarter, we highlighted, first, once again, the activities of our efficiency committee, which has been continuously working to control expenses. And, second, the declining delinquencies combined with our high provisioning levels, showing that the quality of our loan portfolio is supported by a policy of appropriate and consistent process, guarantees. And (inaudible) assessment instruments.

Finally, Bradesco reiterates its positive expectations for Brazil in the long term, which are underlined by its strategy of growing investments with organic and consistent focus.

Thank you very much for your attention. And we are now available for -- we are available to answer any questions you may have.

Questions And Answers

Operator

(Operator Instructions) Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

I have a few questions related to your net interest income and net interest margin in the quarter and the outlook. First of all, a clarification. I may have misheard. But I thought you mentioned in your prepared remarks that you could see NII growth of up to 7%. And I believe your official guidance is 7% to 11%. I just want to make sure I didn't misunderstand what you said and make sure you didn't, essentially, change your guidance that 7%. My understanding is 7% is the minimum amount of NII growth. And the way I heard it, it sounded like that was the maximum of growth for 2013.

Then, more important perhaps, though, can you talk a little bit about the impact of the reduced rate in your card portfolio? How should we see this? Should this be viewed as sort of a one-off impact that impacted the yields on your existing balances with account holders? And from that, from here on out, not only because of growth but just because of that being a one-off impact, we should see your net interest income grow from this base in your card portfolio. And if, also, you can, also comment on whether you can provide a specific estimate as to what the numerical impact of that reduction was. How much did it impact your NII in terms of numbers, in terms of the impact on net interest income in the quarter?

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

The number 7% is related to the NIM. When I talk about the --

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. I'm sorry. 7% is the NIM by Fourth Quarter. Okay.

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

We started the year with 7.3%. In this quarter, we are with 7.2%. And we expect that the NIM will finish the year around 7%. It's only about the NIM.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

About the credit card interest rate policy, when we announced the movement that we decide to change the rates, we talked about what we expected of the effect for the year. That is around 2% or 3% of the final (profits) of the year. Then, considering the whole year, this is the effect that we expect because of the new policy.

When we talk about the margin, we are now in the First Quarter that we have the completed effect of this new policy. This is one of the causes that we had decreasing in this quarter in our margin. But we expect that, during the year, the clients will use more the product because the new interest rate is more attractive. And the additional volumes will give us the compensation for the (inaudible) that we reduced. Then, during the year, we expect that the additional volume will give us the compensation.

We had talked about the numbers only about what we expect for the complete year. That's something around 2% or 3% of our total profits that we are -- will be the negative impact because of the new policy. This is the number that I can tell you.

(technical difficulties)

Operator

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions then. One still is on the outlook for net interest margin. When you mentioned that you expect your margin to contract about 20 basis points through the end of the year, I was wondering what is your outlook for interest rates in Brazil. And what would be the impact if interest rates actually rose 100 basis points this year?

The second question is related to your delinquency ratio and provisions. We saw the delinquency in the consumer portfolio improve by 20 basis points, while, in corporates, it remained stable. So I was trying to understand first is on your consumer improvement. If you could, highlight which sectors or which types of loans are showing a bigger improvement.

Then, on the consumer -- on the corporate side, I wanted to understand from you how comfortable do you feel about your exposure to the X companies in Brazil. Some local press here has reported that your exposure to Eike Batista's companies could total close to BRL5 billion. So I just wanted to understand if part of these loans are already provisioned. Or how comfortable do you feel with that exposure? Thank you.

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

Talking about the NIM and the effect of the Selic rates, we have 100% of increasing. Our economic department -- they changed their expectation for Brazil. They expect that probably Selic rates will finish the year around the 8.25%. If we have this improvement in the Selic rates, the effect will be positive in the margin because, in the funding, we have some gains that will improve our revenues on the margin. And if we have -- an increase will be posted for the margin.

Talking about the delinquency, in this quarter, we have a declining in the individual segment, considering that it wasn't a good moment or it wasn't a special quarter to have this movement because the concentration of payments for individuals -- we understand that's very positive for us. Some products that have this decrease had better performance is credit cards and personal loans that had this movement.

But in the corporate delinquency ratio, if you analyze our graph, you can see that we start to have a positive movement in the quarter before in the SMEs portfolio that we had a decrease in the last quarter of 2012.

We understand that the delinquency ratio during the year 2013 will continue having a decrease in a gradual way. Probably, we expect to finish the year around the better ratio that we had in 2011, something around 3.7%. So that is the level that we had in 2011.

About the Group X, because the rules that we have here in Brazil, we cannot comment about the positions or numbers or relation that we have with our clients. We need to respect these rules. What we can say is that, because the position that Bradesco has in the Brazilian financial system, it's normal we have the relation with the biggest corporate companies here in Brazil. But we can't comment about the individual position of our clients.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, Angelotti. Let me then ask you two follow-up questions here. On the net interest margin, you said that your economics team expects a Selic at 8.25% by the end of the year. Is that what you have already in your forecast? When you're guiding for net interest margin of 7% by the end of the year, is that what you're assuming also, a Selic of 8.25%? Or are you assuming a lower Selic?

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

We consider that we could have this increase. But I'm talking about this number 7% before that we had this new provision. This number of 7% -- we did not consider this number -- this increase in the Selic rate.

Q - Mario Pierry {BIO 1505554 <GO>}

What Selic rate are you considering when you're guiding for 7%?

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

(inaudible) the Selic rate will be stable during whole year without any improvement in the Selic rate.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So the fact that the Selic rates already increased 25 basis points -- does that mean that the 7% that you are guiding could be too conservative?

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

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. I think, in the past, you had talked about a 100-basis-points increase in Selic could impact your revenues by roughly BRL400 million. Is that still the case?

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

81% increase or decrease in Selic rate represents around BRL400 million, before tax.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. Then the second follow-up on the asset quality. We have seen that the provisions have come down. Provision charges have come down for three consecutive quarters. Given your outlook for better asset quality, should we continue to expect provision charges to continue to decline throughout the year?

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

We expect -- we don't have a guidance quarter by quarter. But consider that we expect to grow in our portfolio. And we expect that the delinquency ratio will continue decreasing. What we see is that, considering whole year, we expect that our total expense will be similar at the level that we had in 2012. The number in 2012, net of recoveries, was BRL13 billion. The, probably, in 2013, we expect to have a similar number.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. All right. Thank you very much. Very helpful. Thank you.

Operator

Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

I did not hear the response to the questions. I think there was an interruption in the call. At least, for me, there was. I just wanted to follow up on the one specific question about the impact of the new interest rate policy on credit cards. Should we view this as sort of a one-off impact in 1Q and then see the impact wear off and growth over the course of the year and, also, if you can quantify the impact. If you already addressed it, however. And I missed it, I'm happy to go over the numbers offline. I'd hate for you to repeat yourselves on the call.

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

When we decide to start with the new policy of the interest rates in the last quarter of 2012, when we announced this new policy, we talked about the effect that we expect for 2013. That is around 2% or 3% of our total profits. This is the number that we expect for the whole year effect.

In this First Quarter, we started -- we had a total effect in the quarter of the new -- because the new policy. But we don't have the additional volumes that we expect that will give us the compensation during the year. This additional volume that we expect that people will use more the new product will come during the year. And it will give us this compensation that we expect. Then we cannot say the number that is the effect only this quarter. But considering the whole year, we expect that this new policy will give us a negative impact around 2% or 3% of the total profits of the year.

But if you think about 2014 and 2015, probably, in 2014, we will be a neutral effect because the additional volume of this portfolio of these new products will be higher and will give us compensation of the spread that we are losing this year.

Q - Saul Martinez {BIO 5811266 <GO>}

Do you -- ? Just for follow up. Can you remind me when exactly the new rates went into effect? I believe it was November. But if you can clarify that --

And secondly, are you seeing any evidence of volume pickups in credit cards due to the new policy?

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

We change the new policy in the last quarter. And the effect that we had started in November to December. Then December was the complete month. But November was part only of the month. This effect in the last quarter of 2012 was partial. This quarter -- the First Quarter is the First Quarter we have the full impact of this new policy. The additional volume that we expect of people start to use more the credit card products --

Internally we create some new products. We create an option for our clients to pay the bills of credit cards in payments with better interest rates. We are now improving this -- people will start to look more at this portfolio. This additional volume started to grow same as we expected. And it is according our expectations when we compare with the effect that we gave when we announced this new policy. The growth that we are having now in the product is according our expectation. And we expect too, for the total year, this effect around 2% or 3% of our profits.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thank you.

Operator

Philip Finch, UBS.

Q - Philip Finch {BIO 3252809 <GO>}

I have a couple of questions, please, the first one on your costs where you showed very good cost control in the First Quarter. Many congratulations on that. Given that you haven't changed your guidance for cost growth this year, what are the areas you're expecting costs to pick up in the remaining of the year, Second Quarter, second half?

And my second question is regarding your capital, where we saw a slight fall in your shareholders funds in the First Quarter? What was the key driver for that? And could you also let us know what the core equity tier 1 ratio is currently under the new Basel III rules? Thank you.

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

About the cost control, we are working hard to maintain this control. We are looking for opportunities for reduced costs revising internal process, revising contracts. We expect to have this higher (control monitoring) in administrative costs. And we are working for reduce or to (inaudible) the transport, communication, third-party services. We expect the reduced costs seen in all lines. Then this is why we are very committed or we are working hard. And we expect to maintain our guidance. We don't expect change in all the guidance because we are starting the year. And it is early to change any guidance. But we are very committed to reaching this guidance that we gave for costs.

About capital, the tier 1 ratio that we expect for Basel III -- now we have the final rules here in Brazil. The new rules that we have here, if we consider 100% of the rules that will impact now considering the last quarter -- the First Quarter of 2013, the effect will be something around -- the decrease will be something around 1% of -- the final ratio will be around, I think, 90.8% is the simulation that we did. Then, the effect -- considering the new rules, the decline will be small. And we understand that we have -- how to implement the Basel III rules in a complete way. Here in Brazil, the implementation of Basel III will be in 2019. And we understand that we won't have any kind of limitation (inaudible) with our clients and doing business with them.

Q - Philip Finch {BIO 3252809 <GO>}

That's great. Thank you very much.

Operator

Gustavo Schroden, Espirito Santo Investment Bank.

Q - Gustavo Schroden {BIO 17051676 <GO>}

My question is more related to macro environment. It's clear for me that the growth -- the guidance of growth in margins of the bank for this year are (inaudible) on the economic activity recovering. You have 3% of GDP growth for this year. And my question is what are the main factors that make you optimists with the recovering local economic activity and if you have a kind of plan B to overcome another year, for example, in terms of economic activity. I mean, do we have an alternative for considering another year of economic activity frustration? And if you can, share with us what kind of sectors you could reduce the exposure considering some frustration in economic activity this year. My question is because the beginning of the year we have not seen some good figures in terms of recovering economic activity, like Brazilian central bank figures from IBCBR, for example. I think that it could be important to share with us your thoughts in this case. Thank you.

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

Okay. Our economic department -- Mr. (inaudible) -- he expects that, for this year, the Brazilian economy -- the GDP growth will be around 3%. Why we understand that probably we'll have this growth -- if you analyze this year, we don't have any -- if you compare with 2012, we started the year in 2012 with the international crisis in Europe. Europe, US was trying to recover after -- in the economy. China was with some problems with the growth. And during the year of 2012, in the first half, we had here in Brazil some movement or some things that was seeing a perfect storm that, together, affected the growth of the economy.

Some examples. We had a problem with corruption in the (inaudible) Department of Brazil that stopped investments in the (inaudible) for some period. Petrobras had some delay in their investment. We had some problems with Argentina that started to cause some delay for our exportations. We had a dry (ensue) in the northeast that affected agricultural products. Then, during the year 2012, we had this -- the economy doesn't grow. And the (only day) last quarter of the year we had a positive growth. And this positive growth that we had in the last quarter of 2012 we had to carry over for 2013.

We start the year -- we don't have this year the international crisis. Europe has some problems. But it's not something new that could affect the economy. US is in a better position, recovering their economy. Then we understand that we have now in Brazil -- this next quarter probably the economy will continue growing a little better than we had this quarter, the First Quarter. And probably we will finish the year in this level, around 3%. Considering this expectation that we have for GDP growth, we have the guidance for spreads that is to grow around 13% to 17%. If the economy doesn't grow 3% and grow less, probably we will be reaching the lowest level of the guidance.

But you're talking about plan B. We don't expect that the Brazilian economy will (have a bad growth). But if you analyze Bradesco, we have an example, the insurance business, that is a more stable business than -- probably if the economy does not grow, the insurance business will maintain this similar profitability. The insurance business is around one-third of our profits. We have the other effect that the fees. Fees, last year, we had a growth around 15%. This year, our guidance is 9% to 13%. Then probably these revenues doesn't have the effect of lower GDP growth.

Delinquency ratio probably will continue decreasing in a more slow movement. But we will have some additional gains in reducing costs with the delinquency ratio. Then we understand that we have some compensation if we have -- we don't have the growth that we expect for the economy this year. We understand that this guidance that we gave you we can maintain. We don't need to change anything. Probably, if the economy doesn't grow 3% growth -- 2.5% or 2%, probably we will be more in the lowest level of the guidance.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Okay. Very, very clear. That's fair enough. My second question is the reduction in net interest margin that you mentioned, that it may reach 7% by the end of this year. Can you share with us, if you have the -- ? What's the percentage of this reduction could come from low interest rates. And what % of this reduction could come from the change in the mix of your loan portfolio? Do you have some flavor related to this breakdown of the reduction in net interest margin?

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

Normally we don't comment this breakdown when we talk about our expectation. Considering the environment, the total effects, then we don't have -- we don't comment today about the breakdown.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Okay. Thank you.

Operator

Boris Molina, Santander.

Q - Boris Molina {BIO 1904979 <GO>}

I have a follow-up question regarding your guidance for provision. When we see the evolution of nonperforming loans and your guidance for provision, there appears that you still expect a relatively high level of write-offs throughout the year. Could you, please, comment a little bit about how you expect this write-off ratio to evolve or whether the guidance is more driven by increases in the coverage ratio? Maybe you are wishing to build up your excess provisions or your coverage on nonperforming loans throughout the year. The message here is that we have some hard time going -- arriving at a stable level of provision charge for the year net of recoveries, given the expected evolution of nonperforming loans for the year.

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

Okay. We expect that our delinquency ratio will decrease in a gradual way during the year. We are now with 4%. And probably we expect that to finish the year around the best moment that we have in 2011, around 3.7%.

The write-offs that we have now -- they represent the operation of that period. We start to have an increase in delinquency ratio in the beginning of 2012. And we follow the central bank rules. We don't have any additional effect of -- we don't sell credits, or we don't do securitization. Only what we are doing is follow the central bank rules.

This increase in the write-offs is because the operations that we had an increase in the delinquency ratio on beginning of 2012. Then this effect that we have in the write-offs -- the coverage ratio that we have now probably will be stable, considering our expectation that we have (inaudible) of the delinquency ratio. Now, probably for the next quarter the coverage ratio will be more stable. If we have a faster decrease in the delinquency ratio, okay, we could have an increase in the coverage ratio. But probably it will be more stable is what we expect.

And for expenses for the year, we expect that -- for the total year of 2013, the number, the expense with the loan loss provisions (inaudible) recovers will be a similar number that we had in 2012. Around BRL13 billion is the number that we have.

Q - Boris Molina {BIO 1904979 <GO>}

So according to this, given that your peak (inaudible) loans happened in the Second Quarter of last year, then we would expect another increase in the write-offs in the Second Quarter of this year, given the (one-year life)?

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

Probably we will have some increase in the write-offs. And it could be only in the end of this year that we could start to have a decrease in the write-offs because our decline of the delinquency ratio in 2012 started in the Third Quarter (technical difficulties). A year ago, we start to have the decrease in the write-offs.

Q - Boris Molina {BIO 1904979 <GO>}

Wonderful. Excellent. And I had a follow-up question regarding capital in your insurance operations and your capital ratios. The number that you mentioned of quarter one under Basel III does not deduct the (deferred taxes) as per the new regulation in Brazil. But how big is the impact from the minimum capital requirement deduction for insurance? Do you expect that this deduction from insurance should grow over time if capital requirement for insurance operation increases, as appears to be the case in Brazil? The question that I have is -- how could we model the deduction from insurance, or what is the impact of the deduction from insurance that you're actually putting? Are you deducting the BRL5 billion right now, BRL3 billion? What is the minimum capital that you have in your insurance operations?

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

Now the final rules that we have now for the Basel III here in Brazil consider -- will consider for the insurance business the minimum required capital. And for the insurance business, we have around BRL5 billion is the number. Then we will do a consolidation in the balance sheet. The insurance company will be consolidated. And we will do adjustment. Around BRL5 billion is the number that we will deduct for the insurance business.

Q - Boris Molina {BIO 1904979 <GO>}

Wonderful. Thank you. So much.

Operator

Mariel Santiago, HSBC.

Q - Mariel Santiago {BIO 16478669 <GO>}

Most of my questions have been answered. But if I can just do a follow-up on loan growth; specifically, for consumers -- the individual loan growth is now running at around 8.8%. What makes you think that you should -- you could reach a loan growth of between 13% and 17% for this year? And when we should see this line recovering?

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

Okay. Talk about the individuals. We have some products that we are having very good growth for individuals. One example is mortgage operations. The growth that we have in the last 12 months is around a little more than (inaudible) %. Payroll deductible loans. The only portfolio that we have the growth is 51% in the last 12 months. We have only two portfolios that we don't expect to have this huge growth. One is the auto loan operations for individuals that we had a decrease of 7% in the last 12 months. And the payroll operations -- that acquired operations that we start to buy payroll loan operations from the other banks. Then, if you exclude these two portfolios, our total loan growth is around 14.7%, if we consider the expanded portfolio. Then we are very optimistic with the individual segment, considering the mortgage operations, the payroll loans, credit card operations that we expect to grow more this year because the new interest rate policy. This is the main product that we expect (inaudible). Personal loans is something very important for us that we expect to continue to grow.

Q - Mariel Santiago {BIO 16478669 <GO>}

Okay. Thank you.

Operator

Marcelo Henriques, BTG Pactual.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Another question more related to the non-interest income, which is more related to the treasury and also unrealized gains. When I see your capital allocated to market risk in this quarter, it reached almost BRL11 billion, which is like 15% of the minimum capital requirement according to central bank. And this is like way above -- you know, when comparing to your main peer and main competitor. So actually, I'm just wondering if -- and not to mention the value at risk is also (inaudible) this quarter. So I'm just wondering if the combination of those, if you choose not to reduce risk, would make your shareholders equity and maybe your treasury results a little bit more volatile going forward. Visibility on those two lines could be a little bit lost. I'm just wondering how you guys are -- in terms of risk assessment, how comfortable are you with this level? Is this something that you're going to cut back in the next quarters, or you think this is an appropriate level to -- clearly, it is much higher when comparing to your main competitor.

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

Okay. In our treasury (inaudible) or our treasury strategy, we didn't have any kind of modification in our policy. We maintain the same strategy that we finish in 2012. And we didn't have any kind of modification in our strategy. This increase in the market risk is only probably because the volatility in the market. And considering our position, probably we had an increase. But it is only a picture of the end of the quarter. We didn't have any kind of modification in our strategy.

Then, what we expect for the treasury gains is a similar level that we have in the (inaudible) of the quarters before. Around BRL200 million to BRL400 million is the average that we had. Probably, it's what to expect for the quarters, the average that we could maintain the last quarters and what we expect for the future. Then we didn't have any kind of modification in our strategy for the treasury position.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. I was just actually wondering if -- how volatile could be this line and the shareholders equity, which actually declined this quarter because of the mark-to-market (inaudible).

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

The fact that we have in the shareholders equity is only because available-for-sale bonds that we have -- the mark-to-market that we had. And considering the volatility of the markets, (inaudible) we had a decrease in the position. But this decrease that we had in the equity does not affect the results. When we had an increase, we didn't have any affecting our profitability. And now, the effect is similar. The risk is only in the equity, not in the results.

Q - Marcelo Henriques {BIO 17385475 <GO>}

No. I understand. I'm just saying that, given the market risk, how high is your balance sheet exposure to variation in interest rates to both ways, either up or down? Last year, we saw your book value growing quite fast because of these unrealized gains. I'm just wondering if it's something that you feel comfortable in managing the balance sheet like this, because you could have volatility also when interest rates shift upwards, which happened in the First Quarter. I understand that nothing is about to change.

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

We are comfortable with our position with the strategy of our treasury department. And we are comfortable with this level that we are in the position. We didn't change the strategy. We are comfortable with expectations of the treasury position.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. Thank you.

Operator

Regina Sanchez, Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

I have two questions. One is related to the efficiency improvement that we like a lot to see that this effort, this efficient committee, actually acting in favor of the bank results. I'd like to know -- you mentioned already on the administrative expenses that you're looking across the board. But in terms of personnel expenses, do you expect to see even further reduction in the number of employees of the bank? I'm not implying that you're going to lay off people. But, rather, maybe reducing the total number of employees just by the natural turnover.

Then my second question is actually a follow-up on the exposure to large corporate groups. I know you do not comment on the specific exposure. But my question -- I would like to understand how you think about rating the economic group internally. I know that the resolution 682 of the central bank requires rating based on the number of days of the delay of payment. But also, on assigning ratings for corporate exposures in the case that you have exposure to a large group in which the companies -- they have also listed stocks -- if these stocks depreciate a lot and you have these stocks as collateral of a loan, will it be the case of downgrading the rating of these companies and increasing provisions? Is this the way the policy inside Bradesco works? If you could give more color as a general provisioning rule and credit policy, I would appreciate. Thank you.

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

Talk about efficiency. We are doing many efforts to control the administrative costs. The efficiency committee is working hard for to looking for opportunities for reduce costs in the administrative costs, reducing -- revising process or revising contracts. The main gains that we expect with the cost control probably will come from the administrative costs.

Talk about the personnel costs. What we expect will be, if we have some things that will be the normal turnover of the bank and some efficiency gains that we don't have any kind of policy for to reduce the employees -- the number of employees -- if we have some decrease, it probably will be more because of the normal turnover of the Company.

Talk about the large corporates, the ratings. We are -- we follow the central bank's rules. We are comfortable with the ratios -- or the ratings that we have. We don't have any or we don't need to do any kind of adjustment considering our policy. We review constantly this process according to rules. You need to review constantly. And as we showed during the presentation, we have the additional provision, BRL4 billion. We are very comfortable with the level of provisions that we are having -- that we have. But we understand that we don't need now to do adjustments. We do our policies to review constantly the position of our bank and the risk that we have in our portfolio.

Q - Regina Sanchez {BIO 16404038 <GO>}

Perfect. That's perfect, Angelotti. Thanks a lot.

Operator

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

A - Paulo Faustino da Costa {BIO 6436050 <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 First Quarter 2013 and other information concerning Bradesco is in our Website. Thank you.

Operator

That does conclude Banco Bradesco's audio conference for today. Thank you very much for your participation. Have a good day.