Q4 2015 Earnings Call

Company Participants

- Carlos Firetti, Market Relations Department Director
- Luiz Angelotti, CEO
- Unidentified Speaker, Analyst

Other Participants

- Carlos Gomez, Analyst
- Carlos Macedo, Analyst
- Francisco Kops, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Tito Labarta, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

(Technical difficulty) expanded loan portfolio reached at BRL474 billion. I've also already showed (inaudible) the net income reached BRL5.290 billion and the insurance written premiums increased 15.1%, on the top level for the guidance and above the average [ph] of the market.

Now, the next slide, Firetti will continue with the comments.

Carlos Firetti {BIO 2489005 <GO>}

Thank you, Luiz. Now, we will go for more details on our results. In Slide 3, basically we have the adjustments in our net income. Basically, this quarter for reaching the adjusted net income, we have two important impacts. First one, we adjusted non-recurring gain [ph] coming from the reversal of technical provisions in the insurance company, basically coming from the periodical review of the discount rate of long-term liabilities in the insurance business. And also, (inaudible) as non-recurring, a loss coming from the annual impairments process of assets mostly on shares and also fixed assets and intangible. Basically, our adjusted ROE in 2015 reached 20.5% revolving [ph] compared to the 20.1% in the year of 2014.

In slide 4, we have our adjusted net income growth. Basically, net income in the quarter grew 0.6%. For the year of 2015, it grew 16.4%. Basically, the main drivers for this expansion in earnings both in the quarter as well as the year came from the increasing NII and also the positive contribution from fees. On the negative side, the expansion in provision expenses and the increase in operational expenses reminding that actually we grew much large (inaudible) I will show later.

In page 5, we have the sources of our net income. Basically, in the Fourth Quarter, insurance represented 31% of our total earnings while the banking business 69%, with 33% coming from credit intermediation and 28% from fees. For the year, insurance represented 30% and banking 70%. That shows our diversification of results that allow us in our view a diversification in risks in our business bringing more stability to our results.

In page 6, we have comments on total assets, shareholder's equity and operating coverage ratios. Basically, our total assets grew year-on-year 4.6% with return on assets reaching 1.7%. Our equity grew in the year 9.1% with our ROE [ph] as I said reaching 20.5%. Our fees to expense ratio, our operating coverage ratio as we call it, reached 80% in the Fourth Quarter. Our debt level ever evolving continuously over the last two years. Our efficiency ratio continue to evolve possibly reaching 37.5% in the 4Q, also the best level ever due to our cost controls and good performance in the revenue side.

In slide 7, basically, we have our -- the beginning of our analysis on NII. Basically, our NIM [ph] was 7.5% in the Fourth Quarter, considering the 12 months accumulated. Basically, the total NII grew 14.7%, considering the year of 2015. Our view is that our NIM should continue evolving positively through 2016, bringing a positive contribution to our results.

In slide 8, we have a breakdown for the interest-earning portion of our NII. The inventory [ph] NII from interest grew 15.3% year-on-year, 4.9% Q-o-Q with credit intermediation growing 11.5%, coming [ph] from the improvement in our spread in funding as well the re-pricing of our loan book. Insurance grew 29.2% due to the increase in options in the insurance business mostly and securities and others, 33.2%. In securities and others, we have our asset liability management investment of our (inaudible) basically also showing up good performance. Our guidance for this line for 2016 is an increase of 6% to 10%. Basically, source, coming from the improvements in our spread in funding as we already have in 2015. And also our re-pricing of our loan book that should continue in 2016.

In the slide 9, we have our credit intermediation margin that is part of our NII, basically our credit intermediation margin reached 11.7% in the accumulated for the last 12 months, an increase of 20 bps compared to the Third Quarter. After provisions, our net interest margins was 7.5%. Basically, the net interest margin after provisions, the net credit margin, grew 2.4% in the Third Quarter and grew 7.4% in 2014. We believe that we should continue to see the re-pricing of our loan book, as well as I said, the positive contribution coming from improvements in our cost of funding that should be the driver for this credit intermediation margins continue to expand in 2016.

In slide 10, we go for comments now regarding our BIS ratio, our capital ratio. We had, in the Fourth Quarter, an expansion in our GIS ratio by 130 bps, coming mostly from accumulated earnings in the period, earnings retention that contributed with 50 bps [ph] to our evolution of our capital ratio. Consumption of tax credits that was due to our own profitability in the quarter as well, basically internal measures as transfers of funds through units where that could help us to consume the tax credit faster that contributed with 0.3% in our BIS ratio. And also the changing rate in guarantees for legal lawsuits is a profit we sell to companies that's added 0.2% to our BIS ratio as well a few other items.

Basically, our fully loaded ratio after the impact from the acquisition of HSBC would be 10.3%. According to our simulations, that compare to 9.1% in the Third Quarter, what represents evolution of 120 bps. Considering the conclusion of our capital increase that would add additional 50 bps to this number. Basically, our view is that from our profitability coming due to retained net earnings, going forward, we should grow at least a 100 bps per year in terms of BIS over the next few years. So we're in a very comfortable position in terms of capital.

In slide 11, we have our expanded loan book. Our expanded loan book grew 4.2% year-on-year. If we excluded the effect of FX, this growth would be close to zero. Basically, in the companies segment, we grew 4% and 4.5% in individuals. The main highlights in terms of growth come from payroll loans. That is a product that we should continue growing. Basically, we expect to grow 10% to 15% in 2016 in this line and mortgage real estate financing that we grew in 2015, 27.1% and we believe, we should grow in 2016 around 15% [ph]. Basically, our guidance for loan growth for 2016 is 1% to 5%.

In slide 12, we have the numbers in terms of credit quality. Our total 90 days NPL expanded 25 bps in the Fourth Quarter with the SME segments showing the biggest increase. Also increased for individuals 37 bps and a very good performance in terms of corporates. Basically, in terms of SMEs, we have been saying that this segment should be more sensitive to the economy. And it is happening. But it's also impacted by the fact that this portfolio is shrinking. As you guys can see in the SME book, basically, this portfolio shrunk 5.3% in 2005, what also helps to boost the NPL ratio.

Basically, going forward, we expect our NPL ratio to continue growing through 2016 and we believe we may see a stabilization in around this first Q 2017. Our 15 to 90 base [ph] NPL, basically, we have improvement in the individuals NPL that may signalize some perpetual slowdown in this increase in this going forward. But actually, as we said, we expect NPL will continue growing through 2016. In the chart below, we show our NPL formation and provisioning basically we continue to make provision for the new formation and this is a practice we have being doing for the last three years and we always do actually.

In page 13, we have the breakdown of our loan book, basically special highlight for individuals portfolio where we have the growing lines with lower risk and also internally the car loans that is a portfolio that shrunk compared to the last few years. We had material improvements in terms of the safeness of the portfolio with much lower loan to value that's made a good portion or a big portion of our loan book much sounder than it was in the past with much lower risk that helps to mitigate evolution of delinquency.

In page 14, we have our provisions coverage ratio. Basically, our coverage ratio of 90 days NPL reached 198%, a 162% for 60 days, basically it's very sound coverage of provisions. Basically, we believe that going forward, this coverage ratio will remain at very high levels. But you have to consider that the additional provision should remain stable and we may see a slighter [ph] decrease in coverage ratio but basically remaining still at very high levels.

In terms of effective coverage ratio, we have about [ph] 242%. The effective coverage ratio is provisions to our actual losses. We think this is a very good way to see how provisions are covering the credit risk and we are very well covered as you can see. Basically, in terms of renegotiation, we had an increase in renegotiations, a little bit more than the credit portfolio. This is a natural movement, considering the economic weakness and the fact that NPLs are also growing. This portfolio is very well provisioned with 66% of provisions and the NPL, 90 days NPL runs around 29% and it has been quite stable over many quarters.

In slide 15, we have our fees and commissions. Basically, the main drivers for fee growth in 2015 came from credit cards with an increase of 18.2%. Credit cards represent 39% of the total fees and checking accounts with growth for 23%. Checking accounts represent 20% of total fees. Basically, our fees in the year as a whole grew 12.4%. For 2016, we have a guidance between 7% and 11%.

Basically, we believe that one of the main drivers for this fee growth will remain in checking account fees, mainly due to our segmentation. We are still moving our clients to new segment or service like as the exclusive and we are still charging for a number of -- starting to charge for a number of this clients that still act as a driver for fees. Basically, other lines should also continue to remain -- are performing quite well in 2016.

Operating expenses, total expenses grew 7.7% in 2015. Basically, personnel grew 5.2% while administrative expenses 10%. Basically, administrative expenses were impacted especially in this Fourth Quarter by the real depreciation that impacted some expenses like data processing and cost of softwares and other contracts need [ph] to the dollar. Basically our guidance for expenses in 2016 goes between 4.5% and 8.5%. The center is basically inflation. We have a tight control on expenses. We have been doing everything that is possible to keep expenses under control. So we have great confidence that we will continue doing quite well in expenses as we did in 2015 where expenses grew 7.7% while inflation was 10.7%.

In slide 17, we have numbers from our insurance business. Basically, total premiums grew 15.1%, slightly above the guidance that had (inaudible) at 15%. The net income in the insurance business grew 20% with an ROE [ph] for 2015 in the insurance business of 24.2%. Our premiums -- for 2016, we have our guidance for our premiums of 8% to 12%. That makes the insurance business still present a quite strong contribution for our results in the year.

In page 18, we have some ratios from the insurance business that first, the combined ratio with a positive evolution, reaching 86.5% in the Fourth Quarter. Our technical provisions continue to grow in pension and life reaching BRL157.6 billion, in health BRL7 billion. The financial assets in the insurance business continue to evolve positively as well, reaching BRL192 billion and total technical reserves, BRL178 billion.

Now, I'll turn the presentation to Luiz Angelotti for comments on the guidance and his final thoughts.

Luiz Angelotti

On slide 19, we have the comparison between the guidance and the performance in 2015. About the loan portfolio, we finished the year below the guidance due to the worsening current [ph] conditions. This grew 4.2%. If we exclude the dollar effect, it probably would be -- we will have finished the year with a neutral growth.

And the NII, we finished above the guidance with 15.3%. We need to remind that initial guidance was 6% to 10% [ph], then we changed to 10% to 14%. But we finished above the guidance because the contribution of the (inaudible) 2015. We finished above the guidance with a high contribution of cards and the checking accounts of fees that increased because the effects of our dilution and the segmentation (inaudible) that probably will continuously deflect in this year and in 2016 [ph].

Operating expenses, we finished above the guidance (inaudible) that will change the year, which is 7.7% [ph]. This increase that we had in the last quarter was more related to the effects [ph] in some expenses (inaudible) expenses and the expenses -- seasonal effects, which is marketing expense. In the insurance [ph], we finished the year in the top of the guidance (inaudible) alter themes and we had success. Compared with the market, we are above that of the market grew than the majority of the products. This shows that the capacity of the distribution and the key initiatives that we have taken [ph], the financial component (inaudible).

Moving to Slide 20, we have the 2016 guidance -- for 2016, we expect the loan growth between 1% and 5% which is the main goal in individuals. Moving to a lower risky product, NII, we expect to grow 6% to 10%. We expect to capture [ph] the continuous process of (inaudible) the assets, the total [ph] assets because (inaudible). We are moving a better spread. Then, probably, we will be one of the main contribution during the year and we have the effects of the continuous (inaudible) higher level and the gains which (inaudible).

Fees, we expect to grow 7% to 11% with the continuous investments in the evolution of our segmentation and gift of channels that we expect to improve the number of products per client. Our operating expenses, probably we'll finish year around the inflation growth [ph] which the higher commitment that we have with the efficiency and the contract [ph] for us. We expect some benefits of the internal process review and some benefits with the new systems that our IT has done.

For insurance premiums, our guidance for the 2016 is 8% to 12%. Probably this is a little upward of the markets growth. And we understand that the insurance will reach the new -- the new stage of [ph] sales force to offer the insurance premiums (inaudible). And now we started here with our new guidance that is the allowance for loan loss expense, we expected that the total expense match of reporters for 2016 will be between BRL16.5 billion to BRL18.5 billion. (inaudible) our expectation is to finish the year around that (inaudible) of the guidance. But considering the scenarios that we have for 2016, total analysis of our portfolio considering our (inaudible) and our knowledge about this clients and the devolution of this risk, we expect to have the costs (inaudible) this guidance.

In closing, we had a good performance in a scenario of uncertainty (inaudible) in 2016. Our performance (inaudible) above the NII and fees double-digit growth. Our costs are running below the inflation, which again supported the efficiency ratio and the fees, the ROE, reached ROE above 20%. Thank you for participating in our conference call and we would be now glad to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) Tito Labarta, Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

A Couple of questions. First, in terms of asset quality, on the guidance you gave for provisions of BRL16.5 billion to BRL18.5 billion. I just want to get a sense -- what kind of a deterioration in asset quality are you assuming to get that guidance? How much do you think the NPL ratio would increase this year and if you can -- maybe you can just look at it by segment, because you saw some improvement on the large corporates (inaudible)?

The second question, in terms of your margin expansion for this year that you're guiding for, how comfortable are you, that just given, the government announcing measures to increase credit to specific sectors, could that mean some more competition again? Also, (inaudible) may be no longer rising this year. But that also put some pressure on (inaudible). More color on your outlook for margins, giving just a little guidance on the government and the macro?

A - Carlos Firetti {BIO 2489005 <GO>}

(technical difficulty) we will continue having an increase in the interest ratio. With the semi increase that we're having the last part of 2014, 2015, what we see that approximately now, when you talk about the total (inaudible) interest ratio for 90 days increase 0.1% or 0.2% per quarter probably to the end of the year. The main increase probably came from the SMEs, SMEs because I think -- we have two effects, the deposit portfolio which is shrinking. And we have effect.

Another is the cost with the unemployment rate increasing in the economy, that is now compensated, the SMEs is more effected with the environment. Then, probably this will be the main increase in our portfolio. But according our expectations, we translate this numbers when we get the guidance. (inaudible) probably will continue to increase the delinquency ratio because the unemployment rate increases, the seasonal effects that we have normally in the beginning of the year, that we understand the one part of this seasonal effect, we (inaudible) that we probably will stay overdoing the first half of 2016. They start to have problems in the last part of 2016. But we see more bad environment in the end of the year, probably the stabilization did increase for this two segments, to be more closed at the end of 2016, beginning of 2017.

In the corporate side, our expectation was that we will have a decrease during 2016. We had an anticipation with this effects, the delinquency ratio, we remain around this level, 0.5%, 0.6%. You need to consider that this don't sell portfolio, don't sell operations for (inaudible), this is our ratio. But we understand that's sometimes not comparable with the Brazilian market, because you have some institutions that will sell portfolio. And this affect directly the ratios.

We understand that the ratios offer better comparison, which you try to compare financial companies. I think it will give you a better or more objectively expectation that (inaudible) that we understand that will be the total effect for the year. This number BRL16.5 billion to BRL18.5 billion, this our expectations. We did increase that we understand that we will have during 2016.

Regarding margins, basically we see in 2016, still room for re-pricing our portfolio. Basically, we still see a portion of our portfolio that you go through this re-pricing process. Even if stretch don't increase more, we still have a driver coming from the re-pricing at current levels. Basically, the competitive environment is better. I think banks are competing more in an equal level. The managers from the government are welcome. But it will change the markets where the demand for the loans is relatively low and we deem that banks as a whole will remain cautious and we don't see any change in terms of (inaudible) in terms of competition and pricing. So more or less, this is the environment we see and the scenario we believe that there is a positive effects for us in the credit margin coming from, as I said, the repricing. But also coming from funding.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

I wanted to ask about asset quality, again. I'm sorry, I'm not trying to be difficult. But last year, you guided to flat NPLs of around 3.5%. We now know NPLs ended up at 4.1%, which is significantly above what you guided last year. Your renegotiated loans also increased. You said last year provisions were going to grow single digits. We now know they grew 18% and that's excluding the one-time provision you took. That would take provisions to 43% on the (inaudible) because you need them.

So now you're saying that the NPL ratio will grow less in 2015 and then the provisions are going to grow 9% to 22%. How do we get reassurance that (inaudible) being too conservative at last year? What are the lessons learnt from last year? What are you doing in terms of your origination practices, in terms of the sectors that you focus? How are you changing the business? So that this year, you're able to look at your guidance on that aspect? So some color on that will be greatly appreciated?

A - Unidentified Speaker

(inaudible) speaking. When we gave the guidance in January of 2015, we have the one expectation about the economy, that you ask stretch or close it up, which is now decreasing GDP was our expectation. They are not the guidance (inaudible) the environment that we expect. During the year, the economy suffered mainly other effects than the expectations we need to move to (inaudible) the year. Some guidance that we gave before, particularly the NPL goal, we need to increase. But I think you forgot that about the NII and the revenues that the first guidance that we gave was 6% to 10%. We moved it to 10% to 14% and we finished the year in 15%. We need to analyze the banking in both aspects, then we have costs and revenues. Normally, sometimes we have some additional way to increase. In this case, we need to obviously expect during the year, we had the additional (inaudible).

We finished the year along with the ROE that we expect with the level that we finished and we finish it as we need to start to, probably, the 20% ROE that we was talking, we need to consider in our aspects, this year, this device that they now. Now, we have a work scenario that got this (inaudible) level that we had last year. And these now are managing our portfolio. We gave you a guidance about the expense that we expect to have to deal with the provisions. Then, I think we are comfortable with this number.

We know very well our portfolio, our clients. Then, we are going in what's possible to grow in our loan portfolio with quality, then in the old scenario that we have, our guidance is one grow around

22%, a little more than we had last year that is great. But our expectations is along the middle of the guidance. But we are comfortable with this expectations. And we have the revenue side, with a lot of opportunities to increase it and the guidance that we gave you for the revenues and costs, we understand that is what we expected considering the (technical difficulty) we can see now in 2016.

Operator

Francisco Kops, Banco Safra.

Q - Francisco Kops {BIO 17215088 <GO>}

Two questions from my side. The first one is, I'm just trying to understand the recent trends of revenues. Like the last question, you guys have guided a loan portfolio growth different than what you guys have delivered in 2015. If we take out the FX, FX would be even lower. What is the risk that our loan growth been on the negative side of 2015? And just trying to understand the spreads as well, if interest rates goes down, which many now believe, what does I believe are going to happen with spreads? That's my first question. And I'll ask [ph] my next one later.

A - Carlos Firetti {BIO 2489005 <GO>}

In 2015, we had this 5.2% but if you include the FX, FX for the year, we will see (inaudible). Then when we talk about 2016, we see a better opportunity in the individuals portfolio, which is loans than the mortgage. Probably, this will definitely had, it's 1.5% in 2016. This is continuously reason to a less risk portfolio. The CLS demand from SMEs probably SMEs will continue decrease in the portfolio. But with some compensation in the property, that we'll have a similar growth that we had in 2015. This combination that we understand that's possible to grow, it's sufficient to finish the year around the center of the guidance. And we now guide this, considering our analysis, what is the yearly value is now, FX, affected in this guidance. The gross model grow in dollar results.

Q - Francisco Kops {BIO 17215088 <GO>}

Then just about spreads, if everybody was expecting upward interest rate for this year and somehow the expectation have changed, do you any change in terms of spreads?

A - Carlos Firetti {BIO 2489005 <GO>}

Basically, first, the impact in NII is the solution goes down [ph]. (technical difficulty) will not be going down. So the impact coming from the fleet itself should have meaningful impact. In terms of spreads, we don't see any major correlation coming from spread and they shouldn't go down because it go down. If the reach perception improves natural spreads in some segments could reduce a little bit but there is still a lot of room for reprising that you -- what they contributes to our market.

Q - Francisco Kops {BIO 17215088 <GO>}

If I may have a second question, very specifically, one on the insurance side. We're seeing some health, dental insurance companies claiming in court that they will not be responsible anymore for the social security of doctors and dentists what's you call NSS [ph] here in Brazil. I don't know about this, because they're also questioning such subjects in the court. And in case, yes, what are the chance for a win, what will the possible positive impact here for the bank?

A - Unidentified Speaker

(technical difficulty) comments now about the issue.

Operator

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

I have one question, a follow-up again on the margin. I think it's an important point, given the volatility that we've seen in rates. So Firetti, you mentioned that the average Selic is going up and based on the estimate that you have -- that you provided in the presentation, the average Selic indeed is going up 80 [ph] basis points. In 2015, it went up to 110 basis points and in 2014, it went up to 130 basis points.

And so with your loan book, with the growth being as weak as you expected to be, 6% in 2015, less than 5% in 2016, with the Selic not growing, not expanding as much as it did in the past, would you say that it's more likely to see the bottom end of that guidance or even below that, particularly if rates come down stronger than what expect and then I'll have another question.

A - Luiz Angelotti

(inaudible) normally, the first expectation to reaching around the strength of the guidance. We understand that when the NII, we have this year the constitution of the price of the portfolio, probably, this will be the name, FX what we have here the fund being cost control. Our new operation that we are now -- we need to renew the funding. We are closing with a new rate that is cheaper the rate we had, two effects in the intermediation. The assets, we see some benefits of it increasing in the front-end, we are decreasing the cost. We have the -- in NII of the contribution of the insurance business, that year was 12% than this year with the premiums that we will have, we ended the assets margin that we have in the insurance business, probably we'll continue having a good contribution and when we talk about the asset liability management that we (inaudible) during 2016, we continue having some contribution because of (inaudible) probably in the very senior level of the -- to 2015. Firstly, we have some basics in our FX hedge that we have the investments in the asset. And in our asset liability management, in the portfolio, that probably reached (inaudible) to have some decrease in future rates.

A - Unidentified Speaker

(inaudible) stronger actually this fixed portion of our portfolio, this earns a little bit better at this time.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you. My second question, just the 5% loan growth this year. We've been seeing with the numbers in the central bank that originations are down significantly over the second half of the year. We know it's the longer duration portfolio. So this should actually have an impact on loan growth going forward. Outside of 2015. And I know it's difficult because 2016 is already hard enough, do you think that loan growth can recover quickly or you think it's going to be a more drawn-out process, even if activity does return?

A - Carlos Firetti {BIO 2489005 <GO>}

Carlos, basically as we have been saying, expectations for the future improve and that also will impact the demand. We have been saying that it's not only risk aversion, actually, demand is quite low and a lot with this low loan growth is related to demand. We think there is -- the economy is deleveraging. You can see basically considering this current level of loan growth, there is a deleverage. If this relatively modest growth remains next year, the delivering process will remain and eventually we'll reemerge in 2018 with more room for growth in loans, with consumers doing their homework and basically deleveraging with sales [ph].

So yes, we see a lot of potential. Let's, for instance, focus on the car loan portfolio, penetration of outdoors in Brazil is very low. This portfolio is shrinking, probably this portfolio is touching a lot due to demand. Eventually, in another moment, we can grow more there, the SME portfolio, basically it's shrinking. But we see this business as very interesting, we are very well positioned there, margins are very good, it's not doing that well in terms of growth, because of the foreign investment, eventually that's going to be a new driver for growth for loan and expectations in the economy improves.

Operator

Mario Pierry, Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions. The first one is related to the HSBC transaction, if you can provide us the expected date that this transaction should close, the impact to your bottom line? Last time when you announced the transaction, you were expecting HSBC to be reporting net income of about BRL1.2 billion in 2015. And I was wondering if that is still the case, what is the outlook for HSBC standalone for 2016?

Then my second question is related to your cost base, right here, you have been doing a very good job growing below inflation or slightly below inflation. Do you expect that to continue? But given how weak the economy is in Brazil, the fact that you're not expecting much loan growth, could you discuss a little bit about the outlook of possibly closing some branches or possibly having layoffs?

A - Luiz Angelotti

About the HSBC, we're with now the approvals are patchy [ph]. We had the central bank approval and now we expect that they will see should they analyze. We don't have to resubmit. Probably, we expect for the next months. And we probably when we assume the bench, our expectation is that the impact of this on the bottom line is as we told you when the acquisition is (inaudible). The information that we had for 2015, the recurring net income excluding the expense of the headquarters is around BRL1.3 billion.

We will have this effect, when you assume the bench. This year, we -- probably we will start the process synergies in administrative cost in the GSPC. But the main benefits of the GSPC, we understand that will come in, in 2017, we start to have the full benefits. We prefer to see that you be neutral in the bottom line. About the cost gains, the environment, we understand that it is possible to continue furnishing around the inflation, in this environment that we have now, when you talk about the branches, I think we are not -- our objective is not to close branches. We are closing branch. But mainly we are having a migration to another mode of branch that we have, we see a party that is a payment point is, a point of sales, a small branch, normally which is two, three employees. We don't have the cashier, we're normally have only a ATM. And the operation that we do there is more some specific operations with more higher tickets. These movement is possible because now the high investment in additional channels.

Our clients, they are using more these channels than they can do operations using the cellphone or internet normally and they don't need to go to their branch. We are now in (inaudible) region, downsizing the branch. We are reducing the size of the branch. Then according to the region. And in some situations, we are migrating some small branches to a point of sales. This probably will happen in the next year, will help in decisions because the cost of this service point is very smaller than the branch cost but our objective (inaudible) than according the demand on the branch facing each region, we select the best mode of branch to have the best sales. But it is movement which help anything in the efficiency and the cost count.

Operator

(inaudible), Santander.

Q - Unidentified Participant

On the 4Q, besides the improvement on the common equity tier 1, we cannot serve significant decrease on credit risk. Can you give us more color on the factors which led to that decrease?

A - Luiz Angelotti

This effects of -- this is related to this full process we took in the implementation [ph]. We have the -- what is the guarantees that with the new resolution -- with the new rules of the central bank, we classify some guarantees which is less, which I think next BRL10 billion is with this are situated, decrease around that level. (inaudible) the business process improvement that is in -- we had been in the past some operations that according to central bank we can classify in our lower (inaudible) because of our future [ph] structure, we don't have in the testing how to safeguard these operations and these have to classify.

Then at least there's a lot of this systems in future and during this Fourth Quarter, okay, we start this process. Now, we select this operations and we have to classify according to the central bank within a lower (inaudible). This is another impact. This is the main effects that we have and the another parts, the small part because tax spreads that when we had a decrease in the tax spreads, (inaudible) reflects this decrease, (inaudible) closure of this number that is BRL30 billion [ph].

Operator

Carlos Gomez, HSBC.

Q - Carlos Gomez {BIO 15024854 <GO>}

My question is also about capital. The first one is on 2014 [ph], as you explained, because you have to change the accounting of your intangibles, can you really bring them down from BRL12 billion to just over BRL1 million [ph] (inaudible) how that affects the balance sheet. I would like to know do you have any effect from this accounting change on your (inaudible).

A - Carlos Firetti {BIO 2489005 <GO>}

Sorry, the call is not audible [ph], if you could speak louder and lower, we didn't get your question, sorry.

Q - Carlos Gomez {BIO 15024854 <GO>}

All right. I'll talk a bit louder. I'm asking about the change in the accounting for intangibles and how the total balance declines from BRL12 billion to BRL7 billion. We would like to know if that has any effect on your capital valuation? That's on note 14-A and pages 121 and 132, there is an accounting change.

A - Carlos Firetti {BIO 2489005 <GO>}

Mind if I give you, take a look on that and give you a call. I'm not sure if I understand well. Would you mind if I call you?

Q - Carlos Gomez {BIO 15024854 <GO>}

Sure.

Operator

Excuse me, ladies and gentlemen. Since there are no further questions, I would like to invite the speakers for their closing remarks.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you, everybody for participating in our call. We, from the Investor Relations department, will be available for answering any doubts you may have. Thank you.

Operator

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