Q1 2016 Earnings Call

Company Participants

- Carlos Wagner Firetti, Market Relations Department Director
- Luiz Carlos Angelotti, Executive Managing Officer and Investor Relations Officer

Other Participants

- Carlos Gomez-Lopez, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Thiago Bovolenta Batista, Analyst
- Tito LaBarta, Analyst
- Victor A. Galliano, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We'd like to welcome everyone to Banco Bradesco's First Quarter 2016 Earnings Results Conference Call.

This call is being broadcasted simultaneously through the Internet in the website, www.bradesco.com.br/ir. In that address, you can also find the presentation available for download. We inform that all participants will only be able to listen to the conference call during the company presentation. After the presentation, there will be a question-and-answer session when further instructions will be given.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to the company. 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. Carlos Firetti, Market Relations Department Director. Mr. Carlos, you may begin your conference.

Carlos Wagner Firetti {BIO 2489005 <GO>}

Good morning, everybody. Welcome to our conference call for discussing our first Q 2016 results. To start our call, we turn the presentation to Luiz Carlos Angelotti, Executive Director of Banco Bradesco and our Investor Relations Officer. Please.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. Thank you for joining our Q1 2016 conference call. I will start with slide two with the highlights.

The adjusted net income reached R$4,113 million, down 3.8% from – when you compare it to the first quarter of 2015. And the ROAE reached actually 17.5%. The NII Interest-earning portion increased 11% as a result of the reflecting (02:37) in our loan portfolio, the management of the funding cost and the asset liability management during the period.

The fees and commission income increased by 11.5% as a result of the segmentation process and the IT investments and the digital channels platform and Internet to actually increase the offer of products in our countries. The operating expense went up 11.1%. Our goal is to bring to drop this expense further to inflation level.

During the year, with the new quarter that we came, in the accumulated index, we have a deceleration (03:52), when we have expectation that we will have the targets that (04:02) end of the year.

As a result of our performance in context of the revenue generation, our efficiency ratio reached 37.2%, the best ever level. And the operating coverage ratio reached at 80.1%. It's one of the best levels that we had, and the (04:37) the fixed costs.

The Tier I ratio reached 12.9% in the quarter, considering the increase in phase-in that we had in adjustments from 40% to 60%. Then we observed (04:57) more dilution.

Assets amounted to R$1.102 trillion. The expanded loan portfolio reached R$463 billion. The delinquency ratio over 90 days reached at 4.2%. We are now in a group of (05:26) of the delinquency ratio over our expectation (05:32) that went through at the end of the year. We had (05:36) in this site approval and we expect some stabilization during 2017.

The effective coverage ratio reached at 220%, and (05:59) continuing our insurance business that we have diversification in our (06:10) and we had a very good contribution of R$1.380 billion and it was one-third of our total profit in the company. And we had a very good performance in premiums for insurance fee with evolution (06:36) 11.4%, above the market standards.

Now, I will turn the call to Carlos Firetti to comment on the next few slides.

Carlos Wagner Firetti {BIO 2489005 <GO>}

Okay. Thank you, Luiz. So now we'll go for more details on the results. In slide three, we have the reconciliation of our group net income and the adjusted net income. Basically we had few adjustments, R$90 million after-tax from the sale of Bank CBSS to EloPar, the R$25 million contingent liabilities and R$57 million impairment of assets, mainly shares with the adjusted net income we reported at R$4,113 million.

In slide four, the adjusted net income growth. Basically Q-on-Q, our results dropped 9.8%, basically due to higher provision expenses for credit recoveries, and mainly affected by one specific provision we made for a specific case of our corporate client in the value of R$836 million. The quarter had (08:05), good performance in terms of NII growth and also reduction in the operating expenses compared to the last quarter.

Year-on-year, our results dropped 3.8%, also mainly impacted by provision expenses, also affected by that specific case. On the positive side also, we had a very relevant increase in net interest income, also good performance in fees and insurance.

In slide five, we have the breakdown of our net income. Basically it states our very important diversification of results. 34% of our results come from the insurance business, 28% of the results come from fees, 9% securities and others, making 71% of total results coming from non-credit operations. The credit intermediation this quarter was lower, 29% of earnings, mostly due to the provisions we have already mentioned.

In slide six, we have assets and return ratios and efficiency. Basically our total assets grew 6.5% in the year or year-on-year. Our return on assets reached 1.5%. Our shareholders' equity increased 11.2% year-on-year with return on assets reaching 17.5%.

Our operating coverage ratio that is fee divided by costs reached 80.1%, the best level ever, and our efficiency ratio also reached our best level ever at 37.2%, result of our efforts in terms of controlling costs and also investment in technology that has been giving us equating our credit ratios (10:33).

In page seven, we have our margin, our net interest income analysis. Basically, our NII grew year-on-year for the quarter 11%. That is slightly above our guidance that was between 6% and 10%. Our NIM considering the last 12 months period, remained stable at 7.5%. Our non-interest margin that is basically, what we call treasury, was R$158 million, a slight increase when compared to the last quarter.

In the slide eight, we have different (11:24) analysis on our interest-earning-NII. Basically, as I said, it grew 11% year-on-year. The credit intermediation portion that makes roughly 80% of total margin grew 12% year-on-year. The driver there, the re-pricing of our loan book, considering the increase in spreads had over the past quarters. And also improvements in our cost of funding that have been helping out also to improve the margin there.

So, in the Insurance basically, we had an increase year-on-year of 3.9%. This lower increase is mostly due to the stronger base of comparison we had in the first quarter, where we had some specific gains from the (12:29) inflation, that (12:31) loan portfolio linked to the inflation. And finally, Securities and Others, we have increase of 10.1%. That is mostly the results of our assets liability management that allowed us our good performance this quarter.

Going to slide nine, basically we have the analysis of our credit intermediation margin. Our credit intermediation margin reached 12% in the quarter, growing that 30 bps compared to the fourth quarter. Basically, as I mentioned due to the re-pricing of our portfolio and benefits from the cost of funding, the NII from credit grew 12.1% year-on-year.

The margins net of credit cost dropped this quarter at a rate of 9.4% year-on-year, mostly impacted by higher credits provisions. And specifically as it had a specific case of R$836 million. We'll discuss in the coming slides.

In slide 10, we have our Basel ratio, our capital ratios. Basically, we had this quarter in Brazil, were facing higher deductions from our capital. Basically the deductions increased from 40% to 60%. Basically that impacted (14:30) our capital ratio by 1% in the quarter. But, even with that considering the accumulated the earnings net of dividends, also gains from mark-to-market and the reduction of risk-weighted assets itself, we end up having a 20-bps increase in our capital ratio in the quarter placing us in a very comfortable position.

Considering our fully loaded ratio, we have 11% BIS ratio fully loaded. That compares to 10.3% in the 4Q 2015. So, we have a 70-bps increase of the fully loaded BIS, mostly due to accumulated earnings, retained earnings and also the other elements I have already mentioned.

In slide 11, basically you have our expanded loan book, which was affected this quarter by the appreciation of the real. The stronger real basically put pressure, especially in the corporate loan book. So, basically, the expanded loan book as a whole were flat year-on-year and dropped 2.3% Q-on-Q.

In the Companies segment, we've had 1.8% drop year-on-year. The period's (16:08) drop comes from the SME portfolio 10.2% drop, where we see basically lower demand and the impact of the weaker economy on the segment.

Individuals as a whole grew 4% year-on-year, with the main drivers coming from payroll loans growing 12.7%, credit cards 12.1%. And, especially, Real Estate Financing, Mortgage that we've grown 27% year-on-year. And this segment is really the one where we see a more robust demand at the moment. We have guidance for loan growth between 1% and 5%. We still think that for the full year this guidance is feasible.

Starting in slide 12, we discussed credit quality indicators. So, delinquency ratio, our 90 days delinquency ratio increased 16 bps in the quarter. That is in line with the soft guidance we have gained giving that for the year we expect between 10 bps to 20 bps per quarter for the remaining portion of the year. So, it's in line with that.

The segment where we have more pleasure is, the SME segment, where we have an increase of 68 bps. This segment is suffering more with the economic environment, but also suffering due to the fact that the SME portfolio is dropping more than any other.

The Individuals portfolio have showed a drop in delinquency of 5 bps. We have said that probably we had some anticipation in delinquency in the fourth quarter and (18:24) in the first quarter we didn't have as much increase that materialize in the first quarter, which was 5 bps drop. And in the Corporate portfolio, basically we had 9 bps dropped, mostly due to the impact of natural write-offs, normal write-offs that concentrated particularly this quarter.

We did a simple simulation there, where we consider the portfolio of the end of 2015 at the base for calculation of NPLs, only trying to show that actually the drop in volumes is magnifying the increase in NPLs. With that basically, we show that in the case of SMEs the increase in NPLs in the quarter would be 25 bps if the portfolio was not dropping as much as is actually is.

In terms of short-term delinquency 15 days to 19 days, basically there's seasonal increase in short-term delinquency very frequently. We had this increase now. We believe it might be seasonal again as normally happens.

In terms of NPL Creation, we had 90 days NPL Creation relatively flat Q-on-Q at R$5 billion. Our total provisions amounted R$6 billion, including R$836 million of that (20:15) I mentioned, that is our corporate clients that we decided to make provisions this quarter. It was previously already considered in our additional provisions that we decided (20:36) make this provisions actually flow through the P&L.

Basically this quarter, we also had higher than – higher charge-offs, write-offs, which is due to a concentration of write-offs, of some cases at the same time during the normal process of rating evolutions in write-offs, probably next quarter write-offs will be significantly lower than this quarter.

Our net provisions grew 52% year-on-year. Basically, we are keeping our guidance for provision expenses. This guidance goes (21:33) between R$16.5 billion and R$18.5 billion. As I said, we didn't consider the specification, we mentioned in this guidance, but even including it, as we did now, we still think that the top of this guidance is still feasible, therefore we are keeping it.

Page 13, we have our expanded loan book mix, basically you'd actually see the SME portfolio is reducing in terms of participation in the total loans, now it's only 22.3%. The individuals portfolio represents 31.9% of our loan book. And in this individual portfolio, lower risk operations like payroll loans and mortgage already (22:37) represents 40% of the total loan book. This is one of the reasons we always emphasize that allow us to have a relatively good performance in terms of credit quality (22:53) considering the current environment.

In page 14, we have our slide for (23:01) provisioning, coverage ratio and renegotiation. Basically our total provisions represents right now 8.6% of our total portfolio. That includes additional provisions on top of the minimal required by our Central Bank of R$6.4 billion. And comparing total (23:23) provisions with our expected losses from our loan book, basically we had a cushion (23:38) of about R$16.7 billion. The effective coverage ratio, as we call it, is 220%.

In terms of coverage ratio on 90 days and 60 days NPLs, it is 204% for 90 days and 162% for 60 days. In terms of renegotiated portfolio, this portfolio basically considering renegotiation of loans that became late mostly, we had an increase in renegotiations like 18% year-on-year. This portfolio already carries 6% (24:24) provisions in the NPL on these (24:28) loans that basically re-defaulted (24:34) after renegotiated is 27.5%.

Going to page 15, we have the performance in terms of fees and commission, it's a very positive highlight for Bradesco at this moment. We are growing fees 11.5% year-on-year. The main driver for this growth in fees is the checking account lines that is impacted by the segmentation of our base of (25:08) clients.

As we have been saying, we are segmenting our retail base (25:15) of clients with the creation of a new segment called the Exclusive. We had been migrating clients to it since mid-2014. And after some time if they accepted the service we charge, that is driving this growth in checking accounts fees to 27.2% year-on-year.

We are also doing well in cards, 9.6% growth year-on-year, asset management and other lines. Our guidance for this line is a growth between 7% and 11%. In terms of operating expenses, our total expenses increased 11.1% year-on-year. Basically, personnel grew 9% year-on-year, administrative expenses 13.1% year-on-year, highlighting that total expenses dropped actually 6.5% quarter-on-quarter.

This higher increase year-on-year is due to the fact that the base of (26:25) comparison in the fourth quarter 2015 is much lower. Remember, we had a high inflation last year 10.5% roughly and complex (26:38) where we adjusted throughout the year considering this inflation. And (26:44) considering the full year, we are confident that our total expenses will converge to the centre of our guidance that is around 7%.

I highlight here to the fact that our structural personnel expenses is growing only 7.5%, that is also a result from the fact that our base of (27:08) employees due to its natural turnover is gradually reducing.

Finally page 17, we have numbers for our insurance operation. Our total premiums for insurance is growing at 11.4% year-on-year; the main drivers there, Life and Pensions growing at 13.6% year-on-year, Health growing at 16.8% year-on-year. The guidance in terms of premiums that compared to the 11% growth is 8% to 12%. We are doing very well in that segment. Bradesco Securities is growing more in the market in insurance premiums.

Our net income grew 7.6% year-on-year with the ROE of insurance operation at 24.9%. And the last slide, slide 18, our technical reserves grew 16.3% year-on-year, financial assets 17.4% and we had improvements in our combined ratio that reached 86.1% in the first Q.

I turn now the presentation to Luiz Angelotti for his final remarks.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

In our opinion, we had a good performance in the quarter and we have been doing well in terms of revenues. The NII interest earnings, the fees, and we still had benefits coming from the (29:02) process of improvements, (29:06) the IT investments and the new IT system that we implemented. And that will help us to reduce the cost. As a consequence of this, we reached our best efficiency ratio ever. Then, we understand that there would be something that's (29:29) continue having some evolution. The current growth (29:34) sharpened the delinquency ratios, our expectation but (29:44) accelerating until – at the end of the year returning to (29:51) the reasonable stable during 2017 and probably will start to decrease around 2018.

I'd like to remind you about our insurance deal that is very important and it has a very strong contribution to our net income. Our loan portfolio (30:15) net income came from this. Then this risk (30:20) diversification helped us to reduce the volatility in our books. (30:24)

About the guidance, we understand that we don't need now to modify any guidance that we gave you in the last quarter, (30:36) lines is following our expectations. Then probably I expected (30:48) that will continue according to the number that we gave you in the guidance.

Then thank you for participating in our conference call. And we now, we are ready for your questions – to as you (31:12).

Q&A

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. Our first question is coming from Mario Pierry of Bank of America. Mario, you may proceed. Mario, you may proceed.

Q - Mario Pierry {BIO 1505554 <GO>}

Sorry about that. Can you hear me?

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

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

Sorry about that. I was on mute. So basically let me ask you two questions, one is more specific. It's in regards to these corporate clients that you had a problem. If you can tell us, what percentage of the loan is provisioned? And if you think that you are going to need to increase provisions to this client in the future.

Also related to this, how come you decided not to use your excess reserves this quarter? I understand, maybe there was no need or this would reflect a fear that there are more delinquencies in the future and you rather (32:33) stay conservative. If you answer this question, then I will ask the second question later.

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

About this corporate client, we – the risk that we had now, the exposure, we did provisions around 70%. (32:54) Then this is the number (32:53) you have now. Probably it could be that in the future, we don't have the – now, that probably we continue (33:05) analyzing the risks, (33:08) we understand that will be (33:10) new business, we will do.

The decision to use or not the additional provisions, we'd be – (33:23) at the moment, there is one option that we have, because we maintain this growth for (33:32) some stress movement or some (33:37) that we had with this – some corporate clients, we – more significant. But the decision (33:43) will be at the moment. Now, (33:47) that we have in the balance sheet, because we understand that was something that's more prudential for the moment.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So if everything goes according to plan, then should we expect provisions then to be down at least close to R$900 million in the next quarter?

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, perfect. Second question is related to your much more of a macro view. You are expecting GDP to recover 1.5% in 2017. I think this is the same type of growth you had at beginning of the year. But given all of the changes happening in Brazil, I was wondering first, how comfortable do you feel about your GDP forecast, if you can get (34:46) some upside? When do you expect the economy to start to recover?

And finally, what type of loan growth do you expect in such environment? What type of growth should we expect from Bradesco or basically what would make you more optimistic to start lending again?

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

Thank you. This 1.5% for 2017 (35:14), the GDP calculation, considering the environment that we had in this first quarter, they understand that we have now come to reach a (35:28) discussion that we – one solution we had or not (35:33), the things need to continue, then probably during the second half of the year, some measures need to (35:44) be adopted to solve some fiscal (35:48) problems, we got contact with government. (35:51) And we see the recovery in the economy, more in the end of the year, that the GDP probably will start to be positive.

One part of this negative GDP since they carry over from the last year, we had this year (36:11) effect. Then the things will be solved during the year. And we see this 1.5%, that's possible for 2017. According the political situation, if we had some modifications up, they can review (36:33) this number, there could be some R$500 million better if (36:40) we had some (36:44) or not.

Then I think it's very reasonable I think the market consensus, probably I think is little less than 1% is (36:58) is 1.5%, but the market consensus is around 1%, then we see very reasonable possibility to have the GDP positive in 2017.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

The recovering loan growth is going to be gradual. It's kind of a mix of economy improving and more demand for loans. Basically, it's going to be a gradual recovery maybe next year (37:33) maybe to the part of our guidance may be 18 – (37:39) closer to double-digits, something like this. But it's very pre-mature, it's only – it's going to be a gradual recovery.

Q - Mario Pierry {BIO 1505554 <GO>}

So just to be clear then you want (37:54) this 1.5% GDP growth in 2017. You think that loan growth in 2017 is only close to 5%?

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

Probably yes, we'll be more in the high level of our guidance for this year, close to 5% or 6%, considering the information we have right now, yes. And (38:17) in 2018 or 2019.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And how do you see – during 2017 with a 5% loan growth, how do you see the market share between private sector banks and public sector banks?

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

I think now we have a more normal competition. Then there is actual (38:47) modification in the situation that we have in this quarter (38:51) the banks are attracting (38:55) more normal stress (38:55) then I think the private banks, it can – some space (39:02) to recover. But probably will be in a more gradually, this process, (39:13) any stress movements to – now (39:20) we will grow what is possible to grow each quarter, (39:23) this is our philosophy. Then (39:30) actually we have this – have a very good strategy. (39:37) to do.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

Our next question is coming from Mr. Marcelo Telles of Credit Suisse. Mr. Marcelo, you may proceed.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, good morning, everyone. Thanks for the time. I'll limit my questions to only two, not to take a lot of your time. The first question I have is a specific question, I'm referring to slide number eight. We saw a big increase, almost 15% growth in the securities NII. And it looks like two-thirds of the growth that you had in the overall NII from the fourth quarter to the first quarter was actually explained by the securities NII, right, (40:26) which was up like R$230 million. How sustainable is that NII growth? I understand that the yield curve shifted downwards. And I believe that part of that might not be recurring, that will not be able to sustain that level in the quarters to come, is that correct?

And the second point is regarding your provisions. I mean, clearly that was – is one of the main negative of the quarter. You had a pretty much running at above the high-end of the range if you analyze the provisions you have in the quarter. Even if you exclude the R$800 million, you're already running at the high-end, right? And your NPL Creation is already pointing to R$20 (41:15) billion underlies (41:16) NPL Creation, which already give you (41:20) above the high-end of the guidance.

So my question here, how should we think about provisions for this year, considering that you are expecting delinquency to improve only in 2018, how should we expect your provision expenses to evolve, let's say, in 2017 and 2018? I know it's a long shot, but does that mean you should not see declining provision in 2017, given that you only expect anything – to show some sort of improvement? Thank you.

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

Okay. About the sustainability to – for our NII, the growth, we are very comfortable with the guidance that we gave, 6% to 10%. Probably we would be finishing the year around the middle of the guidance for the total NII, that earning portion. This specific goal that we have in the securities and others, here we have the asset liability management. One part of this goal (42:39) our pre-fixed portfolio, that now start to improve a little more the contribution, because the stability of the SELIC rate that we have and the movement of re-pricing our pre-fixed portfolio continue. Then the average rate (43:05) spread in this – average rate in this portfolio now start to have a very good start (43:13) when you compare with the SELIC.

This movement probably will continue contributing for the next quarters and probably during 2017. Then this is one part of the fact (43:27) that we have in this line. But we have another line deal (43:35) in the credit renegotiation (43:35), the re-pricing of the spread, that for the – during this year we will have this one part of our portfolio in the focus of re-pricing. Next year, we see more stabilization in the effect (43:53) but in a more high level. Then for the next year some growth in the portfolio will contribute further (44:05) the improvements in the margin.

Let me talk about insurance fee, (44:11) normally insurance business maintain a very good contribution in the year. (44:17) Then we see some sustainability in the goal. We don't have now the guidance for 2017. But we are very comfortable for this year. And for next year we see this positive (44:36) that some possibility to have growth in the loan portfolio. And the pre-fixed portfolio will maintain the contribution in a very good level.

When we talk about the NPL, the guidance about expenses, considering this effect that we had in the first quarter, the (45:04) you can consider that we finish the year in the top of the guidance.

(45:14) we don't need now to modify the guidance. When we talk about expense, we will see probably through the end of the year some deceleration in the growth (45:32) of the expense. Then probably we will have the guidance, now we are reasonably comfortable. For 2017, when (45:50) we talk about the total expense, probably it could be reasonable similar to this year, it could be a little more but we don't see a higher growth comparing with the level of this year. Now it's essential to maintain the guidance as we gave and we understand that is very reasonable to maintain.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Marcelo, only to complement regarding NPL Creation, this quarter we had a very high level of write-offs. It was due to a specific situation. It was the normal process that lead to a concentration of write-offs much higher than the normal. Write-offs next quarter will meaningfully go down. And considering that, the 10 bps to 20 bps increase in NPLs we have been talking about maintaining, you can guess (46:53) NPL Creation drops next quarter.

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

We follow the Central Bank, rules (46:58), and we do not have any additional effects.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you.

Operator

Our next question is coming from Thiago Batista of Itaú BBA. Thiago, you may proceed.

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

Yeah. Hi, guys. Thanks for the opportunity. I had two questions. The first one, it's related to your slide 14, where you show your expectation of 12 months' net loss. We note that your expectation for losses increased by 40 bps to 50 bps end of the quarter, when I compare with the last number you provided in the 4Q numbers.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Thiago, sorry. Can you repeat? Sorry, we cannot understand.

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

No. On the slide 12 – sorry – On slide 14...

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Okay...

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

You've put the chart in the top, in the left side, the 12-month net losses, your expectations.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Okay.

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

The purple line. Comparing those numbers with the numbers you provided in the 4Q, we saw some increase in those figures between 40 bps to 50 bps in the quarters in June, September and December, for instance. Could you comment about this increase in your expectation of net losses?

And then my second question is about the credit card loans. And then on the slide 12 – sorry – in slide 11, you showed the expansion of credit card loans and your year-over year-growth was achieved at 12% more or less. And when I compare the Central Bank figures, the expansion of credit card was much stronger than the Central Bank figures. So, if you could comment your strategy in the credit card segment?

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

Okay. The first question about the EBIT (49:21) efficiency ratio that we have, when you talk about the delinquency ratio is as well, the modification is because we had the acceleration according the evolution of the green line. The green line is the equity ratings, the types (49:42). Then we had an increase in this volume of the stripes (49:52). Then we modified the expectation. Then the expectations following the more actual information that we had in our portfolio. Then the write-off that we had translate for the real loss. Okay? This graph we put in the top most our goal in the March of 2015. Okay. The number 3.3 is a write-off that you had in this quarter.

So, it means that we over the quarters, in fact that's one year ago is the – gives the rationale. And the future, if you see the green line and the lower line that is efficiency loss that we have. It has a very good correlation. Then business-wise, we use the green line to trying to anticipated expectations for the future loss. Then this I think for all results the best way that we have to specify the expectation.

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

Okay. Just one point there, Angelotti. I could assume that your specific client was the main cause of your increase in the green line. So, consequently, this probably was the main cause of the increase in the net loss expectations?

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

Yes. This is the rationale that we have for the expectation. This is why we say that for this year we expect that what we will continue growing the delinquency ratio and the write-off provisions will be higher.

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

Okay. Thanks.

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

And the second about the credit card portfolio, the growth here normally you had a seasonal – when you compare with the quarter, last quarter 2015 – normally the last quarter we had a huge volume of cards in the operations. But we started 2016, if we compare with one-year ago, with a very good growth really had here some effect, the migration (52:48) of the tax that continues growing. In fact, to use the cards and they are using less cash in the transactions.

In the volume of transaction in the market, you have normally one go, one normal go, then one part of this. We are doing agreements and improving the tax base (53:17) in private label or new cardholders. Then this is a movement that is – we have this movement that maintain normal – the normal growth in the average for this portfolio stand between 10% to 15%, the last few years. This is the average of the growth.

Operator

Our next question is coming from Mr. Tito Labarta of Deutsche Bank. Tito, you may proceed.

Q - Tito LaBarta {BIO 20837559 <GO>}

Hi. Good morning. Thanks for the call. Couple of questions also. Sorry, go back to provisioning levels. But, just so I understand why you wouldn't change your guidance. And I understand you had the additional provisions this quarter and large write-offs, so that could potentially come down next quarter. But, you still need to assume that there is no more negative surprises going forward, right? I mean, I think, even though you had the additional provisions of R$800 million this quarter, you could say that probably should have been expected to some extent.

So, what makes you comfortable going forward given that you don't – your recovery, best case in second-half of this year, but there won't be any more surprises going forward. And I guess along with that at what point would you feel comfortable maybe using some of your excess reserves?

And then, second question in terms of, what you again (54:54) with HSBC and integration of that and if you can give us an update on that? And if you still expect that to be neutral earnings this year and (55:02) for the next year? Thank you.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

We did not change the guidance. Basically as we said, we still think it's feasible. We have kind of a good view of what's going on in our portfolio, the trend we expect and that basically we still think that top of the guidance is feasible. That's the only reason basically.

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

About HSBC, we are waiting the approval of the regulatory guys (55:34). Then after the approval, I think, we'll (55:40) and conclude the acquisition in 15 days, 20 days. Then our objective is to, after three or four months to migrate it for our yield platform in the bank. Then the benefits of synergies will start coming probably in the first moment in (56:09) with reduction in some case like several (56:14) data process or transports, communication cost. Then this will be probably the first benefit.

And during 2017, we expect to receive some of the benefits about the structure that Bradesco has (56:34), which suits, then probably with the normal turnover in the bank. We will accommodate the cost of the HSBC. Then the benefits on the personnel and administrative cost will be higher. And our expectation that with the synergy, in two years we'll having – the minimum 30% of the synergies. And, with our opportunity in the other side in the revenues when you compare product sales, cards and the checking accounts, we had we had options to increase the revenues and insurance fee products.

We understand that you had good portfolio of products to offer for the HSBC clients. Then we understand that – once we talk about the Bradesco for stability this year, we don't expect any effect will be made or effect the acquisition. But after 2017 or in 2018, we incur some benefits will start to come from the synergies and we will have there to improve the profitability. I think you need to understand that when you analyze that today, we'll be ahead of the prices R$18 billion or $5.2 billion.

Then with the hedge effect, we don't have more the remuneration in the cash of reals that was basically 13%, 14%. And we had the remuneration in the dollar $5.2 billion, 2% higher. Then the effects of the reimbursements, we had both, the good benefits that was the profitability and synergies who came with the acquisition. Then we're very optimistic and we understand that was of one very good opportunity for Bradesco to increase the participation in the market.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. So, you said you expect minimum 30% of synergies, was that in two years or three years?

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

In three years, gradually, probably, I think in 2017, we will have a very good evolution. We say three years, 30% is I think conservatively we probably we could identify little more opportunities and it could be more higher. Now, when you talk about efficiency ratio today Bradesco is running 37.2%. When we join HSBC, together in the first moment, the efficiency ratio will be 45%, around the 45%. In three years, the efficiency ratio when you consider together for us and HSBC is actually to bring for the – close up to a level that we have to be. 38%. Then these benefits on synergy and revenues that will change we will (01:00:45) to change the profitability.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. And when do you expect to be able to consolidate that and would that be next quarter or maybe third quarter?

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

We need to take a decision of coverage. After the decision we'll be very particularly concluding, May probably, and during June, we'll have to conclude the acquisition then we'll start with the process. But we need to wait the regulatory.

Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. Thank you.

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

Thank you.

Operator

Our next question is from Jorge Kuri of Morgan Stanley. Jorge, you may proceed.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone.

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

Good morning.

Q - Jorge Kuri {BIO 3937764 <GO>}

Two questions if I may. First on asset sensitivity, I see that in your macro forecast you're expecting a considerable cost to SELIC rates to 12.5% in this year 10.25% end of 2017 versus 14.25% now. Can you walk us through your balance sheet assets sensitivity? Obviously, we saw that for SELIC of that – over the last 24 months with NIM expansion as SELIC rates went up. All else equal, and I know there is a lot of moving parts, but all else equal, 100 basis point caught in SELIC rates, what does that mean for your loss in NII revenues?

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

It's something around the 1% that we have in SELIC. It's something around – for R$100 million, R$200 million with respect to before tax. Then we are not to – in one year, full year. Then we are not to higher sensitivity. We then talk all about the side-effects in the (01:03:03) then we talk about the provision, particularly you have some benefits on the asset – pre-fixed portfolio that we have (01:03:18) we'll start to generate more revenues in the future. Then we understand that the decrease of SELIC will be positive for our balance sheet considering the position that we have on the total effect.

Q - Jorge Kuri {BIO 3937764 <GO>}

Sorry, I didn't understand that. So you said that there is a negative impact of R$400 million that is on the revenues at one quarter (01:03:51). Can you just – I'm sorry, it's just very hard to listen to the call. Can you explain that again a bit more clearly?

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

If you consider (01:04:01) that we have – that you have remuneration with SELIC, the effect is R$ 200 million negative that we – the effect that we have in the balance sheet. When we talk about only assets that have the remuneration, it's SELIC. But considering other assets that we have with other remunerations, we have the pre-fixed portfolio that brings really some contribution above SELIC that will improve the profitability.

Then on the SELIC asset sensitivity that we can say all the, say, assets that we have SELIC remuneration is near neutral effect for us, the SELIC during the year.

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Just to add, basically we are – in this moment, we are breaking down the assets, the part that is linked to SELIC, but we also have fixed rate assets. We are – the R$200 refers only to the impact of the lower SELIC on what is floating rate. There is another part of the fact that we don't disclose, yes. (01:05:33)

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm very, very sorry. I am not trying to be difficult. You have an asset sensitive balance sheet as all banks in Latin America do. The rates go up significantly when SELIC goes up as we saw over the last two years. And they come down, as we saw in 2012, when SELIC comes down. So would you mind just helping us understand your sensitivity for SELIC? So all else equal, if SELIC rates go down 100 basis points, what is the negative...?

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

If you join everything (01:06:12) will be positive for us if SELIC go down. But we don't get the number, okay.

Q - Jorge Kuri {BIO 3937764 <GO>}

It will be positive...

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

(01:06:22) our assets and the liabilities, for us SELIC go down it's positive, but we don't give the number.

Q - Jorge Kuri {BIO 3937764 <GO>}

So your asset sensitive when rates go up and then liability sensitive when rates go down?

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

That's great for assets.

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

Congrats. Let me ask my second question then. On your provision guidance, sorry, I know every single line in the transaction about this. Let me ask this in a different manner. So if I understand, your view is that you are not changing your guidance and you feel comfortable that you'll be able to get to the provision guidance because you have a good view on what's going on in the portfolio, et cetera.

So let's go back a year ago. In the first quarter of last year, you guys said NPLs are going to be flat 3.60% – 3.6%, sorry. And if you felt that for the most part you had a little bit of risk on the corporate sector, SMEs are going to be okay, the consumer was going to be okay. As we now know, the NPL ratio was 4.2%, that's 65 basis point deterioration. If you look at renegotiated loans, which you had a record year in terms of renegotiated loans, in reality your delinquency went up 120 basis points, which is very different from your view of flat a year ago. So what gives us and you confidence now that here we are in the first quarter of the year your run rate of provisions is already above the high-end of your guidance?

The amount of bad debt formation is way above actually what was mentioned. Your provisions this quarter were up 50% versus a year ago. So what gives you confidence that we're basically seeing the worse, right, because you're assuming that your provisions are going to – have to be flat from here, vis-à-vis what turn out to be much worse last 12 months?

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

Okay. When you – if you compare it to one year ago, when we gave the guidance, our expectations for GDP, I think, was negative (01:08:42) 0.5% or 1%. The situation in the market we finished the year, which is 3 points – close to 4%. When we gave the guidance –

consider one scenario that we had available, any modification in the scenario, okay, we need (01:09:10) our guidance, as example (01:09:12).

Now we don't see any need to modify the guidance, because the scenario that we have is very similar that we had one quarter ago when we gave the numbers. This is why we only conduct – we can maintain the turnout for this guidance of loan loss expense. Then if we have some modification in this scenario toward negative way or positive way, we will revise the numbers, then we can probably (01:09:54) our expectations.

But now the scenario is very similar that we had one quarter ago when we did our calculations, when we – internal calculations are to give you the numbers. We are comfortable with the guidance that we gave in our outlines (01:10:20) to be used guidance for loan loss expense.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. So just so I understand your answer. You're expecting 3.5% contraction in GDP. So if the GDP is down 4%, which is I think roughly will concern you...

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

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

...some individuals. Some forecasts actually have minus 4.5%. So if you end up being wrong (01:10:47) 3.5%, it's 4% or 4.5%, what does that mean for any provisions?

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

That is no change. It wouldn't change our guidance.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. So even if the economy contracts 4.5%, you're certain that you're going to meet your provision then?

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

Yes, so we had reasonable modification in the same ROE, we will revise the number. But if there's small modification, we really say that is early to more decide something.

Q - Jorge Kuri {BIO 3937764 <GO>}

Great. Thank you very much.

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

Thank you.

Operator

Our next question is coming from Mr. Victor Galliano of Barclays. Victor, you may proceed.

Q - Victor A. Galliano {BIO 1517713 <GO>}

Thank you. A couple of questions for me, just so if I can – sorry, to feel like fogging a bit, but also just a quick delinquency provisioning side of things, I just want to check that E-H ratio that you brought in that slide 14, going from 4.7% to 4.9%. Was that – and this question might have been asked already but I just want to clarify this. Is that problem, corporate loan, was that already within the E-H bucket at year-end 2015, so just on the 2015 or did it actually join...?

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

Victor, sorry, can you repeat? I cannot hear you very well.

Q - Victor A. Galliano {BIO 1517713 <GO>}

Can you hear me now?

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

Yeah, better. Shoot.

Q - Victor A. Galliano {BIO 1517713 <GO>}

Okay. Sorry. Yeah, just focusing on the E-H portfolio, that big corporate provision you made and the problem loan you have there, was that loan already included in the E-H bucket at 4Q 2015 or did it join in the first quarter? That's my first question.

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

It was not in the E-H or in the portfolio.

Q - Victor A. Galliano {BIO 1517713 <GO>}

I'm sorry. What was that, could you (01:13:04) repeat?

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

It was not in E-H. One part of this goal is it sits fine in the quarter that's...

Q - Victor A. Galliano {BIO 1517713 <GO>}

Sorry, it's a really bad line. I didn't get that. It was not in E-H at year-end?

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

It was not.

Q - Victor A. Galliano {BIO 1517713 <GO>}

It was not. Thank you. The other question is really about HSBC. And I noticed that you now actually make that the capital absorption is going to be over 200 basis points as opposed to 190 basis points you had before. Obviously you have a bigger capital buffer now, but can you just explain a little bit what happened there in terms of the increase in 20 basis points of capital absorption?

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

Basically we just changed the calculation for the base of the year-end 2016. The previous calculations were based on financials of year-end 2014.

Q - Victor A. Galliano {BIO 1517713 <GO>}

Okay. Okay. And you're saying you're still waiting to hear from Carjay (01:14:09) on this in terms of getting the final sign off from them. But you already have to sign-off from the Central Bank, is that correct?

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

That's correct, yes.

Q - Victor A. Galliano {BIO 1517713 <GO>}

Okay. Thank you.

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

Thank you.

Operator

Our next question is coming from Mr. Carlos Gomez of HSBC, New York. Carlos, you may begin.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Thank you and good morning. Let me not ask about asset quality. On the (01:14:39) it was 35.7%.

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

Feel comfortable.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

It was 35.7% according to our calculation. Can you give us your indication for the year and tell us what you're assuming in terms of interest on capital? I mean, what level of TJLP you are thinking that you will be enjoying. And if you (01:15:01) refer to the risk-weighted assets, when we look at the page, I think, 75, where you show the credit risk, operating risk and market risk. Market risk declines a lot from R$19 billion to R$14 billion this quarter. I know it is volatile, but I'm just wondering if there was anything specific for it to be that low. Thank you very much.

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

Okay. About the TJLP, we didn't give the total benefits in this quarter, because there are some limitations for calling this. The total profit and we did the calculation about the minimum dividend, then specific according the means of dividend that you have. Then we had some space to have some additional benefits on the TJLP in the next quarters.

About the market risk, the big drop, I say, the position that we are revising our strategy department, then this actually will reduce some provisions and this one when we do the calculation we have the EBITDA (01:16:30). We can say less reaching the positions (01:16:34).

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

If I jump off after the first question, and so what is your guidance for the tax rate for the year? As I say, my number is 35.7%. I don't know if you have a slightly different one. Where would you expect to be in the overall year?

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

We could be running between 36%, 35% the rate through the end of the year. There you have closely – around 35% is more reasonable, but...

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

And again – okay.

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

What?

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

And again, that is with the current legislation and with no cap on the usage of interest non-capital as was the proposal here, but so it will be using the 7.5% that you have today or possibly higher later on in the year?

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

(01:17:35) little more in the future, because these benefits that we didn't use it. (01:17:42) actually some that's used in the future, but then consider it's reasonable.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Okay. Thank you very much.

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

Thank you.

Operator

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

A - Carlos Wagner Firetti {BIO 2489005 <GO>}

Okay. And thank you, everybody, for participating in our call. We are available for answering any other questions you may have. Just contact the Investor and the Market Relations Department. Thank you, all. Bye-bye.

Operator

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