Q2 2016 Earnings Call

Company Participants

- Carlos Firetti, Market Relationship Director
- Luiz Carlos Angelotti, Executive Managing Officer & IR Officer

Other Participants

- Carlos Gomez, Analyst
- Carlos Rivera, Analyst
- Jason Mollin, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst
- Unidentified Participant, Unknown
- Victor Galliano, Analyst

Presentation

Operator

-- in that address, you can also find the presentation available for download. We inform you that all participants will only be able to listen to the conference call during the Company's presentation. After the presentation, there will be a question-and-answer session.

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 the risks, uncertainties and assumptions because they relate to the future events and therefore depend on circumstances that may or may not appear 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 will turn the contracts over to Mr. Carlos Firetti, Market Relationship Director. Mr. Carlos, you have the floor. (Operator Instructions)

Carlos Firetti {BIO 2489005 <GO>}

Good morning, everyone. Welcome to our 2Q 2016 conference call for discussing our results and strategy. We have today with us for this conference the following executives: Alexandre da Silva Gluher, Executive Vice President of Branco Bradesco; Randal Luiz Zanetti, General Director of Bradesco Seguros Group and Luiz Carlos Angelotti, Executive Director and our Investor Relations Officer.

Before moving to the presentation, we would like to make some comments on yesterday's news on the tax issues investigation. Branco Bradesco acknowledged the complaint offered by the federal public prosecutor and received by the federal judge from Brasilia concerning members of our management. This is preliminary stock [ph] based on arguments put forward exclusively by the Federal public prosecutor and it reiterates that no stock tariff [ph] or legal irregularities or breach was practiced by its director, which will be fully proved during the preliminary instructions for the prosecutor. We do not have any other comments to add on this subject today.

So now for beginning our presentation, we'll turn to Luiz Angelotti.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. Thank you for joining our conference call. I'll start with slide 2, which are the highlights. Our adjusted net income reached at BRL8.274 billion in the first half and during the quarter BRL4.161 billion, which have grown 1.2% over the First Quarter and net income shows ROAE around the 17.4% for the half year.

Our NII grew 10.6%, that shows a grow of around 9.8% of the segmentation movement that we are doing and the increasing our offers of service to our clients. The operating expense went up by 9.5%, reflecting the inflation of the test fees that is our objective is to finish the year with inflation around the inflation of 2016 (inaudible) something around 6%. Our efficiency ratio is now went up to the best levels of 37.4% and the coverage ratio 80.2%, which showed the commitment of bolster the -- our performance.

The Tier 1 reached at 13.7%, that's comfortable for two -- the next steps that the incorporation of (inaudible). Our assets amounted to BRL1.106 trillion. The expanded loan portfolio reached at the BRL447 billion BRL447.5 billion [ph]. In this period it has a decreased by 3.4% due to the lower demands from the markets. Our delinquency over 90 days reaches 4.6% in effective coverage ratio reached at 233.9% (inaudible) look for the environment. We had very important contribution that given for our insurance business -- that the (inaudible) had a net income amounted BRL2.544 billion, which grew insurance premiums 6.9%. Now I'll turn to Carlos Firetti to give more details about the next slides.

Carlos Firetti {BIO 2489005 <GO>}

Okay. Thank you, Luiz. So starting on slide 3, we have the adjustments in our net income. Few adjustments this quarter, net earnings for the quarter was BRL4.161 billion in the first half BRL8.274 billion.

In slide four, we have the evolution of all our adjusted net income, in the quarter net income grew 1.2% for the first half, there was a drop of 5.7% in the quarter. This also maybe actually helped by the reduction in provision expenses, we had less provisions on the specific case from the corporate sector, for which we have been making provisions. Since last quarter, we finished the provisions on this company with an additional provision this quarter of BRL365 million, this company is now in rating stage [ph].

Also we had in the quarter our contributions from fees and commissions that are performing very well based on the (inaudible) of our segmentation and a negative contribution to our results from insurance, where a good quarter we have some pressures in the insurance operations, especially coming from claims in the health insurance segment and also we had an increase in the quarter operating expenses by BRL282 million.

In the Slide five, we have the sources of our net income. Basically we have a very diversified source of results 31% of our net earnings in the first half came from insurance, 30% from credit intermediation and 29% from fees. Highlighting that 70% of our earnings come from activities related to the credit business. The slide six, we'll talk about our assets, equity and efficiency. Basically our total asset increased 7.3% in June compared to June last year with our return on assets reaching 1.5% in the period.

Our shareholders equity grew 10.8% year-on-year despite the fact that our earnings -- pressure in the period. Our ROAE was in June, 17.4%. Our efficiency ratio continued showing very good level. We closed the quarter with efficient ratio of 37.4% and the operational coverage ratio, that is fees divided by cost was 80.2% (inaudible) compared to the last quarter, it is doing our best levels numbers.

In slide seven, we have our NII. Basically, our total NII grew 10.5% year-on-year for Q2 and our NII from interest is growing at a rate of 10.2%. Our NIM in the quarter dropped 10 bps. But the NIM calculation is affected by the fact that we are growing more in some markets that do not contribute that much through the NII. For instance, PGBL and VGBL (inaudible) products reach their revenues grow more to the other lines, not their margins. So basically, it's important to highlight that our net interest income is growing at the 10% ratio. But high -- much higher than credit growth as you're going to see later.

In slide eight, we have sales on our NII. Basically the NII from credit intermediation in the first half is growing 10.8%, basically due to the repricing of our loan book and also gains on the funding side, the security and others, where we have our asset liability management results is growing at 12% in the first half, basically helped by the flat (inaudible) and benefits on our asset liability management. Insurance is growing 7.6%. We changed our guidance for this line, now it goes between 7% and 11% growth.

In the slide nine, we have our credit intermediation margin. As I said the credit intermediation margin is still expanding, reaching 12.3% in the Second Quarter, an extension of 30 bps compared to the previous quarter. The net credit intermediation margins, net of credit cost is under pressure, mostly due to the procedures we have been making on the nice specific cage from the corporate portfolio as we have been saying. But also some growth in total expenses due to the cycle. Basically, the provision expenses represent now 44% of our credit intermediation margin, adjusting by that specific client, it would be 41%.

Our BIS ratio in the slide 10, we have an increase of 80 bps in our BIS ratio in the quarter, that increased can be explained mostly by earnings retentions, that added 50 bps to our BIS ratio. But also the reduction in the risk related assets.

In terms of fully loaded, our fully loaded ratio reached 11.3%. We highlight here is the impact from the acquisition of HSBC is this quarter a little bit higher than last quarter, 2.3%, the reason is mostly because we updated the data we used in this calculation already (based) on June 1 results. Slide 11, we have our loan book. Basically, our loan book dropped 3.4% in the quarter, impacted by the FX variation and it's dropped by also 3.4% year-on-year. The biggest contributions for this weak growth comes the SME portfolio that is shrinking 12.9% and in the corporate segment and also last quarter that is now shrinking 3.3%.

Individual portfolio is still growing 3.8%. We have good contributions from the payroll loan business, that is growing 10.5% year-on-year and the credit card business that is growing 13.2% since we are still adding new clients, especially based on the partnerships with some retailers. We have the real estate financing portfolio, the mortgage growing healthily at 25.5% year-on-year. Still we show a big drop now in car loans portfolio of 15.1%. Basically in this portfolio, we suffer from the weak demand that we have been seeing across the quarter and also the fact we have been cautious in our origination. We changed our guidance for loan growth to minus 4 to 0 reflecting the current performance in the primary.

In page 12, we have data on credit quality and provisioning basically our total NPL grew 42 bps this quarter. The SME portfolio accelerated a little bit the expansion in NPL cost of 52 bps that it's still high and vis-a-vis those portfolio delinquency increased 29 bps. And in the corporate it increased 36 bps. This increase most based on the deterioration in a group of corporate Brazil -- the credit quality; the corporate clients are not included in this NPL ratio. The 50 to 90 [ph] days delinquency ratio we had an improvement for the individual segment going to 6.14%, while the total NPL for companies still increased. In the case of companies, the impact comes from the reduction in the portfolio and also the impact of a specific client that is already included in the 15 to 90 days NPL. In terms of provisioning in NPL creation, we had an increase in NPL creation this quarter to 5.4%. But we continue provisionally making health provisions on the new creation, our provision to any of NPL creation reached 109% this quarter, considering that this provision we have BRL365 million for a specific client.

In the slide 13, we have the mix of our loan book, basically individuals representing 33% of our loan book, large companies 45% and SMEs 21.7%. In the SMEs, we have been seeing a reduction over -- also the time and especially now due to the shrinking portfolio. In the case of individuals, we want to highlight the very important changing mix we had over the time, low risk portfolios now represent a much higher stake compared to clean portfolios for instance payroll loans and mortgage represents 41% of the total portfolio. Right now, the car loan portfolio for instance that is not only smaller. But much better now, represents 13.2%. In the car loan portfolio, we have much more collaterals, the average term for the loans is shorter, the cars are new [ph]. So that makes our individuals portfolios really are in a much better position in terms of risk profile. Provisioning is on slide 14. Our total provisions reached 9.3% of our portfolio in the quarter. Basically the specific and generic provision of 7.4, we have BRL6.4 billion in additional provisions that has been unchanged since we have constituted them.

In terms of the effective coverage ratio that is the coverage of provisions to losses, we have a ratio of 234%. In terms of coverage ratio of 90 days and 60 days NPLs, we have respectively ratios of 201% and 161%. And finally, in this slide, it is regarding the renegotiated portfolio, renegotiated loans grew year-on-year 19.8%. We have very health [ph] provisions on this portfolio it's 5.5%, the NPL of the portfolio is relatively stable at 26% and this portfolio represents 4.1% of our loan book. Remember that the credit recover that we have basically -- parts of -- it's all based on loans that were written-off and these loans when we recover them, the big parts goes to the renegotiated portfolio.

Now in the slide 15, we have fees and commissions. Basically our fees are growing in the semester at 9.8%. The main drivers for this growth is the checking account business, that has been benefiting from the segmentation of our base of clients and also highlights in terms of lines for the consortium business growing 13.8%, the financial advisory service to 2.8% and brokerage and custody at 21.6%. We increased our guidance for -- we maintained our guidance for this line between 7% and 11% growth for this year. The operating expenses basically -- year-on-year, our expenses are growing for the first half at 9.5% with personnel growing 8.1 and the administrative expenses growing 10.9%. Interesting to note is that in personnel restructural expenses that is basically salaries and costs related to salaries is growing 5.8%, below inflation, mostly due to the reduction in the number of employees that -- in the quarter reached 2.2%. Also reminding that in the non-structure expenses we have BRL75 million expenses related to severance costs. Our guidance for cost was reduced to 5% to 8%. Basically we are confident we will move to the middle of this guidance at the end of the year, since the date of comparison in the second half is much higher and some expenses for instance related to marketing for the second half new draft [ph] compared to last year.

In slide 17, we have the insurance business, basically our premiums of insurers are growing 6.9% year-on-year for the first half. This growth was impacted basically by the slowdown in the Life and Pensions business that was impacted by the fact that we postponed some commercial campaigns to the second half of 2016 and even went with the campaign in the first half as we usually do.

In terms of shareholders equity for insurance, it's growing 8.3% year-on-year. Our net income dropped 0.9% year-on-year, mostly impacted by increase in the loss ratio in claims in the Health Insurance business. We can explore more on that later. And also our provision of BRL144 million for the periodic revision of our liability we have had to make this June, we do it through June and December, basically we have to use the interest rate curve defined by the Society of Insurance Regulator and recalculate our provisions on that process we had to make 144 more in provisions. Finally, our ROE for insurance in the first half closed at 22.4%.

In slide 18, we have the evolution of technical reserves, 15.8% year-on-year, financial assets, 14.6% year-on-year and our combined ratio that increased as I said, mostly due to the higher claims in the health insurance business.

Now I turn the presentation to Luiz Angelotti.

Luiz Carlos Angelotti {BIO 4820535 <GO>}

In slide 19, we show our guidance that we revised some lines. This guidance doesn't reflect the HSBC incorporation for the -- announce the new (inaudible) the effect of the HSBC when we will announce the Third Quarter results. For the loan portfolio, the new guidance reflects the demand that we expect for this year, we had some effects of the -- dollar effect in the portfolio about -- around 15% of our portfolio, we had operations that we have the dollar investments (inaudible) the end of the year $1 around R$3.2, then this is one part of the decrease of the portfolio and other parties -- the lower demand that we had in the year, probably in the second half, we expect a little bit of demand in the loan portfolio. But we think that the new guidance that you expect for loan book.

NII, we increased a little bit guidance, now we give 7% to 11% reflect the effects that you expect in the margin debt margin synergies and that we have one loan part of the portfolio that probably leaves [ph] the effect to be the pricing, because the new -- that we have more long term. We have the effect of the (inaudible) of the funding cost that we continue increasing dividends in the second half and the asset liability maintenance that we expect from the second half, some benefits that we think from our (inaudible) portfolio. We maintained the fees guidance -- the operating expense, we adjusted for the (inaudible) around 6% the inflation, that we expect that will be the link for the dividend that will come from these expense. So during the year, the way of expense will continue decreasing and our expectations are that it will reach to around 6% at the end of the year, because less cost with -- the marketing expense, because one part of the higher gain that we had during the first half is related to our expense on the EBIT gains. Then considering the higher cost also our target is going down, our target for the year -- the new guidance is now 4% to 8%.

Insurance premium, we're keeping the guidance as we gave guidance for our last quarter. Our loan loss expenses are really increased. The main effect related to (inaudible) the provisions 100% and now we included in the expectations for the year. And this is the one guidance that's (inaudible) for the year for the expectations that we had for the (inaudible) in our control [ph].

The next we guide you to page 20, here we have some (inaudible) about the HSBC, the final price, we paid R$16 reals, we are now doing our due-diligence for the addition from that price because the -- according to the (inaudible) devaluation of (inaudible) between 2014 and the date that we assume the date, devaluation (inaudible) just the price. Our expectation is that through the integration, the profits on the integration is happening in October. Then now, we're training the employees and developed workshops for they understand their -- these positions. I believe that we work in our branch and we -- the clients of the GSPC is thought to have (inaudible). And the outlines of the GSPC, we'll see the (inaudible) the cards and the instructions about how to (inaudible) the impact should be from these clients, after the integration that will happen in October. The next slide, page 21, we have some numbers about the GSPC -- the integration. And the benefit that we expect through these operations are the major things that we will start with the high -- but so many of these (inaudible) that it's expect to have probably after October. And the synergy effect and in fact that with -- now with the new client base, after GSPC we've a lot of (inaudible) -- to offer more products to have some benefits with the offer of products. And the -- with the new structure -- to the net yield of branch that GSPC has a complaint

[ph] entirely (inaudible) but that's quite unit that we have now better positioning in the Brazilian market. And the -- and the other benefit, the integration of the expertise of the human step forward [ph] to GSPC with integration. Now I -- we're completing the presentation (inaudible) our final results are compatible with the environment that we've in the first half.

Thank you for your attention. And now, we're at the process (inaudible). Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the questions-and-answer section. Jason Mollin, Scotiabank. (Operator Instructions)

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much. My question is related to asset quality. We saw the 90-day delinquent loans increased 40 -- approximately 40 basis points in the quarter. One of the higher increases we've seen, can you talk about your expectations for the evaluation of this line, you've talked a little bit in the past about expecting of weaken NPLs towards the end of the year, is that still -- is that you still intact for this large increase?

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

Jason, basically the NPL -- 90 days NPL, besides this fact that it's suffering with the economic environment. And as everybody knows, it's also impacted by volumes. I think that's important to highlight. The portfolio this growth dropped 3.4% and that impacted the ratio. In terms of expectations, you can say that, we expect the NPL ratio to close the year around 4.9%. We believe the peak of NPL could be between -- at the end of the Fourth Quarter or First Quarter next year. And an additional point which, there is the specific case on the corporate client -- segment that is already in the 15-90 days NPL. Next quarter it will grow to 90 days. But the thing is we already have these client image after six months image, we can do the write-offs. So this client impacted the quarter. But there are -- the write-off of the cleaning that days of NPL in the Fourth Quarter.

A - Carlos Firetti {BIO 2489005 <GO>}

I think the one important part of nature that [ph] in the short period ratio about BRL16.9 (inaudible). We start to see some stabilization meaning in (inaudible) then some of these we're sure that the movement that we had in the last quarter that we think that the situation is now start to show some build-up of relation or stabilization, then we can sure see this in the slides across. But when we look in the July, continue this movement. Then something that in the introduction part (inaudible) now we start to have some better streamline above the stabilization.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you. Let me just add a quick comment on the effective tax rate, which was low versus some expectations, is this related something specific in the quarter, the high level of provisions or what kind of color can you provide on where taxes were?

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

The investment we have -- the rate in the quarter was lower there's some impacts basically interest on capital -- will remain being what this contribution for reducing interest rate since the TJLP is much higher. We also have in the quarter some tax exempted revenues that also help to make the tax rate lower. And an important point is given these higher TJLP and interest on capital, we can expect to be tax rate, the effective tax rate for the year to remain at 32%, 33%, I think it is -- it was lower and it will remain at a lower level for the remaining of the year.

A - Carlos Firetti {BIO 2489005 <GO>}

With that information about the month end that the (inaudible) to do -- month ended, the deferred tax we needed to solid % for the new deferred tax rate. Then the tax that we did in September last year, now we are decreasing in 2018, we didn't have any benefit in the tax rate with our (inaudible) debt.

Operator

Tito Labarta, Deutsche Bank. (Operator Instructions)

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning. And thanks for the call. A couple of questions, one, provisioning side -- I know you increased the guidance to BRL18 billion to BRL20 billion. But to get to that BRL20 billion it does mean that provisions will have to come down from the first half of the year, I know you had some additional provisions related to the one specific corporate in the first and Second Quarter. But what gives you confidence that aside from that, that provisions will be able to come down, I know there's a lot of corporates going through bankruptcy in Brazil, due to the weak economy. They had the big spike in NPLs. So just want to understand, where you get the confidence that provisioning level should start to come down next quarter. Then, just another question on the insurance, I know you had some additional provisions there. But would you be able to pick-up in the combined ratio, if you can maybe give a little bit more color there, what happens specifically and if you think that can improve in the second half of the year? Thank you.

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

Tito, about the guidance, in the first half of the year, one part of the expenses is related to the process of ratings, revision. Then our one part of the gross expense was impacted, because of this process. And a little bit confused doing the analysis of our portfolio booking, the major part of this process I think will be that. Then with the new information in the second half will have some things that they will be really need to do this process. But this is one effect that probably the reduction in the second half, then I did one part of expenses.

One part of the higher growth that we had, in the first half all of the positive strategic (inaudible). Looking ahead, generally we see the expectation of now and to the end of the year, there's probably (inaudible) with interest ratio. During the analysis of our portfolio. And looking at the next three affects during the year, during the period of this (inaudible) the expanse that we expect until at the end of the year. Then our (inaudible) then we look to our portfolio and the information that we have about our client base. About the insurance we started really started (inaudible). About the additional provisioning we had to -- this previous quarter. It's about the interest rate curve that has experienced reduction about 100 basis points. And this basically two times a year, in December and June. And this could happen in the next (inaudible) on the behavior of the interest rate curve in the period of time. So it's a -- could be considered one shot, given the current pattern of the interest rate curve.

About the combined ratio, if I got it right, combined ratio was affected basically in the large ratio -- basically by the large ratio of healthcare segment, that was affected -- believes to be from reduction, these are -- in Brazil. And because of that we experienced clearly (inaudible) not very good buy by the expected premiums. And these increase the effect of the loss, the casualty of the (inaudible) loss ratio in the period.

And on the side of that, we continue to experience effect on inflation, not -- and in the frequency of utilization of these services. So those are the main effects on the -- basically the loss ratio of this period of time. And this was the only real factor that impacted the combined ratio. It is going to be -- become better in the next quarters, it will depend basically on the -- our ability in terms of -- in operation term, a reduced effect of the loss ratio in healthcare and better environment in terms of employment in order that could help reduce the impact of the macro effect on these segments.

Q - Tito Labarta {BIO 20837559 <GO>}

Thanks, that's helpful. Well as unemployment keeps going up, does that mean the loss ratio could get worse in the second half or how dependent is that on better environment in employment?

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

We believe that most the threat is already there, we believe that we'll have a good perspective in terms of at least release the phase of employment and maybe we will in the next quarter start to stabilize the level and most of that and more than this that we expected to gather institute the numbers that we release in the previous quarter from these segments such as small businesses that have been growing 30% a year. So because this is for those the extending in the client base and measuring from the corporate side, it was to trust it doesn't pass that you compensate and to restore the number of clients as that I said that we sensing that. We resulting in more extended period of time and we will be able to do that.

Q - Tito Labarta {BIO 20837559 <GO>}

So most of the losses that have been reflected you think and you can get season improvements in the second half. Is that's correct?

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

Sorry, could you please repeat, the sound is not good?

Q - Tito Labarta {BIO 20837559 <GO>}

Just to make sure I understood. Do you think that most of the losses have kind of been reflected and you think you begin to see some improvement in the loss ratio in the second half of the year.

Yes. Improvement in the loss ratio I think the short term is effective that would come from some operational measure that we been taking and in terms of the better controlling the cost and the access of the numbers should that the service that we provide. But on the mid to long term, that is going to be more impact in terms of the result the stabilization and the membership deeds and better environment in general or personal.

Operator

Carlos Rivera, Citi. (Operator Instructions)

Q - Carlos Rivera {BIO 17107372 <GO>}

Hi. Good morning everyone and thanks for the opportunity to ask questions. So my first question is related to NII, which is clearly growing above the loan growth, a part of it of course the relative spread from credit that continuous to work and also from the NII and securities. So just (inaudible) how much room do you foresee for the spread to continue growing up and for the NII and securities to continue very strong. And how does that (inaudible) here? I just want get more color about how to think about this for the next year? And I'll ask my second question after. Thanks.

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

Carlos, about the business item, I agree, we continue to have the effect of the spreads with pricing. Then the old equation that will have the modern approach in the quarters we had, roughly the new prices it continued increasing a little bit, the spreads in the EBITDA [ph] continuing in high level, comparing to other things (inaudible) then this higher price continues immediately has actually -- talked in the last call but we had some effects of the funding, we all saw funding is higher -- then we have the opportunity now with the higher offer funding (inaudible) then our operation that will lead to new part of our clients. We are targeting as the new tool is a semi (inaudible) part of stability, this happens because when we continue having a higher orthodox funding. And we'll have some degradations [ph] for new projects, other projects that we have (inaudible) which this means in the funding that continues in the second half. We continue having some benefits in the asset liability management we have the -- we are revising our numbers, our portfolio then, we will have more opportunities and the one part of the projects came from the credit portfolio that this portfolio continues where pricing would be more higher level spreads and this benefits in the second half, will continue to bring revenue in our NII. We understand that the new guidance reflect our expectations for the year and we have a good contribution for the insurance business, that in the second half probably will maintain a good growing in the NII.

Q - Carlos Rivera {BIO 17107372 <GO>}

Okay. And you feel initial thoughts if you could get benefited during the next year, at least in the first half of next year or is it too early to call out?

A - Carlos Firetti {BIO 2489005 <GO>}

The margins especially the assets liability management portion, it continues somehow benefitting as interest rates in Brazil go down. So basically, we say the duration of our assets is -- its kind of 18 months, after each cut you have some time, were the benefit is stronger and considering most analysts expect interest rates to go down now, more importantly next year actually -- that gives in orders, where we have the asset liability management. We should expect still some remaining benefit next year.

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

And probably next year we will have some positive growing in the loan portfolio that's really -- contribution in the volume, then leaves negative goals [ph] for 2016, we don't have the guidance for 2017, both considering the expectation of world economies probably we'll see a positive growing in the loan portfolio in 2017.

Q - Carlos Rivera {BIO 17107372 <GO>}

And my second question is regarding generic provisions. If you could comment a little bit on the decline of about BRL630 million this First Quarter, when we see a decline on generic provisions? Thank you.

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

Can you repeat the question?

Q - Carlos Rivera {BIO 17107372 <GO>}

Sure, its basically regarding the generic provision balance. I mean this is the First Quarter when we see a decline, BRL630 million decline. So just wondering if you could give us little bit more color there?

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

About the decreasing generic provision, we had (inaudible) about this -- to switch clients [ph] that now is in this fiscal provision. During this quarter we had these valuable numbers [ph] a little more than BRL1 billion -- more than BRL1 million. Then we (inaudible) probably this time.

Q - Carlos Rivera {BIO 17107372 <GO>}

All right. Thank you very much.

Operator

Thiago Batista, Itau BBA. (Operator Instructions)

Q - Thiago Batista {BIO 15398695 <GO>}

Thanks for the opportunity. My first question is about the line other operating income and expenses that increased materially in this quarter. In the press release, you already discussed a bit the main changes we saw in this line. But I have two points to clarify. One in the -- I think one of the tax contingency, what exactly this tax contingency is related? And also in the Item 3, you mentioned lower expenses on credit card and insurance, do you have any idea what caused this contraction and also the magnitude of this contraction? And it's possible to say that those expenses could be lower in coming quarters?

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

Thiago, in this other expenses, about tax contingency, they are more a validation of our internal using our [ph] position. Then -- on the -- position (inaudible) and mainly process -- we had this effect. And we had one other effect that is provision around BRL200 million (inaudible) that is one agreement that we did in the magnitude of. But now we are concluding these negotiations. Then this is one adjustment that we needed to do. The other question about the insurance -- the second question?

Q - Thiago Batista {BIO 15398695 <GO>}

No. In the same other operating line, you mentioned in the press release, there are three, you commented that the expenses on credit card and insurance were below the average or something like that. If you could explain what was the main cause of this contraction and the magnitude of this.

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

These are expected (inaudible) really don't see, I think the other factors are more relevant. Third part is (inaudible) relative to the second -- well I think we had some consolidation in the first part, then this expenses now we had a steep reduction in the Second Quarter then. But not too much realized on these effect. I think, the information we're having in those has to speak [ph].

Q - Thiago Batista {BIO 15398695 <GO>}

Okay. Thank you. So much.

Operator

Victor Galliano, Barclays. (Operator Instructions)

Q - Victor Galliano {BIO 1517713 <GO>}

Thank you. Couple of questions from me, just on the HSBC acquisition, appreciate information given us on slide 21 there. But can you give us some idea there of what a pro forma NPL ratio and (inaudible) in terms of percentage of total loans looks like. And also perhaps some coverage numbers?

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

We'll have that information for sharing, as you know we closed the deal based on a preliminary balance sheet for closing. And we are still doing a detailed due diligence in the numbers. So actually we don't have officially released Second Quarter results for HSBC. We will try to release as much information as possible once we have the audited full numbers for HSBC. But at this point I'm afraid we really cannot provide much more information.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Just a quick follow-up, I understand that. Thanks, Carlos. Just a quick follow-up from me, on vintages, can you give us any sort of color in terms of vintages that some of these loans, how they are performing. And whether you can really see at this point any light at the end of the tunnel right now, even on the corporate or retail portfolios?

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

We did well in our internal process of (inaudible), we continue doing this process all time, then our model, our analysis, we are more criteria driven, you can see in the (inaudible) we do better quality within the compared these for other, these are to give the guidance that you expect for the delinquency ratio that considering this effect that delinquency ratio by the end of year probably continues growing 0.1%, 0.2% and probably finish the year around 4.9%. Then we see a bad behavior last -- in the new originations. That is why we are more comfortable with the guidance that we give about the provision -- extensive provision.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. You were saying just to make sure got that correct, it's are in line. Was that you were expecting sort of year-end NPL ratio about 4.8% or 4.9%?

A - Carlos Firetti {BIO 2489005 <GO>}

The delinquency ratio of 4.9%, the total delinquency ratio above 90 days, that we --. And we will see a healthy ratio -- index for 2017, probably with some expectations that too big --. As I said in detail, you may see the NPLs in the Third Quarter to higher than that because of the effect of specific client. But that client should be most likely written off in the Fourth Quarter. So it gets out of the NPL base.

Q - Victor Galliano {BIO 1517713 <GO>}

Any particular sector, you really worried about at the moment ,when you look at the corporate book?

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

No. We really don't comment about the -- segment, that we enjoy -- because something that happened that (inaudible) had little more difficult during the last year that we don't comment about sectors.

Operator

(Inaudible)

Q - Unidentified Participant

Some very quick questions on early delinquency rates. I know it might be early to call it an inflection point. But from the Central Bank data, we see some continued stability over delinquency rates on the retail portfolios. And while the corporate portfolio show some improvement during June. And in your case, despite the one-off credit that you guys mentioned in the call, it looks like early delinquency rates might also be an inflection point. So I just wanted to as if you could provide more color given that we are a little bit more advance in the year in terms of what you're seeing in your early delinquency rates so far? And when would you expect the asset quality iteration to peak, if it is possible to assess that at this point? Thank you.

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

We don't have information about -- the specific information about the other (inaudible) looking at our basics, firstly, we don't sell any operation in the second part, then it could be that some institutions are normal to sell. It -- some operations probably this effect he index. Looking, ahead for the second half, considering that our short delinquency ratio is 0.5% [ph], the really impact -- of this organization mainly in (inaudible).

This was (inaudible) our expectations through end of the year, probably (inaudible) in the delinquency ratio, until for the SMEs segment, probably we'll show an even more higher growth in the delinquency ratio. It can be in the corporate side -- our delinquency ratio that we have now on (inaudible).

We probably will continue visible, stable (inaudible) in this part, we really had a peak in the Third Quarter because it's specific fact, something around 0.3% or 0.4%. But looking for the end of the year, our expectation since we are in the quarter two, where the Company has a reasonable, stable and (inaudible) considering, 1.70 [ph] something reasonable. I don't know which part to see some movement or some signal with actually (inaudible) the unit net of growing in delinquency ratio is now which leads (inaudible) stabilization from (inaudible)

Q - Unidentified Participant

Just a quick follow-up, upon the loan loss provision expenses, revised guidance for 2016, are you guys considering the use of some of the additional provisions?

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

No. Addition of provisions, we normally take as a non-recurrence expansion.

Operator

Carlos Gomez, HSBC. (Operator Instructions)

Q - Carlos Gomez {BIO 15024854 <GO>}

My question refers to your volumes, do have any certain guidance for loan growth, (inaudible) your loans in real [ph] have actually declined 6% year-on-year at this point. When do you expect to see any type of turnaround that would raise your fund in line with the guidance. Second, you mentioned that for next year, do you expect a recovery in this higher average volumes fall obviously, all you have taken around quick. So that the average for quarter [ph] around 2017, moving faster on 2016. Can you confirm that and don't you expect any contraction following the integration with the other institutions that you have acquired? Thank you.

A - Carlos Firetti {BIO 2489005 <GO>}

Carlos, basically volumes have been very weak, because we are cautious [ph] and demand is very low. We believe that this component coming from demand would be one thing that we all start to turn around, add scope that's continuously improving as the economy starts to rebound. And (inaudible) start who have (inaudible) to achieve more. Our economies probably regard for the shift and expect loans to grow 7% next year. We don't have a guidance as we said [ph]. But we expect for next year-end the loan growth for Bradesco to be on the positive territory to precisely say our brand (inaudible) it's difficult but maybe at the end of year we have the peak of NPL. We are starting to see already, according to our economist, the economy growing Q-on-Q in the margin, positive in the Fourth Quarter, may be around that.

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

If you compare on the positive -- until the end of the year, we specifically had some positive growth. During the year -- 2017, we expect to see a positive growth -- annual growth.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you, around the effect of integrating two banks, whether you have to reduce exposure to some vertical [ph]?

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

Both. Our expectation is to (inaudible). But we need to analyze the client-by-client. We had the space -- for maintaining the position, because normally we use --. We had margin now with limits, (inaudible) we analyze case-by-case, if the client has potential -- maintain the operations (inaudible) case-by-case.

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. Thank you very much.

Operator

Ladies and gentlemen, since there are no further questions I would like to invite the speaker for the closing remarks.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you, everybody for participating in our call, the Investor Relations department is open for receiving your doubts and answer anyone that is remaining. Thank you very much.

Operator

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