Q4 2013 Earnings Call

Company Participants

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

Other Participants

- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Regina Sanchez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. welcome to -- welcome everyone to Banco Bradesco's Fourth Quarter 2013 earnings results conference call. This call is being broadcast simultaneously through the Internet in the website, www.bradesco.com.br/ir. In that address, you can also find a banner through which the presentation will be available for download.

We inform that all participants will only be able to listen to the conference during the Company's presentation. After the presentation, there will be a question-and-answer session. At that time, further instruction will be given. (Operator Instructions)

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

Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they're related 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 will turn the conference over to Mr. Paulo Faustino da Costa, Market Relations Department Director.

Paulo Faustino da Costa {BIO 6436050 <GO>}

Good morning, everyone and thank you all for participating in our Fourth Quarter conference call. We are here to provide you with all the information you may need about our numbers. And this is (inaudible) always increasing the transparency of information disclosed to the market.

We have here today Mr. Julio de Siqueira Carvalho de Araujo, Executive Vice President; Mr. Marco Antonio Rossi, Chief Executive Officer of Bradesco Seguros Group. And Bradesco's Executive Vice President Mr. Luiz Carlos Angelotti, Executive Managing Officer and Investor Relations Officer; and Mr. Moacir Nachbar Junior, Deputy Officer.

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

Luiz Carlos Angelotti {BIO 4820535 <GO>}

Good morning, everyone. And thank you for taking part in Bradesco's Fourth Quarter 2013 conference call.

Now please turn to slide 2. Slide two shows the highlights for the period beginning with the adjusted net income, which amounted to BRL12.202 billion in 2013, 5.9% year-over-year, with ROAE of 18%. Fourth quarter net income amounted to BRL3.199 billion, 3.8% growth quarter-over-quarter.

Our insurance operation, which is one of the pillars of our business, has also performed well with a net income of BRL3.740 billion in 2013 and more than BRL1 billion in the Fourth Quarter, due to premium grow reinforcing the excellent prospects for this business.

Our net credit margins went up by 12.9% in 2013, mainly impacted by the decline in delinquency costs underlining the (intrinsic) cost of our loan portfolio. The delinquency ratio over 90 days continues to decline, falling by an additional (10) basis points quarter-over-quarter and 60 basis points year-over-year, reaching 3.5%, at the lowest point in the last five years. We believe this ratio is becoming stable at this lower level.

Our coverage ratio for overdue loans remain robust, reaching 192.3% for the loans overdue by more than 90 days, the most (inaudible) of our financial position.

Fee income was up by 13% in 2013, while our OpEx went up by 5.6% below the inflation for the period. It is also worth noting that the performances of both lines is within our expectations. This mix of constant investments and fixed cost controls led to an operating coverage ratio of 71.8%, reducing in the -- the highest level of efficiency for the last five years.

Total assets amounted to over BRL908 billion and our expanded loan portfolio amounted to over BRL427 billion.

The slide three shows the reconciliation between our book net income and adjusted net income. In this quarter, the main non-recurring items were the net effect of tax payments through the tax recovery program, REFIS, amounting to BRL1,950 million. Second, the recording of tax credits arising from extra investments amounting to BRL462 million. Third, the net reversal of a part of the technical reserves on the (route) issued by Susep determining the use of risk-free forward rates, as discount rates for actuarial liabilities totaling BRL2,572 million. And fourth, BRL6,117 million for the adjustments to rates at market value of our NTNs portfolio. Part of this amount connects to the reversal of technical reserves that I mentioned before. And finally, the recognition of impairments loss amounting to BRL739 million, with BRL682 million of which from adjusting the historical value of shares to the fair value.

Adjusting for these events, our net income for the quarter rose to BRL3,199 million. Our annual net income increased to BRL12,202 million. But these non-recurring events not have caused a significant net effect on our results for the quarter and the year. This caused a major growth in our shareholders' (average), supporting our Basel III implementation and will result in an increasing of the future interest income from our NTNs that now are at the market rates.

Also in this slide you can see our return on average equity which came to 18% in 2013.

On slide 4, you can see that income growth in this Fourth Quarter was mainly driven by higher net interest income from the both non-interest and interest earning operations. And this increased fee income partially impacted by the collective bargaining agreements, which is reflected in personnel expense and the seasonal (inaudible) in adding such expenses mainly coming from advertising expense.

Year-over-year we have seen that the adjusted net income was moved up by BRL679 million or 5.9% basically due to such higher income as a result of increasing of the foreign operations mainly excluded by the expansion of the client base and the personal services at channels. And second, the (use of) delinquency, third the strong cost controls which were below inflation and the fourth, the good performance of the insurance business. The earnings per share increased by 6.2% year-over-year, from BRL2.7 to BRL2.9.

In slide 5, turning -- I mean, if I turn and keep this break down of our net income. In the quarter, it is worth to note the expanded share of insurance operations due to the external revenue growth, mainly in life and pension plan business year-over-year. I will highlight the expanded share of loan operations and fees boosted by the decline in delinquency and rising customer and credit card base. As well as the expansion of the customer shares channels which have pushed up the transaction volume. The reduced share of securities operations in both periods was basically driven by a lower arbitrage gains and as a result of market volatility.

Please turn to slide 6. Our 12 months efficiency ratios remained at 42.1% in this Fourth Quarter. The increase year-over-year was mainly driven by the drop in the non-interest portion of net interest income as well as the effect of 2012 and the 2013 collective bargaining agreement. Therefore reaching the quarterly efficiency ratio was mainly driven by the performance of fee income and net interest income, both of which moved up by 5% in this year. We seek our goal of reaching an efficiency ratio of around the 39% by the end of this year.

The blue line shows the risk adjusted efficiency ratio, which stood at 52.1% in the Fourth Quarter showing an improvement of 40 basis points quarter-over-quarter and 60 basis points year-over-year, mainly reflected a drop in delinquency. It is also worth noting that our operating coverage ratio, on the top line, came to 71.8%. This ratio is a measure of our ability to cover operating expenses with fee income as our -- mentioning operating coverage ratio goes to its highest point in five years.

Turning to slide 7. Unrealized gains amounted to BRL13.9 billion in this Fourth Quarter, BRL3.8 billion was quarter-over-quarter. The increase was basically driven by the adjustments (inaudible) at market value of our NTNs and the appreciation of our investments, especially our shares of Cielo which went up by 9.5% this quarter.

These figures do not include the BRL5.2 billion related to the potential surplus value of our properties.

On slide 8, you can see the performance of our net interest income from both non-interest and interest-earning operations. This quarter we saw an increase in the total net interest income driven by the interest earning portion, particularly insurance and the funding margins, basically led by the upturn in business volumes and the growth in average expense as well as the non-interest earning portion which reflected the highest (arbitrage) gains.

On our annual basis, the drop was mainly caused by lower results posted by the non-interest portion in turn due to strategic arbitrage gains partially offset by the growth in the interest-earning portion mainly loans (outstanding). The annualized interest margins reached to 7.1% in this Fourth Quarter, 10 basis points up quarter-over-quarter, mainly impacted by the higher insurance margins.

On slide 9, you can see that in the Fourth Quarter the interest-earning portion of net interest income, was positively affecting in our business lines. Especially first they should due to higher business volumes and the increase in the average spreads, basically reflecting the behavior of (inaudible). This year ended (inaudible) in the quarter. And secondly the funding mostly driven by the results this volume of operations to the extension of second our -- this liquid higher interest rates.

On annual basis I'd like to highlight the loan and issuances which were positively affected by the upturn in business volumes and also firmly -- especially due to the speed upturn in interest rate. The drop in the securities margin, both year-over-year was mostly due to the basic gains from the (basic) portfolio.

Please turn to slide 10. Quarter-over-quarter our net credit margin, the blue band of the chart remained (virtually set) ending business by 12.9% home on an annual basis, positively affected by higher business volumes and the reduced delinquency costs. The position for loan losses to credit margin ratio showed a slight (70) basis point upturn mainly due to the increased in positions for loan loss as a result of certain one off events. For 2014, we expect the new (considerations) to stabilize at current lower levels or fall somewhat given the downward slide of shortage and delinquency ratios. Thanks to the (inaudible) consistency of our loan raising policies (inaudible) obtained, as well as improvement in the lower (inaudible) process.

On slide 11, we show our BIS ratios in line with Basel II for periods until September 2013. And Basel III as of December in accordance with the new capital structure that has been in force in the usage of further efforts and which provides for amount of the events that is strengthening of the level of capital and financial institutions.

Under this new (operational) methodology our total BIS ratio stood at 16.6% in December, while the common equity and Tier I ratio came to 12.3% remaining at very comfortable levels. You can see stimulation of our BIS III ratios on a fully phased in basis. And most especially our ratios are robust. Therefore this interesting information of the routes came up limited our ability to finance our clients. The liquidity of our shareholders average and the reduced capital allocation to market risk both contribute to the improvement of this ratio. In September, our September 13, our BIS III we could achieve that simulation was the Tier I was 9.3% and now we have this 10.2%.

Turning to slide 12, as we have already seen, total assets amounted to BRL908.1 billion, that's 3.3% increase over -- year-over-year. The return on average assets stood at 1.4%, in 10 basis points up quarter-over-quarter, while the adjusted return on average equity was 18% for the year.

Slide 13, shows that our expanded loan portfolio amounted to BRL427 billion as of the December 13, 3.6% up in the quarter and 10.8% up on an annual basis led by most micro, small and medium companies SMEs, will be pleased by 3.3% quarter over quarter. And 11.5% year over year. The quality of our assets remains the same even after the mentioned loan portfolio of growth. Evaluation to the difficult portfolio, the highlights were the on payroll -- our on payroll average loans with volume mortgage loans and the credit cards. It is worth nothing that if the acquired portfolio and the (inaudible) were left out, the expanded loan portfolio will have grown up by 13.6% this year reaching to the range of our guidance.

Slide 14 shows the delinquency ratios. The delinquency ratio over 90 fell both on a quarter and annual basis. The decline was mainly -- consequent to first the continuously improving loan granting procedures, then second is (inaudible) individual loans and the mortgage loans impacted our loan portfolio mix mainly in the individual portfolio. And thirdly the (inaudible) monitoring models.

And the only highlight, the drop in the individual ratio as well as the micro, small and medium companies' delinquency ratio. There was an increase in the large corporates delinquency ratio. But it is mainly growth due to certain one off events and does not indicate (inaudible) range.

It is also the far sight that the events of total delinquency, business in the lowest levels in the last five years given the behavior of the (inaudible) and the short term delinquency ratios we still expect total delinquency ratio to stop rising in the coming periods and there is room for improvement.

Slide 15 shows that our provisioning ratios remain robust assuming the maintenance of 12 months net loss ratios. As of December 2012 we have BRL12.3 billion of said provision versus a loss net over net of recoveries (inaudible) because of the total volume. Also a small thing on this slide, increasing the coverage ratio for loans overdue by 90 and 60 days reflecting the drop in delinquency. Therefore we believe that our level of provisioning in accordance with the (Central Banco) regulation is in line with our provisioning and the risk assessment policy showing that we are positioned to handle the back of any potential downturn.

Please turn to slide 16. The Fourth Quarter's income went up by 5% quarter over quarter and amounted to BRL5,227 million, mainly because this quarter was one of (inaudible) for underwriting the financial advisory, the loans operations in consortia and card fees. On an annual basis, fee income increases by 13% led by operations such as cards, consortia and checking accounts. It is important to mention that our continuously (inaudible) technology and (inaudible) has led to an increasing our (inaudible) base in turn generating a continuous upturn in transactions volumes and also in fee income.

Slide 17 shows that the operating expense for 2013 were up 4.6% within our expectations and below the 12 months (inaudible) inflation rates which reached 5.9%, ended 5.5%. The increase was mainly due to payroll expenses arising from 2012 and the 2013 collective bargaining agreements. With (inaudible) reached up by 7.5% and 8% respectively. And to administrative expense which only moved up by --is rising 2.5% despite the big increase in operational and business volumes reflecting the strict cost controls led by our payroll efficiency committee.

Third quarter OpEx was up 4.8% mainly driven by higher business volumes and the seasonal upturn in margin expense. Considering our ongoing pursuit of improved efficient and our investments in information technology it means that we will continue to deliver OpEx growth below the inflation level.

Slide 18 shows insurance written premiums pension plan contribution and the capitalization bond income which increased by 30.9% quarter over quarter primarily due to a strong growth in the pension plan segment. This return was posted by a higher concentration of pension plan contribution during this period. On an annual basis, we have seen a 12.3% increase led by the health insurance and the capitalization bonds segment both of which showing double digit growth. Fourth quarter net income moved up by 14% exceeding BRL1 billion mainly due to first the higher revenues, second improved financial results, third, claims ratio under control. And finally the (inaudible). The annual net income amounted to BRL3,740 million, 4.3% up from -- so largely driven by revenue growth and improved financial results.

Slide 19 shows some of the main figures of our insurance activity. The combined ratio came to 86.1% in the Fourth Quarter mainly impacted by higher revenues. Financial assets amounted to BRL146 billion, while technical reserves stood at BRL136 billion of which -- from the life and the pension plan business.

Slide 20 shows our economic (inaudible) the GDP, interest rates, inflation and the FX-rate for 2014 to 2016. Given that's the results (inaudible) in Brazil. In the 2013 have been supported mainly by the productive investments came from the recent increased (inaudible) construction programs, the improvement macroeconomic fundamentals and the institutional achievements. These effects contributed to the stable and higher economic growth for these coming years coupled with the securitization and the interest rates control.

On slide 21 represents a comparison of our 2013 guidance with our actual performance. We met significantly all of our guidance range except for the corporate and the total loan portfolio growth which we had revised down when we discussed our results for the Second Quarter of 2013 giving the difficult environment at that time. It is very important to mention that at that time we revised our guidance for fee income due to the expansion of the personnel and the card fees and also revised our guidance down for operating expense.

Please turn to slide 22. We believe the loan portfolio continue to expand in 2014 growing between 10% and 14% mainly boosted by low (inaudible). Our economic department they understand that for the total season the goal for loan portfolio be 13.2% in 2014. We expect another year of good performance in -- for our fee income 9% to 13% and insurance premiums at 9% to 12%. Concerning to our OpEx, we expect then to grow at inflation level at the most because our continuous investments and for looking for more efficiency.

With the results worked (inaudible), the results of the interest earning portion, of the net interest income, with maximum -- given volumes at average debt and the funny contribution because of the high level of the Selic rate that we expect for 2014.

Finally, we believe 2013 was a year of favorable results for Bradesco especially given the challenging scenario we have to face through the year. The improvement in our loan portfolio, while (inaudible), make less provisions for loan losses and allow us to maintain high levels of provisions for overdue loans.

Once again, it is worth highlighting the continuous pursuit of efficiency and the growth in our revenues mainly to the higher volume of transactions which in turn resulted from the investments we made in infrastructure, information technology and new products and services or (inaudible) over the last few years.

Bradesco Seguros Group also made substantial contribution to our results being strategically positioned to meet the needs of society that's becoming increasingly aware of the importance of protecting their life, their future. And their property.

Given the current economic environment, we are very optimistic of our financial services and the insurance industry in the coming years. Loans should experience this sustainable pace of growth and the lowest exposure leading by income gains and job creation. Therefore we are assuming this positive outlook for the country and guiding the strategies in order to strengthening the -- it's positioning in Brazil's banking and the insurance industries.

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

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions)

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions. The first one is related to your net interest income growth guidance of 6% to 10% in 2014. This is lower than the growth you are expecting for your loan book. So I wanted to understand from you exactly what do you expect? If you could break down the drivers of your net interest income between the loans, the funding, insurance and securities, because I would imagine strong performance from your securities portfolio especially with a higher interest environment.

The second question is also kind of related to some guidance that you gave. You don't officially give guidance for asset quality. But you did mention that you see room for asset quality to improve. But I wanted to get from you a sense of what could be the impact of the higher interest rate environment in Brazil as well as the weaker currency? Let's say, if interest rates rise more than what you're expecting, would you be revising your view with respect to asset quality? Thank you.

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

Thank you, Mario. Our net interest income guidance is 6% to 10%. We had some components in this guidance. The correct contribution -- these are all this 70% to 75%. And we had other contributions for this growth that we had -- that came from the funding. In this line, we expect better growth because of the high (inaudible) that we expect that we'll maintain during the year. We had contribution for the -- our insurance group and the margins that's probably we expect something similar that we had in 2013 probably will be the (inaudible) for the insurance -- do you agree. We have in the last line each and others, in this line you -- we had the -- during 2014 some impact of the -- the effects of our fixed portfolio that will be negative. But in the other the other side, we only have some additional contribution because the movement that we did with our NTNs during the year, then this guidance that we gave you 6% to 10%, we understand that is very possible to reach because the condition that we have for this year. This is what we understand could be a little conservative but 6% to 10% is, we understand that is possible to reach during 2014.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me interrupt you really quick here. Sorry. So if you could then describe a little bit of the drivers for the loan portfolio. My understanding then is that you expect further pressure on spreads. And is this due to a change in mix or how are you seeing the competitive environment especially from the public sector banks?

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

We have said that this year probably the competition will be in the more normal spread -- and we -- to continue in -- to be a higher competition between the banks but with more normal spread than we expect this year. We are working for few months to stable spreads in the portfolio considering the effects of the increase of the payroll loans and the mortgage because they have lowest spreads in the effect -- the mix. But we will continue to grow in SMEs that gave us some compensation. Then the NIMs in this case, is that we finish the year 7.1%. We expect during the year some stability. Probably we will finish the year around 7.1% or 7% but we expect more stability in our NIMs during the full year of 2014.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then the second question.

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

And about the asset quality, we finished the year 2013 with 3.5% in our delinquency risk for 90 days. Probably we understood during 2014 we expect some stability for this ratio considering in our case the scenario that we give here, we expect the Selic rate to get to be during the year stable and 10.75% we will finish the year with this level. We understand that is possible to maintain a stable this ratio and then considering the growth that we expect for payroll loans and mortgage that has a lower delinquency. And we are investing in our improvements for our instruments to do correct analysis. And we indicate that's possible to maintain the stability during 2014, in the delinquency ratio. And in this scenario, we expected -- we understand that they expect with the P&L, considering that we have some possibilities that to have a better delinquency ratio during the year with some decrease in the ratio. We expect to have some stability there in the (inaudible) that we probably expect for 2014 will be audited total that we finished in 2013.

Q - Mario Pierry {BIO 1505554 <GO>}

Just then a final follow-up. When you look at for the outlook for Brazil in 2014 and especially with asset quality. What concerns you the most, is it the increase in interest rates, is it the likely recapping unemployment, is it the FX volatility?

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

Well the scenario that we have is -- that is -- our economic department they did it, they're establishing the Selic rate, probably be reaching 10.75% and we will be stable until the end of the year. The unemployment risk we will have that small increase, we finished at 5.4% in 2013, we expect 5.7% for 2014. Then we understand that this is more increasing the unemployment risk not only affected the then plans.

And the -- for the system, our economic department services, we expected practically stability in the delinquency ratio. Then we understand that it is possible to maintain a -- our delinquency ratio, Bradesco delinquency ratio is stable during 2014 with some possibility to have some improvement, to have some decrease in the ratio because the effect of mix and the -- our investments in the cards of our analysis.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. Thank you very much. Thank you.

Operator

Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

I have two questions. The first one in terms of asset quality I know you have told us quite a bit. But can you share with us what your policy has been lately, have you tightened your credit standards versus maybe like six months ago or you are pretty much with the same credit risk policy or if you have the need given this lower economic growth to become all the more conservative at least at the margin?

And my second question regarding still your NII growth. Can you remind us what you think the impact of higher rates could do to your margin, I mean, if you go to 11% still equates, you think that you would be able to follow with this guidance. I ask that because the NII guidance last year in 2013 was actually -- it fell short of expectations, last year initial guidance at the beginning of the year. So how comfortable are you with that 6% to 10% NII growth? Thank you.

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

For the asset quality we maintain our credit policy in this same way, we maintain the same procedure that we --- that we did in 2013, we did in 2012. But something that we continually, we do is improving our margins, every time we do the analysis, the portfolio that we have before and we analyze the performance and the -- our improvement that we can do meaning our instruments for to correct something that we understand that we need to correct and then we use for to improve for the future, our -- the quality of the analysis.

We maintain the same (inaudible) policy. But we continually are investing our instruments for to do the correct analysis and the -- to approve the credit operations.

About the NII growth, the guidance we gave here 6% to 10%. We understand that it is possible to reach this guidance if we have some improvement in the Selic rate. We understand that we will have some benefits because last year we were more affecting our (fixed) portfolio because the fast increase that we have in the Selic rate.

This year, the majority of the portfolio we had some renew this (fixed) portfolio and they have now better rates and they can support better the sales of -- if we have some increase in the Selic rate. In the order rate, in this funding line our increase in the Selic will be seasonable for -- to the margins. Then we understand that we can support if we have some increase in the Selic rate will be favorable this year for to improve the -- our margin.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thanks for answering. Just one follow-up on the margins. You sold and bought about BRL41 billion of securities, right, I think mostly NTNs from what I understood from the release. And can you share with us what was the rate differential of the ones that you bought that because I believe this will lead to potentially a part of the impact on your NII growth given that I think most of that to happen at the very end of the quarter, correct. So these were probably buying bond with high yields and probably have an impact on NII. So I was wondering if you could share with us what the average difference in rates?

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

And when we decide to go the distance to market value, wasn't the end of the year, it wasn't the second part of this, the second half of December. Then we did it considering that the market rate are in dispute, then we understand now that we have our NTNs in a better and market ratios and then you gave your contribution for our margins during 2014 and in the next year because the amount of these bonds, the NTNs are; has a more long-term than the -- than we will maintain for the next year and we're continuously contributing for the results of Bradesco.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thanks. Do you think this is -- I mean, do you think 100 basis points, 200 basis points is a reasonable number to work with?

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

I think these are something reasonable.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you.

Operator

Regina Sanchez, Itau BBA.

Q - Regina Sanchez {BIO 16404038 <GO>}

I also have two questions. The first one is also related to this change in the yields, the markets rate of the NTNs. I would like to know what drove your decision I mean to recognize the losses in the year for securities portfolio in the Fourth Quarter. Why you choose to sell and then bought back the securities instead of just selling them in the market. I understand that this is a big position, approximately BRL40 billion. And then it could be difficult to sell securities at once without impacting market prices in a short period of time. But I would like to know do you consider to gradually reduce this exposure from now on given that you already absorbed most of the losses.

Then my second question is regarding the guidance, for I think (inaudible) expenses increased to 6%. I think this is very, very positive especially considering the wage agreements that was -- if I am not mistake, around 8%. So if you could comment on initiatives, how do you can achieve this very small growth on administrative expenses, I appreciate it. Thank You.

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

Thank you, Regina for the question. About the NTNs the decision, one part of the NTNs mostly (inaudible) one part is related to insurance business, then this movement is related to the new regulation of Susep that the insurance company need to review, they are raising in the lobbies changes for new (inaudible), now the regulatory review gave the rates for the -- Susep will give the rates for the company. The new rates that they use is 5.6% for -- to do the movement in the (inaudible) and they had a reversal of this (BRL2.5 billion) in the provisions and the -- for two month in the spread in the insurance business they did something the reversal position that we did in 2012 they need to, in the NTNs portfolio, they need to adjust to the market value -- to the market rates for to maintain the stability with the liabilities that is there in the insurance business we have because the long term liabilities -- they need to have (inaudible) the rates that will be compatible with this cost that we have.

And the one part of the movement is the insuring company is they call it the new regulation that we have that can transfer that. In the bank's portfolio, the recent portfolio that they have in the bank that we use for to do the asset liability management we (inaudible) we did only to do this adjustment in our accounting cost, we did this -- we decided to do this adjustment in the costs in the accounting books during the movement considering that the -- in the end of the year the layer of the risk that we have we understood that it was better to do this adjustment. But not in changing in the (inaudible) continued with the same NTNs portfolio (inaudible) and we maintained this portfolio in the available for sale position group. And we maintain this portfolio for to do our asset liability management in our management.

Then the decision of the costs we understood that it was better for the Company, we improved our efforts during these movements. We have now have the position for to do the Basel III implementation and the profitability of these NTNs for the future increased and you gave the contribution for our NII and -- for the reserves of the bank.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. And just a follow up and thanks for the very detailed answer so you do not intend to sell this position, because it's a part of the asset liability management strategy of the bank and just to confirm, I know it is a follow up from a previous question. So in this guidance of NII of 6% to 10% growth it does include this better contribution from the new yields on the NTN. So you've already considered that or you think it might be more towards the upper side of this 6% to 10%.

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

Yes. We consider (inaudible) during the year we understand that we need to (inaudible) we could do both -- we understand that's very possible to reaching this guidance considering the position that we have it and the scenario that we have for the economy this year.

Q - Regina Sanchez {BIO 16404038 <GO>}

I will now say thank you and then about the expenses.

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

Our guidance is 3.6% and we expect to finish the year under the inflation ratio the inflation level. Why we understand that it's possible ratio is look to our last three years see 2011 that we finished with 18% because during 2011 we did have some investments in the 1,000 branches and we had a strong organic growth. And I think that we are now working and we are improving our efficiency. We are now in 2012 and we finished the year with the OpEx growth was less than 8%, 2013 we finished with 4.6% and for 2014 we expect to finish it under the inflation level. We have internally our efficiency committee our -- committee purchase committee -- we are involving all areas in the bank, all directors are responsible (inaudible) looking for opportunity (inaudible) reduce costs for improve the revenues, because efficiency is not only (inaudible) looking for opportunities.

And we have many projects or decision that probably will help us to maintain office under control during 2014. And the -- we have another contribution of our investments in NIT, our IT revitalization program that is some system that we are finishing. They will give you some contribution for to improve the efficiency in the bank and you will help us to retain this guidances that we gave it, that we are working hard for to maintain the level of the growth under the inflation growth. And we had another target that is our efficiency ratio that we expect to finish the year in (inaudible) at 39% and these effects will contribute to for reaching this level.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay thanks a lot Angelotti, very good answers. Thank You.

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

Thank you, Regina.

Operator

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

A - Paulo Faustino da Costa {BIO 6436050 <GO>}

Thank you, to all for participating in this conference call. I would like to take this opportunity to remind you that our Investor Relation department and our IR team are at your disposal. You can get all the content of our Fourth Quarter 2013 and other information concerning Bradesco is in our website. Thank you.

Operator

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