Q4 2014 Earnings Call

Company Participants

- Andre Santos Esteves, CEO
- Marcelo Kalim, SVP

Other Participants

- Carlos Macedo, Analyst
- Mario Pierry, Analyst

Presentation

Operator

Good morning. Welcome to the Fourth Quarter of 2014 results conference call of BTG Pactual. With us here today, we have Mr. Andre Esteves; Mr. Marcelo Kalim; Mr. Joao Dantas; Mr. Pedro da Rocha Lima. We would like to inform you that this event is being recorded. (Operator Instructions)

Today, we have a simultaneous webcast that may be accessed through the website www.btgpactual.com/ir. There will be a replay facility for this call for a week from February 26th through March 4th.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results. And those related to the growth prospects of BTG Pactual.

These are merely projections and as such are based exclusively on the expectations of BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changes in market conditions, government regulation, competitive pressures, the performance of the Brazilian economy and the industry among other factors and risks disclosed in BTG Pactual's filed disclosure documents. And are therefore subject to change without prior notice.

Now I'll turn the floor over to Mr. Andre Esteves who will begin the presentation. Mr. Esteves, please go ahead.

Andre Santos Esteves {BIO 1939152 <GO>}

Well. Good morning for those in New York. Good afternoon in Brazil. Thank you very much for being here together with us. As always I will do an introduction and some general comments about our business. And our CFO Marcelo Kalim will explain in more detail the business units by business units' results. And as always, feel absolutely free to ask us questions in the Q&A session.

Well first off, we had results of BRL848 million in the Fourth Quarter. We were very glad with that. It's higher than Third Quarter of 2014 and higher than Fourth Quarter of 2013. So it's a positive result in a weak business environment.

Revenues were around BRL1.6 billion, more precisely BRL1.586 billion and return on equity of the quarter reaching 18.4%. Expenses remained under control. So cost to income at 42% ratio which is our target and compensation of 28%. I will comment these numbers better in the general comparison between 2014 and 2013.

Total assets achieved BRL218 billion, a little bit higher than Third Quarter of 2014 and Basel ratio was 17.5% influenced from the -- basically of course from the overall business. But for the issuance of our tier 1 that happened in the Third Quarter. But got Central Bank authorization in the Fourth Quarter.

With these numbers, our shareholders' (inaudible) finished 2014 in BRL18.7 billion.

Going through the full-year comparison in the next page, as we said we like it very much that even in a challenging year for LatAm for principal investments and corporate lending given the weak economy not only in Brazil. But overall in the regions that we have the core of our business, we delivered a solid return on equity and a solid growth both in revenues and in earnings.

So return on equity was 19.6%. But in line with the 20% guidance that we gave and revenues were BRL6.7 billion, again more precisely BRL6.737 billion which is higher than the BRL5.914 billion of last year -- of 2013. So good growth here in revenues, also good growth in net income.

So net income for 2014 was BRL3.411 billion and in 2013 it was BRL2.775 billion. So a good growth in both net income and revenues even in a weak business environment. As a consequence our shareholders' equity grew from BRL16.1 billion at the end of 2013 to BRL18.7 billion at the end of 2014. As you know our shareholders' equity move basically only with the results like the business that we distribute.

We also got this growth in revenues and earnings keeping the KPIs strong as we expected. So there was always some discussion if we go and we could keep the same KPI especially under a larger capital base. And I think the results of this year prove that. So we got cost to income at 41% which is kind of stable with 2013 and our historical standard.

Compensation ratio, the same thing, at 23% and that difference laid into net margin of 51% which is more or less what we expect from the business.

Going to the revenue mix of our business we are very glad with the 2014 picture. So if you can see there's the evolution on the key business. I think we showed again a consistent growth year after year on this combined business.

This includes the investment bank, asset management. And the wealth management. So a total of BRL2.228 billion which is more or less 10% growth of 2013 which is also 10% growth over 2012. So this is -- as I said before, that's the formula of how we continue to provide good returns over a higher capital base. So you need to extend your key business and we are doing that.

Also in sales and trading which include some key business which doesn't include that in the pure business which is the previous -- my previous comment, just to be pure in terms of the first line. So in sales and trading, we have some best result in 2014. And here there is a little bit of a change in terms of the levels of revenues. And this is caused by our commodities division that has the project started about three years ago and already produced revenues in 2013. But of course kicking in completely in 2014.

So we had a good year in commodities. And this incorporated together with our (inaudible) FX fixed income business in five business units. So we had growth and there is a little bit of structural growth from the implementation of our commodity business.

Moving to corporate lending, we had -- the business progressed well during the year. There was a negative one-off in a specific situation as most of you know an energy company (technical difficulty) -- and we had some exposure there. And we decided to increase significantly the provisions in the Fourth Quarter and this translated in a result that was slightly below 2013.

The level of provisions increased substantially in our portfolio and even with the weak economy high provisions we had these -- our revenues of close to BRL700 million. So thus we were conservative in terms of provisions. We expect for 2015 a positive evolution here which is the normal growth that you have been seeing in the figures here and I don't -- we don't forecast any additional exceptional provisions. So the opposite, we think we have -- we are conservative on how we are doing that now.

Finally, (inaudible) we had a negative result. Mostly it came from global markets which is we trade (liquid step) was not a good year. Kalim will explain this in more detail when we go business unit by business unit. But it's part of the business. So it's the first negative result in five years and it's -- from time to time this happens.

What we liked on the distribution of our result in 2014 is that even with the negative results in principal investments and with a significant increase in provisions in corporate lending, we delivered around 20% return on equity. Shows the strength of the franchise that we have built and we kept our guidance for you guys. We don't give individual guidance. But we give a general guidance of 20% return of equities and we continue to be confident of delivering these or higher return on equity.

So moving to the next page in the business units' break-down, I think I already spoke about most of them. Kalim will go through detail on this. It's a significant result in asset management and wealth management.

As I said, they are part of this fantastic evolution in the equity business. But I have two comments here. One is related to Banco Pan and the result of the Fourth Quarter. They are slightly different from the results of the Banco Pan balance sheet if you basically multiply our participation there.

We have 40% of Banco Pan. Banco Pan has a positive result of slightly above BRL200 million and is further having an BRL80 million earnings. We had basically zero in the Fourth Quarter.

This is -- as a large Group, continue to be the one that we described to you. So to understand this line, we basically use the result of Banco Pan and multiply by 40%. But this year there was an account inception because part of the results of Banco Pan came from an asset sale of Pan Seguros which -- the insurance business of Pan which is a quite healthy business and we purchased that together with our partner (Caixa Colonica) 50-50 and we are very glad with this acquisition.

This acquisition produced results in turn. But this -- we are the controlling shareholders on both, we can't book this as a profit. What happened is we amortized the price of Banco Pan in our book. So there was -- the result existed. But was booked as a reduction in the cost of Banco Pan investment. So a hidden result if you want.

Another comment that I want to make is it's basically a heads-up if you want a decision taken. But with this acquisition and another acquisition that we did in the Fourth Quarter, which is a reinsurance company, name is Ariel Re, based in London and Bermuda. Our -- the insurance inside BTG is growing relevant.

So now we have basically three ventures which is possible, which is good company, growth, profitable, that is already producing results and with very good (perspectives) of growing throughout to strong relations in BTG through Caixa distribution network. So very good perspective.

We have Ariel Re and the reinsurance business that we have been doing now four-five years and we like very much. As you know it's a (capacity-focused) business and we like this in the context of a portfolio building. So we like very much the business part of a portfolio and we have been selling very good products for clients using this unit.

And third is our credit insurance business that is in the middle of our business rating that is also growing and doing well. So probably we will decide to report a new line in our business with this insurance-related initiative. We also have a greenfield initiative in Chile and probably will book all of that inside the new insurance division. So let's see how we will proceed. But this is just a heads up on this idea.

I think I will finish here the introduction. I will let Kalim go business unit by business unit. Maybe before I hand over to Kalim, just one specific one, since I spoke about corporate lending and sales and trading, regarding principal investments I also mentioned the weak performance of global market.

Even though that a lot of -- few questions. And especially some media headlines come from our merchant bank portfolio, we don't see anything special happening in our merchant bank portfolio. It behaves as a normal merchant private equity portfolio where we have one-third of the investment performing a healthy private equity portfolio like we have generally, we have one-third of the portfolio that are (Pemex) investments.

So some investments that we make a lot of money. One-third of the portfolio that basically new transactions like this return of inflation or CBI or something around that. And you have one-third of the investments that basically didn't work and go to restructuring. So our portfolio is more or less behaving like that.

So if you -- just to be radical, if you mark down to zero your portfolio that is going to restructuring, even though if you have a profitable one-third, that multiplied by 10. So instead of 10 it will 9. And the (inaudible) means that you will multiply your capital investments by three times during the period.

And we were profitable in the last three years doing private equity. And we continue to see profitability here. And the profitability is a combination of gains and losses like trading interest rate, we were always through our profitable interest rates in Latin America. But we have gains and losses along the year.

And the same thing with private equity even though that some excitement happen when you have a bad investment. So that's an additional comment. So now I will hand over to Kalim that will do a more detailed analysis on each business unit of BTG. Thank you very much.

Marcelo Kalim {BIO 16142515 <GO>}

Thanks Andre. Good morning. Good afternoon everyone. Thanks for attending this call again. We can start my part on section 1, page 9, we have the investment banking unit. We had revenues of BRL72 million for the quarter, which was a pretty slow quarter from capital markets activity the last quarter of last year.

But I think the picture here is better depicted by looking at the full-year revenue for the year, BRL456 million, which is pretty much in line with 2013 and 2012. I think this shows the consistency and resiliency of our investment banking unit that even in a very difficult or slow capital market activity scenario, we can deliver a consistent (result).

And this is due to our geographical diversification, which is even more present and 2015 we expect the presence of Latin American to be even bigger and the diversification of lines of business with M&A, financial advisory gaining even more market share compared to equity and debt capital market. This has been the covenant for the last couple of years and we expect to be the case for 2015.

On page 10 we have our corporate lending unit and we had revenues of BRL97 million for the quarter. As Andre mentioned, this was impacted by an increase in our allowances mainly related to the (inaudible). We had total allowances for the portfolio a little bit above BRL300 million, BRL320 million. And the majority of it was related to (inaudible).

We already had some allowances (inaudible) prior to the quarter. But we increased this quarter. We believe that if the plan that enables us to get out of Chapter 11, probably we are going to see some recovery on this allowance. And we are in talks of course with the company. And we believe the plan is going to be successful. So probably throughout 2015, we are going to see actually some good news related to that specific corporate lending.

Another point to emphasize here is the growth of the portfolio in the last, let's say, six months of 2014. And this was a deliberate decision by ourselves. We saw that the Brazilian economy and Latin America in general was slow in growth. So we decided to raise a little bit our bar -- raise a little bit the benchmark and we decided not to grow a lot the corporate lending book.

This led to a little bit of operation being, let's say, stockpiled a little bit and in the last six months of last year we were able to actually do some transaction at very good terms either with a little bit higher recurrence of debt guarantees or better structures. And so we believe that with this strategy we optimized the growth of our portfolio.

So we're pretty much -- for 2015 pretty much optimist with the corporate lending unit. We do not expect two things to go -- to continue to be as high as in the first six months. Of course this was due to the stockpile of operations that I mentioned before. The pipeline is not as high as it was. But we do expect to have, let's say, bigger revenues for 2015. We do not expect anything out of the ordinary course of business in terms of allowance.

On page 11, we have the sales and trading unit which reached BRL527 million of revenues. It was the, let's say, the smallest number for the Fourth Quarter, for the whole year, however, a very good result. And this is better found by looking at the full year where we reached BRL2.8 million of revenue, a significant increase from 2013.

And this shows what Andre said a couple of minutes ago is that when you reach a new plateau in our sales and trading business. And we are very happy and satisfied to be showing this number because this reflects numbers, something that we've been telling on the last two or three years which is the expansion of our sales and trading dealing pool from a geographical viewpoint, expanding into Latin America. And also from a product diversification expanding into commodity. And being able to show a result as consistent and at the magnitude that we are showing, we are very satisfied to put in numbers a couple of years after we told you about this fact that we are going to pursue. And we said we are pretty happy with the strategy and we believe this is a new platform for our sales and trading business.

Just another point about the commodities business then now that we are probably almost full-fledged on that. What we like is not only the integration with all the businesses in sales and trading. But also with corporate lending and investment bank for instance. But we do like a lot the diversification of the business.

All win, we have 41 different debts inside commodities varying from grain to where we have coffee, cotton, cocoa and so on or soybeans, tomatoes, to energy, Europe, in the US and Brazil to oil to freight. So this diversification of trading debt is something that we believe adds a lot to our strategy. So we are pretty satisfied as I said not only with the returns. But with the decision to pursue this line of business.

On page 12, we have the asset management. Our revenues for the quarter were BRL445 million and again the Fourth Quarter of the year was the best quarter for the year which is due to seasonality. We booked a lot of performances during the Fourth Quarter.

And here I think the big story of (inaudible) is the positive (measurement) BRL4.4 billion, the largest for the year. And kind of topping at trend of negative net new money. That's something that we told you in the last couple of quarters that we thought this trend was going to come to an end and actually it came to an end in the last quarter where we were able to stop losing some assets under management on the low-yielding in terms of management of these products and it's still getting a lot of money into, let's say, more value-aggregated products like equity mandates in Latin America.

When you compare the year 2012 to 2014, 2014 is somewhat bigger, maybe 15% bigger. But more than that I think the quality of the revenues embedded in those numbers are very different. In 2012 the percentage of performances was far great than the percentage of performances in 2014 and this is something that we've been talking about, the composition of the mix of revenues.

And now we have a much stronger asset management base and hopefully in a year that we can book and work and have better results, we can book high performance fees and have a revenue that is far greater than the one that we show in 2014. So we are pretty satisfied with the business that we have, the position that we are and hopefully in 2015 we can release better results.

Turning to wealth management, page 13, here the story is kind of the same. But a little bit ahead on time. We have been showing consistent net new money and the Fourth Quarter of the year was the best quarter in terms of net new money, BRL3.7 million, which generated revenues of BRL108 million which was our best quarter ever.

And what I said here, we can (inaudible) much in future. We have been improving our business not only from a net new money perspective. But also the mix of products. So that's why we believe in 2015 we can not only repeat the year that we have. But with a much better growth.

On page 14, we have principal investments. What I'm trying to do here is first talk about the products that we have and talk somewhat structurally about how we see the business going forward with a comparison year by year. So first on the quarter we had a significant negative result in global market, especially on credit fixed income strategy in the emerging market and the global portfolio. A negative revenue of BRL597 million.

We had a positive number for merchant bank, specifically two items. One, the sale of Tuneis de Barcelona, an investment that we had in Spain where we took roughly BRL300 million -- actually BRL311 million net profit on this transaction.

And also an equity kicker to BTG Investments related mainly to Estapar investment. In Estapar we had two private equities investing in Estapar late last year. One was an international fund -- international private equity fund (inaudible). Another one was a Brazilian private equity.

And since these equity kicker is due to be paid in the Second Quarter of this year, we took opportunity of this transaction that reflects a better price of Estapar to evaluate this equity to what I believe is a fair (price).

And finally, real estate where we had revenues of minus BRL20 million were basically neutral I would say. And this reflects the net effect of the shares of BR Properties trading lower and the reversal of the price reserve on our investment in BR Properties.

If you remember, we had a 20% reserve on that and I don't know if you saw or not today we and other investor (Groupfield) and (PrimeFund) made an offer for the acquisition of the capital of BR Properties. So in that scenario that we see value in the Company, we don't believe this 20% reserve makes sense at this point. So we decided at the end of the year that the best way to reflect the sale of BR Properties is to get rid of this provision.

And finally what I would like to comment is the performance for the year. So looking at global market, we had a negative revenue of BRL776 million, which of course it's a very disappointing result for the year. But that doesn't mean that we are not satisfied with the business or with our strategy.

If you look at the three-year average return for the business, in 2012 we had BRL1.8 million positive; in 2013 BRL700 million positive; in 2014 BRL700 million negative. If you do an average, it's BRL600 million positive for each of the three years. Quite frankly if -- going forward if we have exactly the same result, around BRL600 million positive for every year I think we are fully satisfied. So just because we had a down year doesn't mean that we are going to change our view strategically on that. Of course we are implementing all the risk management tools that we have to not have a disappointing year like that. But from a strategical viewpoint we are pretty satisfied.

And the other comment is the merchant bank, the private equity business. We had positive results for each year in the last three years; BRL234 million in 2012; BRL255 million in 2013; BRL258 million in 2014. And I think this reflects exactly what Andre mentioned that probably some of our investments are going to go sour and some of our investments are going to show great returns.

And on average probably we are going to have more money than we invested in. So even though some of our investments grab headline as being in restructuring or performing not so well, the few or the ones that will make money more than offset that by the (contribution) generate positive returns in those three years we had two significant events, the sale of a gas-field that we had in 2012 --

Andre Santos Esteves {BIO 1939152 <GO>}

Yes. That's right, 2012.

Marcelo Kalim {BIO 16142515 <GO>}

-- 2012. And the Tuneis de Barcelona that we had this year. So that's just to point out the reason those investments grabbed headlines than the ones that will follow on average we are making and we believe this is going to be the case going forward. And we don't have any problems with that business, quite the contrary, we are pretty optimistic.

Going to section 2 about expenses on page 16, I would like to point out here that our administrative expenses went from BRL648 million to BRL904 million. This is a significant increase and this is due for a couple of reasons; one, more and more our business is becoming international. So our expenses are becoming international. And with the real depreciating against the strong currencies we do have bigger expenses in reais.

But that doesn't mean that the expenses are out of control. Quite the contrary, we were still able to show a very stable cost-income ratio even lower than last year with bigger expenses. And the same is true for comp ratio.

So we believe this is part of our structural goal to have this kind of higher expenses. And as I said we are pretty satisfied with the way we have been managing the expense side.

On page 18 we have our balance sheet where total assets reached BRL218.3 billion and the shape of balance sheet continues exactly the same. That's something that we have been telling you for a while and now that we expect this to be quite stable and that has been the case. Our coverage ratio of unsecured funding that covered our private portfolio remains at a 175%, pretty stable. And this is the way we would like to keep our balance sheet.

On page 19 we have the unsecured funding base which reached BRL68.1 billion and you can see growth in all -- pretty much all the segments that we have to fund ourselves. And on top of that we continue to be pretty diversified from a client perspective. So we are really able to increase our funding base keeping at a very low cost. So we are competitive in all our business lines.

Finally on page 20, we have our value at risk and Basel ratio. Value at risk remained pretty low at 0.47% in line with last quarter. And the Basel ratio reached 17.5%. And the highlight here is our (issuancy) of perpetual tier 1 capital that occurred in September. But we received authorization from the Brazilian Central Bank to count that tier 1 capital in October.

So that's why in this quarter we show an increase in our total Basel ratio and 2.9% increase in our tier 1 capital ratio.

Of course this capital -- extra capital was issued to accommodate the acquisition of BSI which I'm going to talk in a few seconds. But after we conclude the transaction of BSI, we do expect this to come to a more optimal level of let's say between 14% and 15%.

Regarding BSI we do expect the transaction to close in the next couple of months. We did receive Brazilian Central Bank authorization in January this year and we are waiting for (FEMA) regulator authorization to happen as I said following the next couple of months. So we do believe that this is going to go through the Second Quarter of this year.

I think this ends the presentation. I think now we can open to Q&A please.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions)

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Two questions; first, you meant -- when you spoke at length about the credit portfolio, what I did see when looking at the ratings was that there was a very significant increase in the number of loans that are already lion now that's more I would think than ever stake. And you think that there might be some recoveries.

Is there any risk that those loans slide to an F category even further which would require -- I mean E is 30% provisions, F is 50%. So you would require even additional provisions going into the first and Second Quarter the year before things turn around you are able to get some recoveries. If you could us some color there, that'd be great.

Second, you talked a bit about BSI. Can you give us a little bit more color on how things are going with the business itself? I know that you are still waiting for it to close. But presumably you have been helping and looking at the business and how it's run. If you can give us some insight as to what to expect once we consolidate that or you consolidate that into the -- into BTG in terms of profitability growth over the last few quarters, a couple of quarters since the acquisition, it would be great also. On top of that you mentioned that your capital ratio will go from 17% to 15%, your tier 1 -- common equity tier 1 ratio declined to 10.9%. Where would that go once BSI is closed? Does that drop below 10% just so we can get a idea?

A - Andre Santos Esteves {BIO 1939152 <GO>}

Yes, I will start with the credit portfolio, Mario. And then Kalim can comment on BSI -- sorry, Macedo -- and then Kalim will talk about the BSI and some business update on that.

On the credit I think as we spoke before that we increased provisions in the Fourth Quarter a little bit higher than BRL300 million and a significant part of that was the (inaudible). There were I would say normal course of business provisions on the top of that. And remembering that (inaudible) we already had provisions before the Fourth Quarter.

So I think we are now quite conservative especially because this was not a company that we built up here, right, as was said here before the company is under I would say a constructive Chapter 11. So we are intensively talking to management and other large creditors to have a very good outcome and the situation is moving this direction. So probably you should expect some profit from this specific line item in quarter landing next year.

On the back of the portfolio, we don't see a lot of things happening. So spreads are growing. But you have some credit restriction in the infrastructure-related areas. Perhaps we don't have a significant exposures here, we think are pretty manageable and the level of provisions that we have we consider overall conservative. And more than that when we do the budget for 2015 and first you should not expect the growth in our credit portfolio. So we see a kind of stable portfolio.

But you should not considering any (inaudible) reversal. You could consider a good return on equity specifically on this business. And this return on equity which is in line with the return on equity of the Bank it happens considering new provision. So not the legal ones that you are obliged to do in any new credit in Brazil. But I'm saying above that. So we have already some significant provisions.

We are budgeting more provisions, not specific case. And even though we think will deliver the good results here and we probably can have a positive surprise on the (inaudible). That's what we are working for.

And I know it's a baited question regarding the oil and gas sector of things around Petrobras or infrastructure more broadly, even if you can see the overall exposure to Group level of the companies involved in this sectors, we don't see anything that creates the specific concern on that. And specifically Petrobras, that is also a frequent question that people ask to us since until very recently Petrobras was a very low spread borrower, we don't have any relevant exposure there.

So that I think a good description of credit overall. I don't know if I addressed all the topics. But I will let Kalim comment on BSI and an aspect on the performance of the business there.

A - Marcelo Kalim {BIO 16142515 <GO>}

Hi Macedo. Simply aside first the (inaudible) question and then we'll talk more broadly about BSI. Two things are going to happen when we conclude the transaction. One is that we are going to issue common equity part of the transaction, 20% of the transaction we are going to issue shares to the general. So we are going to see an increase in the common equity tier 1 around more or less let's say CHF300 million, let's say, BRL900 million or something like that, on that vicinity.

Then we are going to inherit the balance sheet of BSI. So we are going to add more risk-weighted assets. All in, probably our common equity tier 1 is going to drop below 10%. I think it's going to be around 9%, that's the calculation that we are making.

We don't see any problem whatsoever with that and that's exactly why we issued the additional tier 1. So we are going to be totally in compliance and far above the minimum threshold for all common equity tier 1, for the tier 1 and total Basel ratio.

Regarding the business of BSI, I think what we can say is that everything that we envisioned when we acquired BSI, I think it's proving to be true. The Swiss private banking market is indeed going through a lot of transformation.

We believe that we are acquiring a very good asset, a very good franchise, very good structure with a very good setup. And we are quite keen to start implementing the business guidelines that we want to implement from a market perspective, client segmentation, new products and so on.

And at this point in time I think we know exactly what we want to do starting on day 1 and we believe that we are fully capable of doing that. If you look at your private banking players in the Swiss market, I think it's quite -- when you look at the return, I think it's quite feasible to achieve the 15% return on equity that we think is possible for BSI.

If we can do that, I think it's going to be a pretty accretive acquisition for our Group and the one that not only solidifies our business. But I think creates a lot of value from revenue diversification, geographical diversification. And so on. So as I said, we are pretty enthusiastic and very keen to really incorporate that and to turn the business part to BTG Pactual.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thanks for the very complete responses. Just one follow-up; so the 9% common equity tier 1, that's something that management feels comfortable in sustaining in the medium term, is that a correct assessment from what I heard?

A - Marcelo Kalim {BIO 16142515 <GO>}

Yes. That's a correct assessment. We are -- I think quite frankly the way that everyone looks at common equity, additional tier 1, if we are going to change somewhat into the future, since the guidelines are going to become more specific for each of them, the guidelines for common equity tier 1 is going to hover around 5%.

So being at 9% I think we are quite comfortable and far above the minimum threshold. So as I said we are quite comfortable on that and we believe we are far above the minimum threshold for all the levels of (inaudible).

A - Andre Santos Esteves {BIO 1939152 <GO>}

And Macedo, just to complement Kalim's answer, when you look at our capital, you should consider that compared to other banks, we have significant low tax issues, (inaudible) which is basically cash which also translates, even though the numbers are comparable. But the quality is quite good. That's why the line of interest in other has been growing because basically cash receiving good use on that.

A - Marcelo Kalim {BIO 16142515 <GO>}

Yes. And just to complement, the characteristics of this perpetual form that are classified as tier 1 capital, I think it's really more of a -- it really has a characteristic of an equity because once the threshold is triggered which is 5-1/8, is that right, Andre? Five-and-one-eighth of common equity, a 100% of the issuance goes to zero and that increases capital. So we really have a very equity characteristic to be counted as tier 1. So it's a really, let's say, hard tier 1 kind of capital in our vision.

Operator

Mario Pierry, Bank of America Merrill Lynch.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions as well. I'll start with BSI -- sorry, first thing on this topic. But since you announced the transaction in July, we have seen the Swiss franc appreciate above 20% relative to the real and your share price also has declined by about 20%. And as you said, you are paying for a big chunk of this transaction with shares.

So we estimate that this transaction has become much more expensive for you than you originally anticipated. Also I would imagine that the stronger Swiss franc actually hurts the profitability of BSI because costs are in local currency and I would imagine that the bulk of the assets are not in Swiss francs.

So if you could comment then how are you still seeing the transaction if in fact this transaction is becoming a bit more expensive where you still like the long-term trends. And also if you have an update on what is the latest AuM at BSI? Then I'll ask my second question.

A - Andre Santos Esteves {BIO 1939152 <GO>}

Okay. I will answer that. The appreciation of the Swiss franc in terms of the acquisition itself, it's neutralized because we need to pay something in Swiss franc that's basically booked in Swiss franc.

We are paying slightly below book value. So we even have a gain there if you want. But more important than that is that the evolution, once the BSI is incorporated what happens. You should expect the opposite, I think an increase in our earnings in reais because we have -- and not only because of BSI, of the Swiss franc, it's -- they have depreciation against the dollar. And again the dollar depreciation against Swiss franc means that the resonance of BSI in reais are significantly higher than what they used to be six months ago.

So the amount of reais that we will receive from abroad is increasing a lot. So our international business and specifically BSI, they do have an important impact on a going-on basis. And the acquisition itself is new too. It's the -- slightly positive because it's slightly below book-value.

And in terms of net new money, BSI is slightly positive since we announced the acquisition, which has been the pattern of the last year. So it's good news because now our name is incorporated in the clientele and that's how it's behaving. We expect when we add the integration, team (inaudible) we could increase even more the net new money there.

A - Marcelo Kalim {BIO 16142515 <GO>}

If I may add, Andre, if you look at the net new money of the BSI per currency, Swiss franc, euros. And dollars, it's positive on that. Of course once we translate that into Swiss franc, for instance a little bit lower because the Swiss franc is stronger against those currencies.

And pretty much it's around 30% or one-third the new -- I'm sorry, the money in each of those currencies. So discounting the exchange fluctuation net new money was positive for the year.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. But my question was when you announced the transaction, right, paying 20% of shares it meant that you had to issue about 2.5% more shares. Now I think you have to issue about 4% more shares. So I think the transaction is slightly more dilutive for current shareholders given the --

A - Andre Santos Esteves {BIO 1939152 <GO>}

But --

Q - Mario Pierry {BIO 1505554 <GO>}

-- appreciation of the Swiss franc.

A - Andre Santos Esteves {BIO 1939152 <GO>}

But you have -- it's neutral when you consider the future earnings, right, because in terms of multiple nothing changes. So it should be neutral, right, because you are receiving more reais from the same Swiss franc capital base. This is regarding how the --

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then if I --

A - Andre Santos Esteves {BIO 1939152 <GO>}

-- situation of our share -- this is regarding the situation of our share price. Of course if our share price was higher, then dilution would be lower. But in terms of business it's exactly the same because you are paying more for an asset that is going to deliver more revenues in the future. Yes.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So -- and also when you announced the transaction, I think you had $100 billion in AuM. I don't know -- I didn't catch this, what percentage of that AuM was actually in euros and what percentage was in Swiss francs?

A - Marcelo Kalim {BIO 16142515 <GO>}

Exactly what I told you, more or less one-third, one-third. And one-third; Swiss francs, euros. And dollars.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. One-third, yes. I think it wasn't clear when you said that. Okay.

A - Marcelo Kalim {BIO 16142515 <GO>}

One may be 40%, the other one may be 30%. But around one-third.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, that's clear. And my second question then is related to global markets. Again, right, you had a sizable -- yes, I don't know if we can call that a loss because you actually incurred some of the funding cost, right. But if I look at the performance of this business over the last few quarters, you had losses of BRL1 billion. Just trying to understand important perspective again, this BRL1 billion, what does it represent of the total amount of money under management?

A - Andre Santos Esteves {BIO 1939152 <GO>}

I think it's the other two quarters were positive, the other four years before were positive. So it's -- unfortunately, it's part of having some exposure to market. So the best way of looking is since basically on this line I can talk about liquid securities it's the VaR, at risk. And why do you see not this quarter. But as a trend, the VaR in comparison to our assets has been reducing, right? So it was -- since it's happening for a while we consider that a trend.

So we do expect to deliver these returns of 20% or above with less VaR used. Not necessarily less nominal capital because of the asset growth, right? So probably would pay the capital. But when you look at the VaR numbers, the best expression of the amount of risk attached to market. And the VaR compared to capital is reducing almost quarter after quarter for a while, not related to this negative result. It's basically we think our franchise business growing at the pace that we want and we think it's a better business mix for the future. So that's to answer your point.

Operator

(Operator Instructions) There are no further questions. Thank you. That brings us to the end of the question-and-answer session. I'll return the floor to Mr. Andre Esteves for closing remarks.

A - Andre Santos Esteves {BIO 1939152 <GO>}

I have this closing remark. But two comments that I mentioned in the Brazilian call that I would like to repeat here. First, we announced our transaction today referring to BR Properties where we together with local and international investors made an offer for the company.

So we are very glad with this outcome. It's basically there is a big significant gap between the price of properties in the corporate market and the price of properties reflected in the stock market.

So what we did is basically closing this gap and offer a very good gain opportunity for the stock investors and also provide the real estate investors with a good opportunity of acquiring prime markets which is a significant part of the appropriate portfolio. So we are very glad with that.

And these kinds of opportunities, the ones that you guys should expect us to be addressing and doing like we are little bit of the (inaudible) in Brazilian and Latin American economy. And closing this kind of gap is what we can see that our business vision here.

My second comment is related to private equity portfolio that we received some questions in the last month. And as was described here by me and Kalim, we don't see in 2015 any significant negative result on the portfolio as a whole. I think our portfolio of private equity has been behaving in line to help people follow private equity. And the proof of that is that it was positive in the last three years.

So the issue is sometimes the investments under restructuring, they get much more headlines and the success. But we have a very strong success and we are using some of basic currency devaluation, a lot of international interest in some of prime assets. And we probably could have a good opportunity to deliver for the international (inaudible) baskets and go for other assets here with other restructuring or for asset sales and so on.

So it's business as usual. One specific investment there that is relatively big and it's very present in the headlines is (inaudible) Brazil where we are an equity investor. As you know, this company is an BRL80 billion equity company with BRL10 billion of credit, plus if you consider probably another BRL7 billion or BRL8 billion of credit in the shipyard.

So the whole project is huge, BRL25 billion-plus of exposure. And it's under a big restructuring. It will need to be redesigned if you want.

We are only investors in equity. We don't have any credit exposure there. We have in terms of our equity participation around BRL1 billion. And we do expect the process to be restructured, move ahead. But even if the work happened in the disclosed day when the -- mid to March 2020, which means a full loss on this investment, we don't change our guidance in terms of return on equity.

So you should assume that even if a very bad outcome which would be a bad outcome for Brazil given the relevance of institutional investors and creditors involved in this, if a very bad outcome happens, we are fully prepared for that and we have probably on the pipeline good wins and BR Properties is just one of them. But we have other things that I think will surprise you positively.

And if we get statute rights to move to the next step, it -- probably it will be another very good year in private equity. So just to give you a heads-up on these two topics that we received some questions recently.

Once again thank you very much for being together with us. Thank you, Mario and Macedo for the questions. And we will keep in touch. Thank you, guys.

Operator

Thank you. This concludes today's presentation. You may disconnect your line at this time and have a nice day.