Bradesco

Results Conference Call
2Q17 Results
Bradesco (BBDC4 BZ)
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Operator:

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco's second quarter 2017 earnings results conference call. This call is being broadcasted simultaneously through the internet in the website banco.bradesco-ir. In that address, you can also find the presentation available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a question and answer session where further instructions will be given. Should any participants need assistance during this call, please press "*0" to reach the operator. Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management, and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banco Bradesco, and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Carlos Firetti, Market Relations Department Director.

Carlos Firetti:

Good morning, everybody. Welcome to our conference call for discussing our second quarter of 2017. We have today with us our CFO and Investor Relations Officer Alexandre Glüher, the CEO of Bradesco Seguros and Executive Vice President for Banco Bradesco Octavio de Lazari, and also our Executive Director responsible for Accounting and Budget, Luiz Carlos Angelotti. Now, for beginning the presentation, I turn the floor to Alexandre.

Alexandre da Silva Glüher:

Thanks, Firetti. Good morning, everyone. Thanks for joining our conference call today. I will walk you through the main highlights of our results, and later Firetti will discuss the numbers in more detail. As you can see in page 2, we posted a net profit of 4.7 billion reais; a growth of 1.2 percent quarter-on-quarter. Considering the first half of the year, the net profit was 9.4 billion reais, and the extension of 15 percent year on year we are now reaching 18.2 percent. In our view, these results are consistent and aligned with our projections, despite the macro scenario we are facing. The positive trend in delinquency was maintained, keeping a favorable environment for cost of risks. In addition, we continued to present a very good performance in cost control. A major challenge demands the weak loan demand, which pressures our NII. Our loan book reviews 7.2 percent in the last 12 months on a pro forma basis, which includes the numbers from our acquisition. While this contraction is the main cause for our modest performance in NII, which reduced 5.5 percent in the first half, year on year. The NII guidance was revised and now indicates a contraction of 3 percent in the midpoint. The good news is that we already see signs of growth in credit origination for both individuals and companies. If the current levels of origination are maintained, the individual's portfolio will soon start to grow again, and the company's portfolio will stop shrinking. As I mentioned, cost of risk continues to present a good performance, driven by the improvement in delinquency. In the first half, cost of risk reached 9.8 billion reais, leading us to reduce our guidance, which now has a midpoint of 19.5 billion reais. We understand that this positive trend will continue in the rest of this year and in 2018. Fees grew 2.5 percent year on year and operational expenses dropped by 2.7 percent, both on a pro forma basis. The performance in fees is somewhat dependent on the macro scenario, which is delaying the effects of our actions to capture revenue synergy. In cost reduction, our initiatives have been very successful, we evolved in the adjustments of our expenses and recently announced the Special Voluntary Severance Program... will help the speed it up. We understand that these adjustments will be concluded by the end of 2018. The optimization of our distributional network continued. This year, we have already reduced 246 branches, part of which converted into points of service. This optimization keeps in course. Regarding capital, this quarter we had an organic increase in our Tier I ratio of 50 basis points with the fully-loaded Tier I ratio reaching 12.5 percent. In summary, I can say that we keep investing in technology and product development. Credit quality is meaningfully improving. We are ahead of schedule in cost synergies, and we believe we will soon start to see the effects of revenue synergies. Additionally, we already see positive signs in loans origination. Finally, I would like emphasize that, in our view, we are consistently establishing grounds for growing our business. Now I turn the presentation to Firetti, who will present you the numbers in more details.

Carlos Firetti:

Thank you, Alexandre. So now, we will go to Slide 3, where we show the adjustments in our net income. Only one important adjustment that's worth some explanation: the impact of the changes in accounting practices for Cielo. These changes last, while will not impact in our numbers of 210 million reais after tax. There is no major impact for our numbers on a recurring basis going forward. On Slide 4, we have our income statement. Only the highlight on net earnings that increased 1.2 percent in the quarter, 13 percent in the comparison of the semester before an ROE of 18 percent. I will go in more details on the other line in the following slides. In Slide 5, also the evolution of our earnings per share and net income, only emphasizing here the participation of each segment in our net earnings. Insurance contributing with 28 percent, credit intermediation contributing with 33 percent. Going to Slide 6, we have our total NII... our total NII is of 0.8 percent in the quarter with no interest revenues, basically almost flat q-on-q, only a small negative variation, and we had 414 million reais in impairments. Basically, we can say that impairments for 2017 could be somehow higher than in '16. I will go in more details in the interest NII in the following slides. So, page 7, we have a breakdown of our interest NII. Basically, credit intermediation presented a reduction q-on-q of 2 percent, a 7.5 percent pro forma year on year. Basically, credit intermediation mostly suffers with weaker volumes. This is the main driver, actually, for the interest margin as a whole. Also, there's the impact of the new rules for credit cards. We had a negative impact in this quarter that probably is the biggest in the year. Considering our expectations, we think the negative impact is within our expectations, we expect for 2017 a reduction in our NII of 500 million reais pre-tax; it could be lower, considering what we are seeing which we prefer kind of to wait more definitive numbers or more quarters but the trends look... look good. Spreads, overall, are relatively stable. Insurance, we had an important reduction in... in margins, basically a reduction of 288 million reais, mostly due to lower inflation, lower IPCA inflation that impacts the bonds that the insurance group carry. Probably, this quarter presents the lowest number for margins in the year. And, finally, in the securities and others, basically we have there, already, the impact of gains from our asset liabilities management from the fact we have a fixed rate exposure in the balance sheet, and also dividend revenue. In Slide 8, we have more details on our credit intermediation margin. For the year, the credit margins was flat at 13.2 percent, reflecting the fact that stable... trends are relatively stable. If you look only to the quarter, there was a small reduction and that's mostly explained by the negative impact of the new credit... credit card rules. After cost of risk, the margin presents a positive evolution. In Slide 9, we show details of our loan book. The loan book on a pro forma basis year on year reduced 7.2 percent; for companies, a reduction of 10.9 percent, and individuals already with a small growth of 0.3 percent. Basically, the main highlight, in terms of performance in the quarter, was the payroll segment and mortgage, with the negative driver coming from SMEs loss. In slide 10, we have the composition of our loan book, with individuals representing 34.9 percent, companies 46.4, SMEs 18.7 with a reduction in in SMEs, increasing in individuals and corporate. In the individuals loan book we have, over the last two years, our portfolio migrating to lower risk. Today, mortgage and payroll loans represent 43 percent. Considering payroll loans, credit originated in our branch network represents 64.8 percent. This is... these payroll loans are more profitable, we don't pay commissions, and that, in our view, is a very, very good trend in our loan book. In Slide 11, we have data on our loan origination per business day, we think we have good news on that. Basically, we are seeing the origination for individuals and companies growing meaningfully on a q-and-q basis, and also looking... comparing to the third quarter last year, and also in the case of individuals' fourth quarter, we didn't include the second quarter because we only had data for Bradesco. We thought the comparison was not fair, but the number would be very strong if we included it here. We believe, with these numbers, the individuals' portfolio will continue growing in the second half, and we are going to a stabilization of the company's portfolio, probably going back to some growth in the fourth quarter. In Slide 12, we have our delinquency ratio numbers. Very good trends in all lines: individuals, SMEs and large companies. We think this positive trend will continue in the coming quarters. This quarter, we sold 1.3 billion reais in bad loans that were already written-off many years ago. There is no major impact in our results. The main benefit is that we can turn off some legacy systems, what actually help us to save some... some costs. In Slide 13, we have our 15-90-days delinquency ratio, we think there are good trends there that, in our view, support the improvements in 90-days NPL is going forward. In Slide 14, we have our NPL creation and provisioning, very good trends also for NPL creation, provisions also very consistent. In terms of provisions for loan losses, this quarter we have a small increase in provisions. We think that, overall, the trend is that provisions will continue going down in the coming quarters, also continuing throughout '18. We think we may go back to the bottoms of provisioning at some point in 2018. In Slide 15, we have the breakdown of our NPL creation, also very good trends for all segments, in the case of corporate, it was flattish this quarter, but very consistent improvement in the other categories. In Slide 16, we have our provisioning ratios, highlight here for the increase in our coverage ratio for 90 days NPL it reached 202.5 percent. We think this coverage ratio should remain high. We don't intend to use excess provisions to improve our provision expenses, we should keep them throughout '17 and very likely '18 as they are right now. In Slide 17, we have the renegotiated portfolios. We had this small increase this quarter. This increase can be explained mostly by renegotiated loans that come through the recovery of loans, loans that were off-balance. Basically, if you look to loans that are still in our book, these renegotiations would be already going down. In fees, we had a more soft performance, growth pro forma of 2.1 percent q-on-q, 2.5 year-on-year, mostly impacted by the economic environment. In Slide 19, we think we have... some very good news, we show our total expenses going down 2.5 percent year-on-year in the quarter, 2.7 percent year-on-year for the half year. Personal expenses still grow 3.1 percent, mostly because of the salary adjustment of last year. Administrative expense are going down 7.9 percent… 7.9 percent for the half year, year-on-year. We are doing the readjustments, a reduction this quarter of 1.5 thousand employees, and we also have a 54... a reduction of 54 branches in the quarter, comparing to July '16, when we merged with HSBC, we had 111,000 people, we are already at 105,000 people. We, as... as you guys know, we announced recently a Voluntary Severance Program. We still don't have numbers to share for this program, but we believe it will have... it can be a relevant adjustment – kind of speeding up the adjustment in our staff. In Slide 20, we have our efficiency ratio, basically reached on a 12-month base 41.5. We think we will soon start to show improvements in terms of efficiency in line with the good performance of our cost. In Slide 21, we have the numbers for the insurance group. Basically, total premiums pro-forma increased 7.5 percent for the half year, year-on-year with technical provisions growing at 13.6 and our net income for the half year growing 3.9 percent. For comments on the operation of the insurance company, I will turn now the presentation to Octavio de Lazari, Bradesco Seguros' CEO.

Octavio de Lazari Junior:

Thank you, Firetti. Good morning, everyone, it's a pleasure to have this opportunity to talk to you about Bradesco insurance. Firetti already went through our main numbers so I am going to talk about the key topics of our operation, before making some additional comments on our results. The Brazilian insurance market faces one of its most challenging moments in decades. Mainly due to the slowdown in the economic activity, very high unemployment and a contraction in consumption. These impacts to retirement sector, but in a special segment as our health insurance. Despite this, our premiums continued to presenting a very good performance, growing 12.6 percent in the first half 2017, mainly due to pension plans, which grew 16 percent year-on-year, and life and personal accident insurance which grew 23 percent in this period. The main reasons for our good performance, even in this challenging moment, is our effective strategies, but also some other drivers that contribute to it. For instance, insurance penetration in Brazil is still low. What is evidenced by the fact that our market is only in the 4th position in the world winnest–insurance consumption with strong potential in long-term growth. In the pensions plan segment, our goal was once truly influenced by the recent discussions regarding Brazilian's social security reform, which made Brazilians more aware about this subject. In our view, the pensions plan segment should present strong, sustainable growth for many, many years. Additionally, we recently implemented a change in the way we sell pension products in Bradesco. Instead of using brokers, as we traditionally used to do, the distribution is now done by our... our own account officers in the branches, which allow us to make a more complete analysis of customer's investment needs, increasing the efficiency of the sale process and also the satisfaction of our customers. We started to prepare for the change about two years, three years ago, when we decided to unify our sales strategy, change it... its focus from products to customers, and also to convert the brokers that worked with us from product express to multi-products and multi-line specialists. We have a plan, a segment which face an especially challenging moment, the lower economical activity and a high unemployment robust reduction in the amount of customers and a increase in the frequency of use, which leads to higher costs with plans. Additionally, we have a pressure for high medical inflation. Despite this scenario, we are in a solid position in the market, with clearly having one of the best products in the market today. In our recent study made by ICSS, an institute which focus in the development in healthcare plans, health insurance ranks in the third position after home innovation as a consumption desire in Brazil, with customers' satisfactions reaching 95 percent. We believe we will resume growth in the segment, as we see the plans ratio improving as employment goes down, it is our cost efficiency in strategic improve. Even with this adverse scenario, the net profit in the insurance group grew 4 percent in this first half of the year when compared to previous years, with an ROE of 96.1 percent. The drop with ROE this year is mainly due to the increase of 23 percent... 22.3 percent in our act in the last two, twelve months due to high level of the retained earnings. Our net profit was, in fact, in the first half, by the dropping inflation which affects our NII, instantly reducing inflation linked down in our asset liability management. This, in fact, was specially compensated by an increase of more than 23 percent in our operational resources. It is very important to highlight that the negative impacts from lower bonds use due to lower inflation should be smaller in the next quarters. In summary, we will continue growing our business if our market still offers great potential expansion. Our focus remains on project development, enhancing our distribution capacity on and, most important, offering better services to our customers. The insurance group believes in recurrent and consistent results, which are key for Banco Bradesco's strategy and that we understand that we will keep contributing to this. Thank you for your attention and we are available for any question, and now I give the floor back to Mr. Firetti.

Carlos Firetti:

Thank you, Octavio. So let's go to the last two slides of our presentation. Slide 22, we have our BIS ratio in cases, basically, current BIS Tier I, 12.5 percent, common equity ratio 11.6 percent. Considering a fully-loaded basis Tier I is 12.8, while common equity 11.9 percent. Important to highlight that we should continue growing our capital base in the coming quarters through organic capital accumulation and we feel we are in a very comfortable position in our steps due to the accumulating capital. And finally, in page 23, we have our guidance; we revised our guidance this quarter. We revised the most in most lines, except insurance premiums, focusing in the pro forma, basically a reduction in the expanded loan book from 1 to 5 positive, to minus 1, to minus 5. The other lines also we... we changed the guidance. We believe this guidance is realistic, it reflects what happened in the first quarter, probably, in our eyes, we target the midpoint of the guidance with some chance that, in the provision expenses line, we could be in the mid-low portion of the guidance. So now, with that, we conclude our presentation and we all are available for questions.

Operator:

Thank you. Ladies and gentlemen, we will now initiate the questions and answers section. If you would like to ask a question, please dial “*1”. If, at any point, your question has been answered, you may remove your question from the queue by pressing “*2”. Our first question comes from Philip Finch of UBS. You may proceed.

Philip Finch:

Good morning, Alexandre and Carlos, thank you for the presentation. A couple questions from me, please. First one, can you elaborate more on what is happening in terms of loan origination? This seems to be picking up for individuals as you highlighted, but are we seeing any early signs of this spreading to other lending products? And, secondly, in... on Slide 14 in your presentation, you showed the allowance for loan losses as a percentage of loans, which drops at 3.5 percent in Q1 2014. Looking forward, do you think we could potentially fall back to these levels, and if so, what sort of timeframe are we talking about here? Thank you.

Carlos Firetti:

Great. Thank you, Philip. Basically, loan origination, we see in... with individuals, improvements in different lines. I would highlight improvements in payroll loans, mortgage that were already growing and continue to do very well, also we have seen some improvements in origination in car loans, our loan book has been going down for a few years now and we believe its size is now adjusted for the current origination and is still growing, but I would say, in most lines, we have some positive environments. As I said... positive indication. As I said, with this origination, probably we should be growing in the second half, probably expanding the growth, we are already showing in the first half that is very... still very small. For companies, basically, it's also kind of like spread, the main product is working capital for companies, the increase in origination is enough, probably, to stabilize the portfolio that has been going down for many quarters. And if we go a little bit... grow a little bit more, maybe we can show a positive growth q-on-q in the last quarter that is also seasonally stronger. In terms of provision expenses, as I said, we believe we are in a positive trend as indicated by our guidance. We think that provisions can continue reducing on a quarterly basis going forward. We think that we can go back to levels closer to this bottom in provisions I showed in the chart in page 14... probably that could happen at the second half '18.

Philip Finch:

I think that's very clear. Thanks, Carlos.

Operator:

Our next question comes from George Cullen on Morgan Stanley. You may proceed.

George Cullen:

Hi, good morning, everyone. I wanted to ask you about the net interest margin. We've seen a very big contraction in margins in the first and second quarter, average interest rates are going to fall more in the second half of the year, given the direction of rates so far. What is your expectation for margin contraction the rest of the year?

Carlos Firetti:

George, basically the NII, when we look this first half year, if there is a single thing that answers for most of the reduction in NII, are... is credit volumes, basically. Spreads are relatively flattish, considering the diverse clients. You have some... to mix the fact, but I wouldn't say this is the main... main fact. We also had, in the second quarter, the negative impact of the new credit card rules. Basically, as we said, we expect 500 million reais for the full year. The... the... the worst quarter is the second quarter, the numbers kind of go down for the following quarter. There was a very weak margin for the insurance company because the BCA inflation was only 0.22 percent, compared to 0.96 in the first quarter. Probably it's going to... considering expectations from economists, this inflation goes down in the second half and this is... impacts our inflation-linked bonds, so, putting all together, and there is also the positive effect... impact of the assets liability management, the fact we are, in the short term, liability sensitive, so as interest rates go down, keeping a positive impact from the 6:8 gap in the second half. So, that said, margins should be relatively flattish for the remaining... or maybe increasing a little bit at the end of the year, but flattish from a small increase for the rest of the year. But looking forward, for sure, given that next year the impact of lower interest rates will impact... will affect more, and probably net interest margin remains under pressure. What has to be compensated by volumes? We think we can grow a little bit more next year, hard to say how much right now, so that's more or less the... our view on this.

George Cullen:

Thanks, Firetti.

Operator:

Our next question comes from Peter Lovada of Deutsche Bank. You may proceed.

Peter Lovada:

Hi, good morning. Thanks for the call. My question is on loan growth. Just want to understand a little bit more, I understand that you expect it to maybe pick up growth in the segment of corporate that by the end of the year and can consider it already growing. But what have you get more aggressive or be more positive in terms of the loan growth? I understand the macro, so pretty difficult to really show any signs of improvement; you're seeing how the quality improves where they're still high. So what... what do you need to see to get more comfortable in terms of loan growth? In the industry, the macro and the political environment? Or is there anything else that you're looking at that could, that you are seeing some good trends in terms of, you know, at the quality of margins, is it matching? So I just wanted to get a better sense of, you know, when you can get more investors. I know, it appears the competition still seems limited but, you know, one or two periods of ROEs. You seem to be growing, <just wanted to get your thoughts a little bit more on loan growth and what we can choose more optimistic there. Thank you.

Carlos Firetti:

Ok. Great, Peter, thank you for the question. Your line was not very good but I think I got most of the question, if I forget something please complete my... your question. Basically, we believe that, in terms of loan growth, we depend more on the improvement in demand that actually seem becoming more confident and kind of a relax in credit policy to originate more. We think demand was overall weak and we think this improvement in origination is mostly due to improvement in demand. For sure, the origination has been lower for some quarters, our portfolio reduced, and now, with this pickup in demand and origination, it makes easier to start to... to start to grow a little bit more. So, basically, we think we depend on more demand, on companies more confident, investing, producing, individuals really demanding more loans.

Peter Lovada:

Ok. That's helpful. Maybe I've found another question somewhat related to that. Continuing the capital ratio. You mentioned that your capital had been... you had been generating capital for several quarters now and given loan growth related pace is like to-continues to generate capital. So if that demands doesn't come back, you know, what do you think about your capital levels or, you know, where will you be in maybe a year? I mean maybe you're kind of comfortable today, but, you know, as you generate more capital, you could eventually have exit capital, so what's the right level of capital that you think about and if you don't have the loan demand, what would you do with some of the potential capital that you may generate?

Carlos Firetti:

Basically, in terms of minimum capital plan, in our governments... governance, we have a minimum target of a supplement of 25 percent on top of the requirement. Basically, considering our current fully-loaded BIS of 12.8, we are there. So we are already covering our minimum requirements. We... as I said, we should continue accumulating capital organically in some simulations, even if we wished to starting to grow a little bit more, we always accumulate something like 100 bps in capital each 12 months. So basically, in... we should continue adding capital. We don't intend to take any actions to proactively deploy capital until the end of '18 or '19, considering there is still implementation of BIS. After that, we do believe the environment for loan growth and the economy will be better, it probably will have more opportunity. It's not at that time, probably we will analyze the scenario, and, if necessary, take other strategies.

Peter Lovada:

Thanks. It's helpful, thank you.

Operator:

Our next question comes from George Freedman of City Bank. You may proceed.

George Freedman:

Thank you very much. Good morning, everyone. So I have two questions, please. I know, in the first one, I know you do not have numbers to share on the voluntary dismissal program, but could you at least inform us how many employees are eligible to adhere to this program? And if you are on the efficient side, could you elaborate a bit more on the recent closure of branches where those are... where those already related to HSBC branches and could you have... I know... more potential to shut down branches throughout the year. And so I come back to another point. Thank you very much.

Carlos Firetti:

Regarding this voluntary severance program, unfortunately we cannot share numbers or we don't want to share numbers at this point because, actually, we prefer to see what... what is the actual results and then, eventually, communicate them. Only to tell you... what... who are eligible for this program. Basically, here in Brazil, when people can retire and continue working. Basically, those people are eligible. Or people that is already eligible for retiring or close for retiring, they proving that condition, they can participate in that program. And also people that work with us for more than... than 10 years, and are not part of the work in the branches, account officers in the branches are not eligible, so these people working with us for more than 10 years are eligible. So this is what I can share on this severance program. Regarding branches, everything we have been doing so far, are based... is based on the Bradesco branch network.

We are constantly adjusting and revising out network. Some of the branches we closed were actually transformed in points of sale, we call "ponto de atendimento" in Portuguese. Basically, this is a smaller branch with one, two people, only ATMs and there's a very important reduction of costs when we do this movement. Especially in the second quarter, we've closed, actually, 54 branches and 50 points of sale. And we should start to look the... at the HSBC branch network in the second half. Basically the strategy there was to give HSBC branches some time to see how they perform, what are their trends, and now we're going to analyze what were left with four branches. We will analyze by a billet of some branches and potentially we will close more branches in the second half.

George Freedman:

Yeah, that's perfect, Firetti, thank you. And another question on fees. By the time of the merger with HSBC, I remind that the bank was excited about the potential to capture some revenue synergies with the recent, you know, incorporation of the bank, especially on checking account fees that could be better structure to serve legacy clients from, you know, that bank. However, given this progression of fees, I ask if... if this still a reality for you and also, if you're seeing a higher than expected churn of HSBC clients that could be just fine what you labelled as a soft performance on some key lines. Thank you.

Carlos Firetti:

Yeah, yeah. Basically, the main reason for the soft performance so far in fees, is related... there are some one-offs, some lines that are kind of... may impact negatively a little bit this growth, but this is not the explanation, the explanation is more related to the weak economic environment that makes our life more difficult to sell products, due, basically, the unemployment, also, to basically be able to expand fees. Basically, you have to improve the relationship with clients and you have to convince the clients to migrate to new package of services. You cannot just charge them upfront. So this is... this is what really impacts... look at credit cards, this is not really related too much to HSBC, it's 40 percent of total fees is one line that is growing something like 2 percent pro forma. This is economic activity. So I would say the churn is not a big contributor or a... a relevant explanation, honestly, for the fee performance, the churn we have is normally related to unemployment and, very frequently, clients that were not consuming products, or generating that much in fees already, so it's not what explains, it's more the economy. Our initiatives in fees and revenue synergies takes longer. We knew that, we always said that, and we think we are progressing in this initiative and some of them will mature in the coming quarters, allowing us to pick up growth in our bill.

George Freedman:

That's good. Thank you very much for the explanation.

Operator:

Our next question comes from Mr. Jason Morling of Scotiabank. You may proceed.

Jason Morling:

Hello, everyone. Thanks for the opportunity to ask a question. My question is a follow-up on the outlook for net interest margin pressure. This, in particular, after you talked about the short-term period that the bank could benefit from declining rates, but in the, well, medium term, clearly going to be pressure on NIMs and you talked about the need to offset the NIMs decline with volumes. I want to understand this volume question, I mean, clearly loan volumes would help, but loans are only about 50 percent of assets. So, is this also indicating that we would need to see, in the period, increase in securities? Or is it, you know, are there other factors that need to take place to offset this margin compression, to maintain profitability? And you did talk about a return potentially at the end of next year to loan loss provisions as a percentage of... of loans going back to the drop in 2014. That could be a very important offsetting factor, maybe even more important than volumes, no?

Carlos Firetti:

Yeah, no, Jason, I totally agree with you. When I talk about volumes only and don't talk about cost of risk of provision expenses, it's only to isolate the explanation and NII. Our view is precisely what you stated. We believe, first, in NII only, it's logical to think that, with lower interest rates, this rate, this peak and remain low, it means that, probably, the economy will be in a situation of starting recovering. And we do believe that in this scenario, volumes will pick up again, so it's logical to think that we will have that... that benefit. We may even see, in some moments of the recoveries, recovering lines where the margins are very good, like SME’s compress, we can, in our recoveries, start to have a little bit more of that, this kind of thing. But really, what we think that will help us in terms of overall profitability and overall margins after provisions is really provision expenses. We have provisions in a level that is very high. We are far from a level that we can say provisions are normalized, so this normalization will take... will happen through this year and next year. And when you look to total provision in the year, maybe, we may have even a further impact in 2019. After this normalization, actually, the... the improvement in NII, etc. is more important. Also, remembering that insurance is also a high growth product. We should continue accumulating reserves, the insurance company is suffering right now with lower inflation but they... they are using their assets liabilities management long-term bonds, and with reserves growing and without this adjustment, inflation that impact their margin this year, probably they will also a positive contributors to margins going forward. So that's more or less how we see this playing out.

Jason Morling:

Very helpful, thank you, Firetti.

Operator:

Our next question comes from Thiago Batista of Itaú BBA. You may proceed.

Thiago Batista:

Yeah, thanks, everyone. Thanks, Firetti. I have two questions. The first one is about level of provisions the bank did in the quarter, when I compare the gross provisions and the NPL formation, you have a slight, with comparison, the bank did 125 percent of the NPL formation.

There is an explanation for this high level for this or was only, let's say, a conservative approach? The second one... go ahead.

Carlos Firetti:

Yeah, let me, let me ask answer this first. Basically, we had some revisions, in erasings and guarantees. Also, we had a strong level of recovery and part of the recoveries come as new loans, and these loans, when we bring, basically, come with 100 percent provision. So, basically, when you look exclusively the gross provisions, it impacts that. That's why, when you look to net provisions, the growth in provisions is smaller, because we deduct the recovery strong provisioning.

Thiago Batista:

Ok, yeah. And you are to answer part of my second question. My second question was about the quarter recovery. Could you comment, how much do you expect of credit recovery in the coming quarters, this quarter, as you said, we saw a big increase in the level of recoveries. We could imagine that this will continue on grow to these 2 billion reais or tend to return to the historical average?

Carlos Firetti:

It could... it could be around that, or even growing more.

Thiago Batista:

OK, ok. Thanks, Firetti.

Opetator:

Our next question comes from Aníbal Valdés of Barclays. You may proceed.

Aníbal Valdés:

Hi, good morning and thank you. So, we notice that the... due to part of the capital increase, that due to the issuance of financial health, a recreation of financial letters during the quarter, I just want to have a better stand of your need and actual strategy to issue Basel III compliant that going forward. Are you completely out of the dollar market? Thank you.

Carlos Firetti:

I would say that it makes more sense for us... for industry in Brazil. Basically, when you compare the rates and conditions we get in Brazil with... especially the rates we get international markets, it doesn't really make more... much sense for us issuing international markets. In addition, we also don't have much demand for that dollar-linked loans at this point, so we... that further adds to this lack of appetite right now for issuing in international market.

Aníbal Valdés:

Very well, thank you, and could that change in the future, if... if conditions were to change and you needed that, or this is something that structurally you can solve, you think, in the local market going forward?

Carlos Firetti:

We are always looking at the market conditions, our treasury is looking... is always looking at that. It depends also on loan demanded, we have loan demand in dollars from Brazilian companies that could be a trigger for changing that, but we don't see that happening that far. But, anyway, things can change.

Aníbal Valdés:

Alright, that's good, thank you so much.

Opetator:

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

Carlos Firetti:

Thank you all for participating in our conference call. We are always available for answering any other questions you may have, thank you all.

Opetator:

That does conclude Bradesco's audioconference for today. Thank you very much for your participation and have a good day.