Operator:

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Banco Bradesco's Third 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, when further instructions will be given. Should any participant need assistance during this call, please press star zero (*0) to reach the operator. Before proceeding, let me mention that forward-looking statements are based on the belief 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 future the results of Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Carlos Firetti, market relations Director.

Carlos Firetti:

Hi, good morning everybody. Welcome to our conference call. We have today with us here in São Paulo Alexandre Glüher, Executive Vice-President and investor relations officer for Bradesco. Octavio de Lazari, the Executive Vice-President and CEO of Bradesco Seguros, and Luiz Carlos Angelotti, Executive Director. To start our conference call I turn to Alexandre Glüher.

Alexandre Glüher:

Thanks Firetti, good morning and for some of you good afternoon. Thanks for joining our Third Quarter earnings release conference call. I will start with the main highlights in the slide number 2. This quarter, net earnings reached 4.8 billion reais, an increase of 2.3% quarter on quarter and 7.8% year on year, representing a return on equity of 18.1%. The results showed good consistency and consolidating a positive trend that should be maintained in 2018, as the economy continues to improve. We highlight another reduction in our delinquency ratio, which maintained the improvement trend in the previous two quarters. The individuals and non-perfom loans ratios, includes 41 basis points, causing a drop in the total MPL by 17 basis points in the quarter. Despite some pressure from the corporate segments. The MPL formation reduction produces a drop in the cost of risk. We understand that this trend should continue, which may allow us to return the best, at the best historical levels towards the end of 2018. Total cost performance is among the main highlights. The stable this quarter and reducing 3.9% when compared to last year. This is a consequence of our tight control that creates the days for another good performance in 2018. As we captured the full benefits of the adjustments we implemented. As we just stated, we continued to work optimize the distribution network, reducing this quarter to 232 branches, these adjustments will continue as we adapt the distribution network to the evolution our customers need. Any improvements even in our adjustment process was the conclusion this quarter of the special voluntary severance program. We already disclosed that 7.4 thousand people decided to join the program and leave the company, which we are sure are mostly until the end of the year. The non-recurring cost of this program is 2.3 billion reais and we will have an annual recurring reduction in personal costs of about 1.5 billion reais. Loans volume growth remains a challenge. In the individuals' portfolio, we observed more consistent originations in the portfolio with an expansion of 0.7% during the year. In the company segment, we will still seek the long book stability. We see conditions for a better performance in the coming quarters. Our capital continued to expand organically, preventing an increase of 90 basis points in the Third Quarter, with tier 1 reaching 13.4%, giving us a very comfortable position for efficient growth. We will continue to optimize our operations, focusing on the origination of loans of good quality improvement of the portfolio of products and points of services, which should allow us to capture revenue synergy. We understand that our results should be maintained in its consistent evolution. Thank you for your attention and now Firetti will present the rest of numbers.

Carlos Firetti:

Thank you, Alexandre. Now we go for details of our results, starting in slide number 3. We have the adjustments to our accounting net income; basically, the main adjustments are the goodwill amortization and the impact of the one off provisions for the voluntary severance program of about 1.3 billion reais.
Going to slide 4, we have the details of the program - 7.4 thousand people joined the program as Alexandre mentioned, 2.3 billion reais total cost, estimated annual benefit in terms of reductions of personal expenses of 1.5 billion reais.
In slide number 5, we have our income statement. I will go into details of most of these lines in the following slides, only highlighting the ROE of 18.1% we reached the score for return analysis of 1.5, our shareholder's equity grew 11.9% year on year, while assets grew 3.3%.
In slide 6, we showed the evolution of our net earnings, in the quarter it expanded 2.3% and year on year 7.8%. In 9 months, we present an increase in net earnings of 11.2%.
In slide number 7, we have our net interest income. Basically total net interest income dropped to 14.6 billion reais. One of the main facts leading to this reduction was the impairment of assets that we include in the net interest income. Basically, this impairment refers to corporate bonds and it is the recognition of a definitive loss in the portfolio.
In slide number 8, we have our interest-earning portion of the net interest income. Basically, we had a reduction pro-forma 9 months of 6.7%. But the... And year on year in the quarter of 8.1%. The credit intermediation margin was mainly impacted by the... by lower volumes, this is basically also the main impact on that interest income as a whole, while spreads are relatively flat. The insurance margin improved this quarter as we had last quarter, basically with the impact of a higher MPC inflation that is recognized from our own portfolio. And securities and others we had a reduction this quarter, we didn't have the impacts of dividends, we will receive those dividends in the Fourth Quarter.
In slide number 9 we have the credit intermediation margins, the credit margins or credit spreads still remain consistent, we had a slight increase in the quarter. After provisions, we had an even bigger increase in margins. We think this should remain as a trend for next year.
In terms of... In slide number 10, the expanded loan book we had a reduction in the loan book in the quarter of 1.4%, the individuals' portfolio showed a posted performance increasing 0.1% q on q, we think this is the beginning of a better trend. The company portfolio is still reduced 2.1%. Year on year, we had a reduction of 6.7% in the total portfolio for individuals plus 0.7, in companies, minus 10.3. As I said, in the

individuals' portfolio, we see more consistency, we start to see recovering most of the lines, even car loans, which have been reducing for a few years presented this quarter a better trend. Looking to loan origination, in the quarter year on year individuals' loan origination increased 35% compared to the Third Quarter '16 and we have 21% loan origination in companies. For companies we still have to see further increases in loan originations for first balance the portfolio and then start to grow again.

In slide 11, we have probably one of the best news we have seen the past quarters credit quality trend remain positive, we had a reduction of 41 bits in the NPL for SMEs, 41 for individuals, we had an increase of 28 bits for corporates, caused by a few cases while the total MPL reduced 17%. Despite this pressure on corporates, we believe the trend for total MPLs remain positive and the MPL formations from corporate does not have a big impact in the total MPL.

In slide 12, we have our 15:90 days delinquency ratio.

In the slide 13, we show the MPL formation. Basically, we had another reduction this quarter to 5 billion reais from 5.2. Our gross provisions covered 100% of the MPL formation in the quarter. Our low-loss provisions net of credit recovered reaches 3.8 billion reais in the quarter, another reduction in the quarter reaching 4.14%. As we have been saying, we believe we still can continue improving this provision in ratio during 2018.

In slide 14, we have further details of our NPL creation. We had improvements in the SME portfolio, in the individuals' portfolio, and a small increase in the corporate MPL formation to 0.8 billion reais.

In slide 15, we have our provision in ratios; our total provisions reached 9.9% of our loan book with our excess provisions remaining at 6.9 billion reais. Our 90 days MPL coverage expanded from 202 to 208%. We think we have a very consistent provisioning level and we think this coverage can actually continue improving in the coming quarters.

In slide 16, our renegotiated portfolio. Basically we brought this quarter a new information that is the renegotiated portfolio considering only loans that were still in our book, discounting the credit recovers that also go to deliver negotiated portfolio. So considering the total renegotiated portfolio, we had a reduction of about 100 million reais considering the renegotiated portfolio without the recoveries, basically, the reduction was bigger and has been happening in the past two quarters.

In slide 17, our fee and commissions income, basically we had an increase of 5% in the quarter year on year, 4.3% q on q, we think our numbers are consistent, we are showing good performance in asset management, consortiums, brokerage, and investment bank, and believe we still have room for continue capturing synergies from our acquisition, we already see some positive impact but we think more benefits will come throughout next year.

In slide 18 another very positive story that is the operating expenses, we show the reduction in total operating expenses of 3.9% Q on Q, in the third quarter, considering pro-forma nine months, a reduction of 3.1%. Basically, we have a strong reduction in administrative expenses, 5.8%, where we were able to capture already, a big portion of the synergies renegotiating contracts, shutting down the IT platform from HSBC and we think we still have benefits to capture all the administrative expenses as we are still in the process of reducing branches that overlap with our acquisition. We reduce 223 branches this quarter, the reduction in 12 months amounts 492 branches, and we believe we still have room to continue adjusting; there is a portion of adjustments from the overlap in the fourth quarter, and going ahead adjusting according to the evolution of our client needs. In personal expenses, we already had a good performance, but the benefits from the voluntary severance program are not reflecting in this quarter, since most of this 4,500 people left the company in the end of the third quarter. Most of the

people that joined the program will leave the bank until the end of the year, some probably until February, so we still have benefits in the coming quarters from cost reduction.
In slide 19, we have our efficiency ratio at 41.5%, the operational coverage ratio 75.9%.
In slide 20, we have the numbers from our insurance company, we remain with good performance in terms of premiums. Our premiums are growing 5.1% year on year in the third quarter, pro-forma 9 months present increase of 6.7%. Net earnings for the insurance company increased 16.8% Q on Q, with the return on equity reaching 20.9.
In slide 21, we have the information on our capital, we continue adding capital on an organic basis, as Alexandre mentioned we added 90 bits in capital this quarter. We believe we should continue seeing an evolution in capital from earnings retention going ahead. Our common equity capital ratio was 12.4%, total tier 1 13.3% considering our fully loaded calculation.

And finally, in slide 22, we have our guidance, we keep the guidance unchanged. Basically, we have some challenges here, for the expanded portfolio we believe we can reach, at the bottom, I think it is feasible. In the net interest income, it is more challenging but we believe it probably would be close to the bottom of the guidance. Fee and commissions probably center or center-high. Expenses, we are more to the lower portion of the guidance, especially considering the impact of the severance program. Premiums we are doing fine there and allowing for low-losses expenses, the guidance is 18-21 billion. We believe we are going to be in the bottom or eventually, is likely better.
So with that I conclude the presentation, and now I open 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 star one (*1). If at any point your question has been answered, you may remove your question from the queue by pressing star two (*2). Our first question comes from Mario Pierry, of Bank of America. You may proceed.]

Mario Pierry:

Good morning, everybody. Let me ask you two questions please. The first one is related to you net interest income guidance. You are saying you will be challenging already to meet your familiar guidance, but, you know, you had reduced your guidance in the previous quarter. According to our numbers here, your net interest income is down about 10% in the first nine months of this year versus the last nine months of last year. Your guidance from -5 to minus -1, your originally, I think a 0 to 4. So my question is, what is surprising you on the net interest margin or on net interest income, that you have been revising down your forecasts? So that is question number 1.
Question number two is related to your fee income generation, I think it has been a little bit weaker than what we were expecting. You had originally guided that you expected to see synergies from the HSBC transaction of approximately 1.1 billion reais in revenues. But when I look here at your number of active accounts, I see the number of active accounts fell from 27.2 million people in September '16, to 25.8 million in September '17. So can you just talk about, then give us more color on what is going on, you know, in terms of revenue synergies of HSBC, and your ability to maintain the clients that you acquired? Thank you.

Carlos Firetti:

Thank you, Mario. First starting on the net interest income guidance, only to remind. The guidance that is for the net interest income from interest, that is dropping 6.7%. We feel it challenge, we would need, for me to talk on stuff like 7% growth in net interest income Q on Q. The main point that has been impacting net interest income, are loan volumes, basically, we were targeting the center, but the recovery actually is happening, but in the third quarter probably slower than we expected, especially in companies or in companies mostly. So this probably the main challenge. Another thing I call you attention, is considering the asset liability management from the bank, part of the results from net interest income actually end up going to equities and we recognize these results as we accrue interest from the bonds we have there, and we have been showing a positive market to market in the past few quarters. But, as I said, it's possible but margins itself seems a little bit challenging, volumes less challenge, with relatively modest growth, we would be in the bottom of the volume guidance, but basically, volume is the main source of challenges there. Regarding fee, I would say, when you look to the laws of clients, that reduction is not basically that we are losing clients we acquired from HSBC. The main source of loss is unemployment. We are a bank that is very strong in payrolls. We have relationships with companies and their employees receive salaries in Bradesco, with the unemployment that leads to some reduction in the number of accounts. This is one of the challenges in fees as a whole. It does not relate necessarily to difficulties in HSBC. Regarding HSBC, we feel we are doing fine, we also suffer with the still relatively weak economy, but looking, for instance, a number we have very precisely that is the loan origination per client from HSBC. We are seeing a pretty good devolution with loan origination per client reaching numbers that are close to the average from Bradesco. So it is progressing as we have been saying, we believe we will be able to capture the full synergies until the end of next year.

Mario Pierry:

Ok, let me go back then to the net interest income. I remember in our recent conversations, you were fairly confident that you would be able to maintain your net interest margins stable, at least through the second half, through the first half of 2018, because of benefits to your funding costs, from a lower interest rate environment. Is that still the case, or are you still feeling -- or are you getting a little bit more uncomfortable of the margin outlook as we are going to 2018?

Carlos Firetti:

I think, realistically, we can assume from stable to slightly down. I think it is more realistic at this point.

Mario Pierry:

Ok. And then, finally on my follow-up on HSBC, can you just... do you have a number that you can provide to us about the retention rate of the clients that you acquired, or the retail clients that you have acquired from HSBC, and how much of the 1.1 billion in revenues that you are expecting to get in synergies, how much of that has been realized?

Carlos Firetti:

Mario, first thing, we are not sharing these numbers, I can tell you that it didn't experience a material loss of clients since we finished the integration of systems, or since we assumed HSBC in July '16, most of the losses have been actually... before we assumed the bank, but we can tell you we are progressing. We think... as I said, if loan origination is kind of a reference, in that case we are really... we had a material increase from the level we saw when we assumed HSBC.

Alexandre Glüher:

Mario, as a complement, we considered some group of HSBC regional clients, and when we compare these groups with our similar group of original Bradesco clients, we have seen, in some groups, almost the same level of profitability. In some groups, we have reached 70% of the Bradesco profitability of clients, and, in other groups, around 90%. Then, there is space to grow more and to be more efficient with these relationships with them.

Mario Pierry:

Okay, thank you very much.

Operator:

- Our next question is coming from Carlos Macedo of Goldman Sachs. You may proceed.

Carlos Macedo:

Hi. Good afternoon, gentlemen. I have a couple of questions. First, I want to go back to talking about margins. Your credit margin, as you showed, is now 13.3% went up this quarter, and I think Firetti was talking before about how your net credit margin, which is 8.2%, that went up 40 basis points. How would you expect that to stay at this level? Just going back to what Mario just asked, I mean, you have... your cost of risk is pretty much at the lowest level that it's been in several years, pretty close to what it was in 2014, 2015 -- 2014, specifically, when things were much better. There might be a little bit to improve, but not that much, so... and you still have not seen these effects of the lower rates and spreads on your credit margin, which should contract. Do you really think that it is a steady .2, do you think that will go to, you know, a 7 and humm 7.8, 7.5? How far do you think it can get, I don't mean this year, I mean, more in the medium terms, say, by the end of next year given the outlook stays as is. Second question, the loan portfolio on the consumer side increase sequentially, I think it was the first sequential increase in all the loans since 2011, which is a very big shift, I would say. Obviously, you saw conditions that improved and allowed you to be more aggressive or take more risk. Do you think that there is something in the horizon for the SME book, which is one of the books that really suffered over the last 18 months that could allow you to start growing that book again over the next maybe couple of quarters? Thanks.

Carlos Firetti:

Bradesco

Thank you, Carlos. Regarding margins, and also you related to cost of risk, looking to our portfolio and, especially, looking to our loan vintages in the level of new cost of risk originated from this vintages, we can still continue improving gradually for some quarters. Remember that, even though we have already improved, we are still higher than what we see as the bottom and, on top of that, remember, the mix shift to lower risk, so we have been changing the mix to lower and lower risks for a few years, but, actually, given the crisis, the cost of risk increased, not improved. So, we feel we still have room for improving cost of risk. In terms of margins, basically, as I said, we have some impacts from depositions in our asset liabilities management, some fixed rate positions in the loan book and some gap, we should have some benefits from that... for sure, the reduction in the SME book, that is a fixed rate portfolio and reduces a little bit something a little bit of the impact of that, comparing to other moments, but that is still there, as I said, there are also results to be accrued to the margins in the equity; we don't see any pressures in spreads -- we do believe that, as the economy improves, we may see some corrections in spreads, but we don't think there will be any disruption in spreads, is more gradual adjustments have probably volumes improved, so we believe this will be coincidences improvements in volumes, and linking that with your question on loans, we are seeing kind of a wide spread recovery in the individuals' portfolio, we see signs in the origination of improving almost all credit lines, even personal loans. We saw the first growth, as you said, in auto loans, in years, and we feel that this trend should remain, we probably will continue seeing improvements in the individuals' portfolio. In companies, is a little bit more challenging, given that even with the recovering economy, actually, companies are more recovering inventories, basically enjoying a better moment than actually stocking investment saves, but even with that, we still, as sales grow, as companies start to sell more, the increase in volumes of receivables actually creates the base for more lending, you know, especially for SMEs. The ability to grow with clean credit lines is limited. The cost is too high, the risk is too high, as we have more receivables as the economy picks up, that creates the base for maybe growing more, even in the SME portfolio.

Alexandre Glüher:

One important strategic point is that we are working for volumes, of course, in credit, but we are focused on quality, more on quality than market share. Then, we are selective to give credit, to produce credit, as I said, looking for volumes, but preserving and reaching better levels of quality.

Carlos Macedo:

Okay, perfect, thanks for the answer, gentlemen.

Operator:

- Our next question is coming from Jorge Khoury of Morgan Stanley. You may proceed.

Jorge Khoury:

Hi. Good morning, everyone. Can we just go back to margins? I'm sorry. So, your net interest margin, as you reported on the interest portion of your assets excluding trading and permanent fixed assets was a 6.9%, that's down from 17.2% in the previous quarter, so the recent acceleration in the contraction in margins down 30 basis points this quarter versus 20 basis points in the previous quarter for the first nine months of the year, you are down 60 basis points. So, given your assets sensitivity and the fact that average interest rates continue to come down and your back book will be priced of lower rates, what do you think... when and where... sorry, when and at what level did you think your margins are going to bottom down? So you are 6.9, how much more should that go down, and when is that, what quarter of the next year do you think that that will reach the bottom? That's my first question, and then, on the second question, I'm going back to a third question that Mario made on HSBC: if I look at your operating results pre-provision... for the first nine months of this year, which include HSBC, compares to the first nine months of last year, excluding HSBC. That number is down 5%. So, I'm just wondering where is HSBC and, if I look at Itaú, for example, with no acquisitions, and they have stated that there are even more asset sensitive, their nine-month-preparation operating profits was down 2%, versus you went down 5%, and you added a whole new business. So, I'm just trying to figure out where is HSBC and when are we going to see some of the benefits; you just said that it was going to be fully consolidated within six months and hasn't – I mean. I don't know if it has played out or not, so, maybe, can you tell us what is the contribution of HSBC to your operating results in the first nine months of this year? Thank you.

Carlos Firetti:

Okay. Jorge, considering margins, we... despite this reduction, as I said, we have still results to be recognized in margin that were actually marketing equities, and this interest will be accrued as we converse to the maturity of this months; so, basically, we believe that margins, nothing else happening, probably should bottom by the end of the year, or around the end of the year, I think that's when all the actually liability sensitiveness from our down shift probably on most of it is actually gone. For the following years, there is a lot of moving parts, not exactly on the margins, but, as I said, on volumes, we do believe next year volumes will be better, and depending on how things progress, we believe 19 could be even a better year, with room for really re-risking of the portfolio, but, basically, strictly on your question, probably the bottom will not be... the reduction is not going to be sharp, it is going to be gradual, especially due to the recognition of a gain from our assets liabilities management positions. Regarding HSBC, basically, the thing is, we have a lot of moving parts: the economy actually has not been helping in terms of... since we incorporated HSBC, it is starting to improve only now; we have been doing a good job in terms of cost reduction, and that is not fully reflected in the numbers this year -- actually, since we have been advancing a lot in the cost side in the past two quarters, actually the benefits from this cost reduction will actually reflect more next year. Even this quarter, where we had a voluntary dismissal program, where almost 4.5 thousand people left, actually they left at the end of the quarter, there is no major benefits reflected there; also, we closed branches throughout the quarter; so, on the costs front, we are doing the job in captured meaningful amounts of synergies. On the revenue front, basically, big part of the synergies comes from talking client to client, and convincing them, and telling them better services and charging for it. It has been a challenging environment, and, as we said, the process is moving, but we could not go faster than expected. So, basically, we believe we can still capture meaningful synergies from HSBC until the end of ‘18. That is actually what we have been saying, we were actually able to do faster than expected the capture of synergies on the cost front, but actually, on the revenue front, it will take a little bit more time. We did already achieve good results in terms of increasing origination of loans per client, this is something that, as loan growth picks up, we believe it will be an important source of growth, but, so far, we are in the process of capturing the revenues on the service side.

Jorge Khoury:

Thanks, Carlos. If I just may follow-up on my first question. So, you said the bottom of margins end of this year, maybe beginning of next year, and I also asked, you know, how much more are they coming down. So, it is 6.9, what do you think the bottom is, what level?

Carlos Firetti:

I prefer... Let's change a little bit the way we refer to this, because turning it more aligned with the way we present our guidance, not in terms of margin, more in terms of... and, as I said, this year, the bottom of our guidance for margins -5, we will be probably lower than that; for next year, we believe NII may be from stable to somewhat down or slightly down, so that is what we expect for NII, you can translate it to NIMs <>.

Jorge Khoury:

Great. Thank you very much.

Operator:

- Our next question is coming from Marcelo Telles of Credit Suisse. You may proceed.

Marcelo Telles:

Thank you for your time. I have a couple of questions. I think the first one is actually a suggestion: I think it has caused a lot of confusion in terms of the NII, analysis from what I have seen from the questions before regarding the impact of the impairment, so I would recommend you know to put the impairment losses in the provisions, you know, we all comparatively do because I think it is causing quite a bit of confusion, I mean, for instance, if you look at your pre-tax earnings, the tax to provision in earnings in the nine months of the year, it is actually not down 5%, it is actually flat because the impairment is in a different line, so I think that would help understanding better the NII trend, but, in that point, I just want to also reconcile the dividend that you guys receive apparently twice a year from one of the actual investments that you have. I understood this business is quite material, you received in the second quarter, but you did not receive in the third, and they are likely going to receive in the fourth quarter and it seems something that you guys receive every year, so if you could elaborate on that, that can also explain the impact, I think it could be some hundreds of millions that could be reverted in the fourth quarter, so, if you could explain that, clarify that, that would be good. And my other question is regarding the loan growth. You mentioned that you expect a better loan environment in next year. How much of a loan growth you think you will be able to achieve next year, do you think like 3, 4% sounds like a good number? And, more specifically, in terms of your SME book, I know it has been declining steadily as you have been de-risking, when do you think you should start seeing a growth in the SME portfolio? Thank you.

Carlos Firetti:

Thank you, Marcelo. Regarding the impairment, we think that you are right. We kept the impairments as we had in ‘14 that it is actually the right way considering the accounting place the impairment should be, but, on a managerial point of view, probably it is better to have, together with the cost of credit, then we will do that next year. We discussed all of that in the middle of the year when changing the guidance, but we felt that changing that probably would create even more confusion, so we decided to keep it for this year and change this probably for next year. But thanks, we think you are right. Regarding the dividends from the Bradesco BBI investments, what we can tell you is, it receives twice a year, you can take that for granted. The quarter when we receive it depends not entirely on... it depends on the company that is paying, and they formalize it, so we did not receive it this quarter, it is going to be in the fourth quarter. To avoid confusion, I guess we can say it is twice a year, one first half, one second half...

Alexandre Glüher:

By contract.

Carlos Firetti:

...by contract, but we cannot really give too much precision on which quarter it will be. We received this year, one in the second quarter. Basically, in terms of loan growth, our economists basically believe loan growth for next year for the market should be something like 5%. If that is the case, probably it would be growing something like that or slightly better, though that is the reference. Certainly, it seems that individuals will be leading the tax and the companies’ portfolio comes afterwards. Yeah, but it is not a formal guidance, only a reference on what we believe for the market as a whole. Regarding SMEs, as I mentioned, we believe the growth in SMEs is largely dependent on basically more demands, or more sales, or more receivables, high-quality receivables that backs the credit lines where we can really operate with more volumes. We think that we you are going to be seeing, probably starting in the first half next year, we believe that, on a Q on Q basis, probably the first half next year is a good target for starting to see some recovery in growth in SMEs in the first quarter. You saw, if you see to this quarter, the SME portfolio actually, the reduction decelerated, it was still a meaningful one, 1.8% in the quarter, it was actually lower than for large companies. We think this Q on Q reduction probably will continue reducing, fourth quarter there has some seasonality, maybe some better performance there, but really we are still seeing... we are seeing improvements, as I mentioned, if you look to loan origination of our three credit lines in the third quarter comparing to third quarter 16, there is a growth of 21% year on year, so origination is improving, we still have to see higher growth in these originations to lead to an equilibrium in the portfolio.

Marcelo Telles:

Thank you for the answer. Just one final question, if I may: regarding your insurance business, particularly the technical result of insurance, when we look at the numbers, did you see a still relatively high loss ratio that you used to have back in 2014? So, how should we think about your insurance business down the road, I mean, with the economy improving, you know, reformed, you know, stabilizing or starting to improve? Could that be aligned with a potential positive surprise down the road? Thank you.

Carlos Firetti:

I think the most important problem in terms of loss ratio comes from our health insurance, that actually we suffered with the economy, we lost the clients during the process, there was an impact from unemployment, but as unemployment reaching the peaks, even if it stabilizes and the economy improving, we believe health insurance can improve materially. This quarter, there was already a meaningful improvement in the loss ratio for health insurance. It is basically... it helps, and we think we will see more consistent numbers in improvement in the health insurance in the coming quarters.

Marcelo Telles:

That is very helpful. Thank you.

Operator:

- Our next question is coming from Philip Finch of UBS. You may proceed.

*****:

Okay, gentlemen, thank you for the presentation. Two questions from me, as well: first one regarding your capital provisions, clearly you have been rebuilding capital very well since the HSBC acquisition. I just wanted to know at what level of capital, say common equity tier 1 ratio would you want to reach before you start to think of deploying more capital to shareholders, i.e. raising your payout ratio? Second question is related to your asset quality and, specifically, cost of risk. Again, a very good progress on this front, especially in the latest quarter, with cost of risk coming down significantly to around 4%. So, the question is, how much lower can we go, especially given the loan composition today is very different from what it used to be, being a lot more defensive or conservative, so how much lower can we go and, also, how quickly? Thank you very much.

Carlos Firetti:

Okay. In terms of capital, basically, we have been adding capital organically sequentially. Our fully-loaded ratio including the estimates for use of tax credit and goodwill amortization is 13.3% tier 1, 12.4 common equities is still a good level. Basically, we do not have, at this moment, plans of changing any of our policies in terms of capital deployment. We are still in the final steps of the implementation of BIS tree, we believe we can ahead potentially grow more, so we probably will keep adding a little bit more capital organically until the end of next year, but that said, we actually have been paying more dividends. If you look to our current payouts, considering we have been paying interest on capital at full, it has been higher than 40%, but it is quite good. Basically, we don't have a cap for dividends, we never had, so, basically, there is no restriction in paying more, so probably we should... also, the base of calculation for paying dividends is the accounting earnings, that it still has the impact of goodwill amortization, but we think we should add a little bit more capital to it on next year. And regarding assets quality, how low it can go, we think we are still... as you said, we had a changing mix, even with this changing mix, given the cycle, we had actually an increase in delinquency ratio in cost of risk, and as we improve our credit quality, we see that our new vintages are performing better, is still performing better than the current levels; we think it still has room to improve. We do not have a target, but it would be possible to actually, at some point, at the end of next year, to reach very low historic levels.

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Okay, thank you very much, Carlos.

Operator:

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

Carlos Firetti:

Okay. Thank you very much, all, for participating in our conference call. The Bradesco's Investors Relations Department is available for answering any other question you may have, so thank you, all.

Alexandre Glüher:

Thank you.

Operator:

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