International Conference Call
B3
Second Quarter 2017 Earnings Results
August 14th, 2017

Operator: Good morning ladies and gentlemen, and welcome to the audio conference call about the earnings results of B3 for the Second Quarter of 2017.

At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero (*0).

As a reminder, this conference is being recorded and broadcasted live via webcast. The replay will be available after the event is concluded.

I would now like to turn the conference over to Mr. Daniel Sonder, Chief Financial Officer of B3.

Mr. Daniel Sonder: Good morning everyone, I'd like to welcome all of you to B3's second quarter 2017 earnings conference call.

I am here with Rogério Santana, Head of Investor Relations, as well as the finance and investor relations team, and first of all, I would like to thank the whole team for preparing the documents that you have seen since Friday and that you have in front of you. Additionally, on behalf of the entire executive at B3, I'd like to thank you for your continued trust and support.

Moving to the second quarter figures, this is the first quarter you see the result of the combined company fully reflected in the financial statements. However, just for clarity, the year-over-year analysis is based on a non-audited combined income statements for second quarter 2016, which includes BM&FBosvespa and Cetip's figures for that quarter.

I will start on slide 3 of the presentation, where we have our operating and financial highlights for the quarter, which we will go down into more details over the following slides.

As you can see, our topline grew almost 9% year-over-year reflecting growth in all of our 5 segments propelled by different drivers: Revenues in the Bovespa segment reflect the performance of the local equity market with increase in the market capitalization of listed companies and resuming of capital raising activities; in the case of derivatives in the BM&F segment, volume growth was driven by increased volatility created by uncertainties arising from the political and economical environments; finally, the performance of the Cetip financing segment is a consequence of the initial recovery seen in the vehicle financing activity.

Adjusted expenses reached R$ 250 million; 4.1% higher than in the second quarter of 2016, mainly impacted by the annual salary readjustment, which was partially offset by synergy gains and by the increase in capitalized personnel expenses related to ongoing technology projects.

Ebitda adjusted for nonrecurring items was R$ 675.5 million; almost 13% higher than in the previous year. Adjusted Ebitda margin was close to 70%. Recurring net income reached 475.7 million; a 25% decrease, mainly as a consequence of the loss in the company's financial result since now we are holding a smaller cash position and a higher level of debt.

Regarding distribution to our shareholders, left Friday the Board approved interest on capital amounting to R$ 82 million, which represents 50% of the IFRS net income. As we have stated in previous earning calls, we intend to pay out 50% of our IFRS net income in the first three quarters of the year and decide if we will increase this ratio through an additional distribution in the fourth quarter of the year.

On the right side of this page, we describe the nonrecurring items that impacted our results this quarter. As we have guided the market previously, we should see nonrecurring Opex and Capex related to the combination between BM&FBosvespa and Cetip impacting our financial results until the end of 2018.

In the second quarter of 17, these expenses amounted to 145.3 million before taxes. Additionally, we decided to settle a tax dispute through the Tax Relief Program recently opened by the Brazilian Federal Revenue Service. This tax discussion is related to a tax assessment that challenges the deductibility of the interest on capital paid to the company’s shareholder in 2008, the year of the merger of BM&F and Bovespa.

Consequently, the amount the due tax discussed in the dispute will be reduced from R$ 157 million to 94 million. It's important to note that this discussion has no connection whatsoever with our much larger goodwill tax assessment, which was not settled.

I also would like to bring some updates on strategic initiatives: In June, we concluded the process that resulted in enhancements to the Novo Mercado rules; a great achievement that shows a continued improvement of the Brazilian capital markets. We want to take this opportunity to thank all of the investors who participated in this process either by sending comments or by seeking to influence the votes of the companies you are invested in.

We also evolved in the post-merger integration process, which has 3 main pillars: One company, pleased clients, and motivated teams. As an example, our ERP system and our Human Resources practices have already been integrated and we have advanced in our studies for a new client coverage model.

Finally, we are close to the deploying of the equities phase of the clearing houses integration; the major infrastructure project of our company that should be completed by the end of August and for which we already received the authorization from the regulators.

We move now to slide 4. We show here the reconciliation of our recurring net income from operations. Over the last few quarters, we have had a number of nonrecurring events, and we understand that this makes our reporting somewhat less clean than we would wish. Furthermore, we have a significant impact from the amortization of intangibles and goodwill in our company, and that is why we try to show recurring net income to make comparisons easier.

This quarter, we adjusted IFRS net income to expenses related to the combination with Cetip, amortization of intangibles created in this combination, and impacts from the Tax Relief Program mentioned before. By doing these adjustments, the recurring net income from operations would reached R$ 476 million. Here, I'd like to call our attention to the fact that this is the first quarter in which we have the amortization of intangibles created in the combination with Cetip. The amount amortized this quarter was 195 million before taxes, with no cash impact.

The intagibles created in the combination amounted to roughly R$ 5 billion to be amortized through a seven-year period on average.

Additionally, we exclude from the recurring net income the deferred tax booked in connection to goodwill of Bovespa Holding amortized in the quarter. The adjusted recurring net income would be 609 million. In second quarter, we are not showing any goodwill from the Cetip transaction yet, but this will begin to show up in three quarter numbers. The 7 billion in goodwill created in the combination with Cetip will be amortized in 5 years starting from the third quarter 2017.

Now I will turn over to Rogério and he will give you more details about our operational performance.

Mr. Rogério Santana: Thank you Daniel. Hello everyone. I would like to ask you to move to slide 5, where you will see the revenue performance and breakdown for the second quarter 2017.

In the bar chart on your left side, we see that revenue from all the 5 segments grew year-over-year, leading to a 9% growth in total revenue. In the pie chart on the right side, we see the breakdown of revenues for the quarter, which shows once again the highly diversified business model we have.

Moving to slide 6, you will find details on the performance of the financial and commodity derivatives market, where we had a 5% revenue increase. As you see, we had a relevant volumes growth in almost all group of contracts. As Daniel mentioned earlier, this increase was driven by higher level of volatility reflecting uncertainties in the political and economic environment.

The highlights were: Interest rates, contracts and stock-based index contracts, that grew around 50% year-over-year. On the other hand, the average RPC fell 22%, reflecting higher share of options and the day trades in the overall volumes since we charge lower than average fees on these contracts and transactions respectively.

Also, as we mentioned last quarter, we adopted a cash flow hedge account for part of the US dollar-denominated revenues in these segments, which comes mainly from the fees collecting in the trading and post-trading of FX rate and interest rate in US dollars contracts.

This hedge was set by designating be one-year US dollar loan we entered into December 2016 to cover part of the US dollar-denominated revenues generated by these contracts. This hedge offset part of the negative impact the recent Brazilian Real appreciation against the will US dollar would have had on revenues in this segment.

On slide 7, we have the performance of the equities market, where we saw a 13% revenues growth. This growth was driven by the increase of the ADTV in this segment from 7.1 billion to R$ 8.5 billion; a 18.8% increase year-over-year.

This performance reflects the recovery of the Brazilian equities market, which we can see through the market capitalization of Brazilian companies in the chart on the right bottom side.

In slide 8, we have the performance of the Cetip securities segments, where revenues from the registration of fixed income securities and OTC derivatives grew 5% over the second quarter 2016. The main sources of revenues in this segment are the fees charged for CFD and traded depository maintenance services followed by monthly utilization fees and fees per transaction. In the second quarter 2017 particularly, we saw a growth in all these lines.

In the slide number 9, we have the information on the Cetip finance segment. The revenues in this segment is generated by fees charged on the registration of liens and loans related to the vehicles credit activities. Revenues in this segment grew 18% year-over-year. This growth was mainly driven by a 7.6% increase in the number of vehicles financed, which reflects the combination of growth in the number of vehicles sold with higher credit penetration.

Now I will pass the word back to Daniel, who will detail our expenses and other financial highlights.

Mr. Sonder: Thank you Rogério. In the next slide, slide number 10, we show the behavior of the company's adjusted expenses. The adjusted expenses reached 250 million; a 4% increase year-over-year. The highlight here is that the inflationary adjustment that apply on the personnel line was partially offset by synergy gains from the combination with Cetip and higher amounts of personnel expenses capitalizes.

The synergies related to the combination will be gradually captured through a three-year period and should positively impact the coming quarters. We expect that in 3 years our expenses will be R$ 100 million smaller than it was in 2016.

The largest portion of the synergy should come from adjustments in the company's corporate support areas rather than in IT operations ok clients facing areas, where the activities of the 2 former companies complement each other with little overlap.

On slide 11, we highlight our financial robustness with a solid cash position, which is an important part of the business of being a credible counterparty in the financial market. Total cash amounted to 6.9 billion at the end of the quarter, composed by B3's own cash and third-party cash, mainly related to the collateral pledged in cash by clients.

In the light blue bars, you will find B3's own cash, composed of restricted and unrestricted cash amounting to R$ 4.5 billion in second quarter 17. B3's own cash includes the necessary cash to run the day-to-day activities of the company that totals between R$ 2.5 and 3 billion. This amount includes approximately 1 billion in clearing houses required safeguards. The remaining assets that liquidity that supports our activities as a central counterparty and general corporate needs.

The bars on the left side of the graph show the third-party cash, which amounted to 2.3 billion, mainly composed by market participants cash collateral of 1.9 billion. It's important to highlight that the company earns interest on most of this cash.

In the next slide, slide 12, you can see the company's debt profile and amortization schedule. At this moment, our financial leverage is temporarily higher and the gross debt to Ebitda ratio was 2.6 times in second quarter of 17. Our target is to reduce this ratio to one-time in 3 years, following debt amortization schedule seen in the bar graph on the left side.

Slide 13, the second quarter 2017 financial results amounted to R$ 58 million expenses. The year-over-year comparison was impacted by a nonrecurring item related to the divestment from CME Group shares pack in the second quarter of 16, as you can see in the graph.

The decrease in the financial income reflects a lower cash position due to the payment of the cash portion of the combination with Cetip, which was made in late April.

The almost 60% increase in the financial expense line reflects R$ 97 million in interest accrual on the R$ 3 billion of debentures issued in December 2016 and 42 million in nonrecurring provision for interest and fines related to the company's decision to join the Tax Relief Program, as already mentioned.

Except for the tax item, our financial result line now begins to look like it will look for the coming quarters with less cash and a debt level that will gradually decline according to the schedule of amortizations.

In the next slide, we show again the information we showed last quarter about our Opex and Capex budgets related to the business combination with Cetip. I will not go into more details at this point, but please feel free to address this or any other point during the Q&A.

I would like now to conclude the presentation and open now our Q&A session. Thank you.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question and answer session for investors and analysts. If you have a question, please press the star key followed by the one key on your touchtone phone now. If at any time, you would like to remove yourself from the questioning queue you may press star 2.

Our first question comes from audio Pierry, Bank of America Merrill Lynch.

Mr. Pierry: Hi, good morning everybody, congratulations on the quarter. Two questions. The first one is related to the synergies that you talked about, cost savings of R$ 100 million in 3 years, but you said that there were already some benefits this quarter, so I wanted to know if you could quantify the benefits that you saw this quarter on your expense base.

Second question is related to this expected decline in interest rates in Brazil. If you could talk about how that impacts your cost of debt, and also, which business units do you think will benefit the most from this expected drop in the SELIC? Thank you.

Mr. Sonder: Okay Mario, thank you very much. So, related to the synergies, we are choosing to not give so much detail on the executions of the synergies on a quarterly basis. As you know, this is a process that, you know, affects a lot of people, as well as the decisions that are ongoing still in the company. So, our choice is that at the end of the year we will give a status on how the synergies have been for the year of 2017 and then take it from there.

So, yes, we are capturing them, our target has not changed, but this is as much detail as we feel comfortable to give at this point.

With respect to interest rates, so on the debt side most of our debt is attached to CDI, the debentures that we have that were issued at Cetip are linked to CDI, the debentures that we issued for the transaction (the R$ 3 billion in December 16) are also linked to CDI, and our bonds, which amounted US$ 612 million, are also hedged, currency hedged with the link to CDI.

So, we in our debt cost, interest cost, would benefit from the reduction. Obviously, we are company that carries a large cash position because of our business needs, so that also affects conversely our income from our financial investments.

The debt that is not linked to CDI is Cetip looks transaction, which is US$ 150 million funding that we did over the past few years, and that is just linked to the US dollar, not to reais.

With respect to the business lines, I think we are fortunate to be in a position where all of our business lines do derive a positive impact from lower interest rates we find, assuming obviously that this combined with a benign macroeconomic environment, right. So, in equities, a lower interest rate should lead more people to shift their investments from fixed income to equities, and we obviously lowering the cost of equity also increases valuations, and if that is also combined with a more growing GDP and expectations, then we should see also more capital raisings coming from that environment.

In the BM&F segment, the derivatives segment, we find that over the long-term we should expect that lower interest rates would have financial intermediaries: One more willing to take some risks in their portfolios to increase the returns (that’s on the sort of the asset management industry side); and on the financial players, the banks and the people who need to do hedges, again, if we have lower rates we might have expanding in credit portfolios in these financial institutions, more funding, more growth, more willingness to lend, and again, that should be a structural growth driver over the long term for our interest rates derivatives and others.

On the Cetip, former Cetip (pardon me) securities units, we think that lower interest rates could be a driver for more capital market activities, again, as investors seek to increase their returns and they will wish to buy corporate credits perhaps, and that is good news for that segment registration of local debentures, and you may also see, again, with the pickup in demand for credit and so on, the bank's funding instruments, you know, the CDs and *letras financeiras* and so forth might also benefit from that environment of lower rates again. Again, if that is combined with some growth.

And finally, in vehicle financing, this is a very… an area where the sensitivity to rates and to the size of the monthly installment is quite high, we have seen decline after decline for many, many months while Brazil went through the crisis over the last few years, and we are beginning to see positive signs there. It's soon to say whether this will be permanent, but I think in general lower rates should be good for the recovery of the auto sales and the auto financing segment.

So overall, I think it's a positive thing for most of our businesses.

Mr. Pierry: Great. That was very clear, thank you.

Operator: The next question comes from Frederic de Mariz, UBS.

Mr. de Mariz: Good morning everyone, good morning for the call and the opportunity. I have a couple of questions. The first one is more qualitative. I wonder if you could give us some color in terms of the internal challenges on the integration. The merger was announced 4 a 5 months ago, I wanted to see what is your next biggest challenge, what is your focus now and what kind of upside you see versus what you were expecting a few months ago? So that's the first question on integration.

I have a second question on efficiency gains. You mentioned during your presentation that the integration of clearings should have another upgrade in August, and I just wanted to hear from you what are the next steps in the integration and what kind of efficiency gains you are seeing, and just have update, generally, in terms of the gains for the market, but also for Bovespa, for B3 from this integration. Thank you.

Mr. Sonder: Thank you Frederic. So first, on the challenges of the integration, let me try to give you a sense without getting in too much detail here, but we've set up a team here to coordinate the integration efforts, this team is looking at roughly 30 projects that have been set in different areas of the company, we are quite pleased with the progress that we have achieved in most of the projects.

In very concrete terms, I think we mentioned it in our release, we were able to in a relatively short period of time integrate most of the support areas (so legal, finance, compliance, audit, marketing, HR), most of these teams are already working under the leadership that we want them to have, and the organization that we want them to have over the longer term.

We've also completed most of the proposed transitions in terms of systems and operations, you know, the company's ERP, the company's payroll system and the payment system, and so on and so forth. And we've merged the entities, which is obviously important given the tax benefits that we begin to capture after the formal merger, which took place in the first days of July.

We are also addressing certain longer-term integration projects, so we are migrating clients from the former BVMF's fixed income platforms. As you remember, we were venturing into that area, an area where Cetip has long-standing advantage and the clients are mostly connected to former Cetip's platforms, so we are migrating clients into those platforms gradually, and we are also looking at things, such as our data center footprint, where we are located and where we went to be, these are things that, you know, sometimes may take 18 or 24 months to get executed completely, but where we have a good map.

And finally, there is a third, let's say, family of projects, where we are talking about organizational structure, we are talking about how we are going to better serve our clients, have a more clear approach to relationship management so that people knock in door at B3 and have the full benefit of the expertise, both in listed and OTC products, as well as financing and so forth that we have in the house. That's one thing.

Another project (just to the set an example) is in the market data area, you know, we have a data asset throughout the company in different products and we are putting all of those under one umbrella to try to see where the opportunities are.

With regards to the challenges, I would say that obviously it is not a very easy moment for the company as we go through some people changes, people are having to adjust to new structures, to new colleagues and obviously to some synergies in personnel, you know, 60% of our expenses (both for former BM&FBosvespa and for former Cetip) are in personnel, so it's not surprising that most of the savings that we have announced to the market will come from that area.

So, I would say that the challenge we are focusing a lot of energy in is to really try to move as fast as we can to get through this phase of a little bit of uncertainty in the company and be in a position as soon as possible to go back to sort of the business of running our systems and platforms and meeting with our customers as soon as practical.

I'll move now to the second question, with respect to efficiency gains and the end of integration project of the clearing house. As you have followed, for several years this was a major project in the company, we delivered an important step of it in 2014 and now we are about to deliver the second phase of the equities integration in the end of August. I think that throughout the year to the end of this year we will be very closely monitoring and making adjustments to this new platform, this is a project that involved our market participants and that requires changes in processes and back-office operations, not only for us, but for the entire market.

So, we must be very careful in making sure that this transition goes into operation smoothly and safely, but it is on our agenda obviously that following such integration we will address the teams that have been put in place for both IT and operations in this company, right. We have been through a long process of making significant improvements to technology and operations, I think we have collected the fruits of it as we saw volumes and stress in the last few months that were dealt very, very robustly and successfully by the company, but we do have a team in the company in IT and operations that is a team that was not only running the business, but also implementing all these major changes from the puma trading system to the first phase of clearing house derivatives to now the second phase of equities.

So, it is on our agenda for sure to address this and began to see what's the steady state level of staffing that we might need for IT and operations going forward.

Mr. Pierry: Mr. de Mariz: That's great, thank you Sonder. That's very helpful.

Operator: The next question comes from Tito Labarta, Deutsche Bank.

Mr. Labarta: Hi good morning Daniel and Rogério, thanks for the call. A couple of questions also. First, just following up on the financial income expense and then you went through the interest rate impacts on your debt, but just to understand; on the cash position, you talked about it briefly on the call also, but you still have a little bit more cash than debt, yet your net financial income you had a small loss when we exclude that one-time charges related to the Tax Relief Program.

So just to understand: Is that more or less but what we should kind of see a small loss than the financial expenses on a net basis and then, as you pay off the debt, eventually, that will become positive, or is there anything else that I missed? I just wanted to clarify that a bit more.

And then second question, also on your reporting, I know you included the mini contracts along with the other contracts for derivatives, but the revenue per contract before with the mini contracts it was about 1.04 last quarter, and then went up to 140 also this quarter. So, I just wanted to understand the impact of revenues per contract now that you are including the mini contracts with the others, if you can just clarify that a bit. Thank you.

Mr. Sonder: Yes, so on the financial line, Tito – thank you for the question –, so we are carrying a little bit more cash than we would typically because we have a R$ 500 million debenture that is coming due now in August, which we are going to pay down in full. So that's one item.

The second, going forward this is going to vary a little bit but we are going to have a little income or were a little loss on that line, we make a little, slightly a little under CDI on our cash and we make… we pay a little bit of spread on the debt, so you are going to see the effect of that difference also, even if we have the same amount of debt and cash.

But, you know, again, we are discussing always gross debt level because that's how we look at it, we want to reduce the total debt of the company and the cash will be always a function of the business needs. At this point, we are comfortable with the 2.5 to 3 billion, but that's a cash that is not put available for debt amortizations. So that's why we guide and we speak about gross debt targets rather than net debt targets, which most companies would do.

On the mini contracts, I will have Rogério address that.

Mr. Santana: Hi Tito, thanks for the question. As you mentioned, we started to wave the mini contracts within the full contracts in the respective group, so it applies for FX rates and it applies for stock-based contracts, and we waved not only the volumes, but also the RPC. So, we normalized the size of the contract and what would be the price considering this normalization.

So, theoretically, it should not have any mature impact in the RPC that we show now, how big the mini contract is versus how it was in the past. With the exception that in mini contracts you usually see much more high-frequency trading activity, and this kind of clients they collect (or they have) higher level of discounts, so with higher volumes of mini contracts and consequently higher volumes of HFT it puts some pressure on the average fee that we charge in the RPC.

Mr. Labarta: Okay that's clear. Thank you very much.

Operator: The next question comes from Rafael Frade, Bradesco.

Mr. Frade: Hi good morning all. Could you give us a little color about how is working the… how are the preparation to the registration of mortgage contracts? If I am not wrong, you mentioned that it should start in October 17, so if you could give us any detail about if you already have most of the banks ready to initiate this, if you have any indication of the prices to give us an idea of how much this could represent. Any color on this would we would be very, very good.

Mr. Santana: Hi Frade. This is Rogério. So, our platforms are ready, we concluded the development and deployed that [0:36:30 unintelligible] in few clients in a pilot mode a few months ago, so few of these financial institutions are already testing that, so we are ready for the go-live of this regulation that should be placed in October.

So, we need to wait and see how it will evolve, we already have a price schedule, but we are not disclosing that at this point, but we will in the future when it starts to become operational.

So, from our side, we are ready and we are fully prepared for that. We are waiting for some financial institutions, some of them are already testing the platforms, some other not. That's where we are at this point.

Mr. Frade: All right, thank you Rogério.

Operator: The next question comes from Eduardo Nishio, Banco Plural.

Mr. Nishio: Hi, good morning, and thank you for taking my questions. Two questions as well. Just a follow-up on the former question. Just some color on 2 other products, if you can clarify a little bit more and give an update on the timing, size and relevance of those 2 products.

The first one is the acceptance of collateral abroad for financial derivatives, and the second one is the inflation on linked futures, if you could clarify the size, volumes, the relevance of those to your business.

And my second question is just to clarify on the cost. If I am not wrong, on page 14 you do not expect relevant charges, one-off charges for the next few quarters, right, most of that regarding the business combination with Cetip has already been expensed. Is that correct? Thank you.

Mr. Sonder: Yes, I will start with the last one. Yes, I think in most of the expenses that we guided for have already been executed, we are maintaining our guidance for the full year, so you might see a little bit more during the second half, Nishio. Thank you.

With respect to the products, so collateral abroad has been approved by the regulators and it will become effective as of the end of August, when the clearing house integration becomes effective. So, this was a request that we made to the regulators to accept collateral abroad for all of our listed products, derivatives and activities, and this was in the context of the full approval, the full regulatory approval for the clearing house integration because now it will be one basket of collateral for all activities that players do within our company.

So, we are now in the discussions with the regulator as to the details of exactly how it's going to function and what the limits will be for that, but we are, let's say, pleased with the fact that this will be possible now and I think it will enhance to some extent the ability of foreign players to participate in our market.

Although we don't expect this to be a very dramatic change at this point, because the regulator rightly is being conservative and gradual in its approach to this new way of setting collateral abroad for derivatives.

In our inflation futures, in June we crossed the threshold of 1 million contracts during that period and we already have 50 different players participating in this market with 14 different maturities, so, you know, the growth vis-à-vis the first quarter of this year was 20% in the average daily traded volume, it's still a small amount of contracts, but I think these things tend to grow gradually in the beginning as more players become familiar, and it has a sort of a network effect where more liquidity calls more liquidity.

You know, we still hear from some people saying that they are waiting for them to the liquidity of these products to be able to join the market with more volumes. So, it's moving forward and we are pleased about that as well.

Mr. Nishio: All right, thank you. Just a follow-up. So, the implementation of the collateral will be gradual, the government will probably allow some of them being accepted, but not the full range of collateral. Is that correct? So, it will be a gradual implementation of that?

Mr. Sonder: Yes, they have set up a quantitative limit of percentage of how much of your total collateral might be put in foreign bonds or foreign-format collateral, and again, we are still detailing exactly how that will be operational and we will make it public as soon as we have all the details.

Mr. Nishio: And do you expect that the higher frequency trading volumes clients will be the main users of this or a broader use from all clients abroad?

Mr. Sonder: No, I think it's hard to say which clients will use it more, it depends highly on the strategies and all that. I don't want to make any predictions on that on the risk of airing largely.

Mr. Nishio: All right. Thank you.

Operator: Our next question comes from Lucas Lopes, Credit Suisse.

Mr. Lopes: Hi, good morning Daniel, Rogério. I have a single question. I understand that Cetip' securities unit has been negatively impacted by the regulatory change, that basically, any loopholes that allowed banks to use liens and debentures as a source of funding.

Can you please confirm that the bulk of the 10% decline in the balance of debentures in the quarter has been explained by this regulatory change? And considering the phase-in of the regulation, do you think that the decline can actually accentuate next year? Thanks.

Mr. Sonder: Yes Lucas, thanks for bringing it up. You are correct, so this is indeed a faster and it has impacted our numbers already. The decrease in the debentures of leasing companies sort of controlled by financial groups and it is a process that will be phased in over the next few months, so it will continue to affect us over 2018.

Mr. Lopes: Thanks Daniel.

Operator: The next question comes from Alexandre Spada, Itaú BBA.

Mr. Spada: Hi gentlemen, good morning. I have one follow-up question on the synergies. So, much has been discussed. After all, is it fair to assume that the adjusted expenses growth using the criteria that you adopt when you give your formal guidance should be kept by inflation for the following years? Does that make sense?

Mr. Sonder: Yes, I think, Spada –thank you –, so, we have synergies on one side from the merger, we have some adjustments that, as I mentioned, we want to address in certain expense lines after the end of this large project in the company, and yet on the other side, we have some pressure on our operating expenses coming from the fact that we will capitalize less of our personnel expenses, and this has been a pretty significant number over the year, as you followed, and which will quote on quote go back to operating expenses personnel line unless we do something to address that, which we intend to do.

So, these are the large sort of tensions that will go on, I think we remain very committed to managing expenses and we will give formal guidances at the end of each year as I our budget process concludes, but I think as a general sense in the company, you know, trying to stay around inflation or, let's say, very clearly explain why we have not done so continues to be one of our goals.

Mr. Spada: Okay, thanks Sonder, that's very clear. And if you allow me another question, could you provide an update on the disputes related to the goodwill amortization, particularly the one involving the 2008 and 2009 goodwill? Thanks.

Mr. Sonder: Yes. So, the 2008-2009 case we lost in the second level of discussion at the CARF [the tax administration], this was the last possible level of appeal within the administration, but we were unsuccessful, we lost on a 4-to-4 vote with a casting vote by the government authorities.

We will now move to court, we expect to do so in the following month or so, within the following month, and then we will start a process in court that involves many, many parts, and we will see how it progresses. We have put in place a, let's say, collateral bond insurance mechanism that will probably be required, so we have already that planned out, as we had (I think) signaled to most of you at some point in the past, it has a small financial cost for the company, but allows us to continue the discussion within the judiciary for the 2008-2009 course.

Since I am on the subject, it might be worth mentioning that on the 2010 and 11 case, we had a victory in the first level of discussion at the CARF against the assessment that was placed against us, we want won on a 4-to-2 vote, so for the first time in our discussions we were able to persuade one of the arbiters assigned by the government of the merits of our case, and now it is likely that the tax administration will appeal to the second level to continue the discussion within the CARF.

So, we don't have a date for that yet, the environment in the CARF for taxpayers, as you probably have seen, continues to be a very challenging one, I don't want to give any false hopes regarding this next level, and yet we've seen victory and that I think increases even more the level of confidence that we've already had throughout this whole period that eventually when this case gets to court (and it's a level Plainfield) we will prevail and we will be released from any obligation to make any payments on that.

Mr. Spada: Okay, that's very clear. Thank you.

Operator: The next question comes from Gustavo Lobo, JP Morgan.

Mr. Lobo: Hi everyone, most of my questions have already been answered. Just wanted to have a follow-up on operating expenses. When we look at the adjusted operating expenses compared to your guidance, the figure for the first half is like 502 million, and this compares the guidance of 1,050 billion to 1,100 billion. So, I'm just wondering where would the sequential growth come from and if there is room for you to surprise on the downside year? Thanks.

Mr. Sonder: Yes, so we are maintaining the guidance, Gustavo, for the year. Two things of note in the second half: One is that our salary adjustment for the whole company comes in August, so that the same amount of people just a nominal higher wage bill for the second half of the year that usually drives our second half expenses to be higher than first half; and second, we typically have in the fourth quarter certain payments that are sort of left for the end of the year, and this has been the case for the past few years. So, I don't want to say exactly where we are going to end up, but we feel comfortable with the guidance that we have.

And finally, I think, as I mentioned before, the end of the clearing house integration project expected for the end of August will lead to an increase in personnel expenses because of the capitalization of such expenses will end. So that also will fit into higher personnel and operating expenses for the second half of the year, and we plan to address that throughout the second half so that in 2018 we don't have such a large impact.

Mr. Lobo: Perfect. Thanks, it's crystal clear.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Daniel Sonder to proceed with his closing statements.

Mr. Sonder: Well, thank you very much everyone for joining the call and for the questions, which help us clarify all the important items in these quarter's earnings, and I want to thank the whole team here on my side for the materials and for following up with anyone if you have any more questions, please feel free to give us a call and we will try to address it.

Thanks, and have a good day.

Operator: That does conclude the B3 audio conference for today. Thank you very much for your participation, have a good afternoon and thank you for using Chorus Call Brasil.