

Q1 2014 Earnings Call

Company Participants

- Gustavo Henrique Santos de Sousa
- Ivan de Souza Monteiro
- Leonardo Loyola

Other Participants

- Eduardo Rosman
- Regina Longo Sanchez
- Saul Martinez

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil's First Quarter 2014 Earning Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After this, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcasted via the webcast and through Banco do Brasil's website at www.bb.com.br/ir where the presentation is also available. Participants may view these slides in any order they wish.

Before proceeding, let me mention that this presentation may include references and statements, planned synergies, estimates, projections and forward-looking strategies concerning Banco do Brasil, its associated and affiliated companies and subsidiaries.

These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

With us today, we have Mr. Ivan de Souza Monteiro, CFO; and Mr. Leonardo Loyola, Head of Investor Relations. Mr. Leonardo, you may now begin.

Leonardo Loyola {BIO 16193219 <GO>}

Good morning, everyone and thank you for joining us for our first quarter earnings conference call. I'd like to start the presentation on slide three where we show some highlights of Banco do Brasil's performance in the period.

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We posted a net income of R\$2.7 billion in the first quarter of 2014. The adjusted bill, the net income was R\$2.4 billion. Net interest income grew by 8% compared to the first quarter 2013, overcoming the expected guidance.

Our loan portfolio in the Broad Concept grew 18% in 12 months, reaching a total balance of R\$699.3 billion. Our delinquency ratio remained the best in the banking industry, closing the quarter at 1.97%. I also would like to emphasize the decrease of 8.1% in admin expenses compared to the fourth quarter 2013.

Moving onto slide four, we present some earnings highlights. Starting with the net interest income, which grew 8% compared to the first quarter 2013. We will detail this line further.

Our fee income grew by 6.6% compared to the first quarter 2013, and decreased 7.1% compared to the fourth quarter 2013. Admin expenses decreased 8.1% compared to the fourth quarter 2013. In annual view, there was an increase of 9.7% due to the seasonal reasons.

In allowance for loan losses, we observed the stability compared to the last quarter. In 12 months (3:23) accumulated view, this item increased by 15%, staying under 20.8% growth of the average classified loan portfolio. We posted an adjusted net income of R\$2.4 billion in the first quarter, corresponding to an adjusted return on equity of 14% in line with our initial estimates.

Now, going to page five, we show our funding sources and uses where we observed the maintenance of our diversification strategy. Calling your attention to agribusiness letters of credit and real estate letters of credit that combined grew 146.8% in 12 months and also to corporate bonds and repos, which grew 214.4%.

You can see that Banco do Brasil's loan portfolio represent 83.6% of the bank's funding. And I would like to highlight the adjusted loan-to-deposit ratio that showed an improvement, reaching 86.5% in March 2014, which shows that with these loan portfolios that the efforts to reach (4:31) level of commercial funding.

Continuing to slide six, we display BB's net interest income performance. In the upper-left-hand side graph, you can see our global spread behavior reaching 4.1%. On the right-hand side, we show the credit spread by segments.

I'd like to emphasize that we note a recovery in spread by segments. In table below, we show a breakdown of our net interest income that grew by 8%, highlighting the growth in the loan operations income, recovery of write-off loans, and treasury income.

On slide seven, we have the loan portfolio in the Broad Concept development. We see a slowdown reaching 18% in the period. We would like to highlight the 35.7% growth in the agribusiness portfolio and 16.8% in loans to companies, which accounted, respectively, for 21.4% and 46.4% of the loan portfolio of Banco do Brasil. Our loan portfolio to individuals,

also in the Broad Concept, grew 8.6% in 12 months and ended the quarter representing 24.3% of BB's loan portfolio.

On the next slide, we have the organic portfolio with individuals. In this view, we exclude a proportional consolidation of Banco Votorantim and the acquisition of portfolios of other banks. On this basis, the portfolio grew 14.6% in 12 months and 2% in the quarter. BB has been implementing its strategy of concentrating the credit to individuals into four different lines; payroll, salary loans, mortgage and auto loans, which together represent 75.3% of this portfolio.

On the upper graph of slide nine, we observe the comparison of BB's payroll loans balance with our peers. We see that the balance of this portfolio in March 2014 was much higher than all other banks and allow BB to end the period with a 27.1% market share. If we consider the organic view, 87.7% is composed by customers who are civil servants, 8.2% by INSS's retirees and pensioners, and 4% by private sector employees.

BB's mortgage portfolio posted the balance of R\$27 billion by the end of March 2014, an increase of 88% in 12 months. This product is extremely important to the bank since it promotes the long-term relationship with the client, creating opportunities to offer new products and services.

Finally, the bottom-right-hand side graph shows the auto loans portfolio, credit offered exclusively to our customers within our branch network. In March 2014, more than 81% of auto loans were taken by customers with relationships over five years with Banco do Brasil.

On page 10, we present the company's loan portfolio, totaling over R\$324 billion, representing 16.9% growth in 12 months, highlighting an increase of 26.3% in credits for investments and 25.1% in corporate bonds and notes.

Moving on to slide 11, we present a breakdown of the loan portfolio with companies by type size as to (8:02) companies. The (8:05) portfolio ended March 2014 with a balance of R\$100.2 billion, up to 12.2% year-over-year. The portfolio reached 19.3% for the same period.

In the upper right-hand side graph, R\$18.6 billion of the SME loan portfolio was covered by Operations Guarantee Fund, the FGO. This amount grew by 30.4% compared to March 2013, a proportional increase in the use of the mitigators in this portfolio.

In the bottom graph, we display that more than two-thirds from the (8:44) portfolio is contracted by clients with relationship of over five years with Banco do Brasil.

On slide 12, we can see our agribusiness loan portfolio that grew 3.6% in the quarter and 35.7% compared to March 2013. This portfolio remains with the best (9:04) delinquency ratio in the BB's portfolio, a result of the BB's strategy in the using of mitigators.

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As we can see from our - the chart on the right-hand side graph, more than 64% of the loans are acted to (9:18) working capital for input purchase, on the 2013-2014 crop, are protected with insurance options offered to our customers.

In March 2014, BB had already loaned (9:31) R\$56.9 billion, which means 81.3% of 2013-2014 vintages total target, 30.5% over the amount paid out in the same period of 2012-2013 crop. I'd like to emphasize the growth in mitigators for 2013-2014 crop reaching 64.4%.

On slide 13, we begin to detail BB's asset qualities. Historically, BB represents - presents better delinquency ratios than the industry, as shown in the top graph. In March 2014, the NPL ratio was 1.97%, while the industry presented a 3% ratio. This is a result of efficiency of our analysis, methodologies, and credit risk monitoring. Our current provision levels allows us to record the coverage ratio of 193.5%, a much better ratio compared to the industry, as posted on the bottom graph.

On slide 14, there are some important metrics that explain the low delinquency of Banco do Brasil's loan, as you can see in the chart at the top, the average risk of our loan portfolio is lower than the ratio seen in the industry. We closed March 2014 with a ratio of 3.58%, while the industry posted 4.85%.

In the bottom left-hand side graph, we see the write-off ratio of Banco do Brasil. We are the bank who takes the least operational losses, and when we do take a loss, we are the one that recovers the most, as you can see in the right-hand side chart.

We present to you on the slide 15 with these delinquencies per segment breakdown. The NPL over 90 days of the portfolio has been stable, compared to that observed in 2013, remaining at levels significantly lower than those reported by the industry.

With slide 16, we show our NPL formation breakdown. We noted (11:36) the ratio reaches the lowest levels since March 2012.

With slide 17, we can observe the ratio between our credit provision expenses and the average classified loan portfolio. In the first graph on the upper left-hand side, we have the ratio between provision expenses and loan portfolio on a 12-month view. This is the item reaches 2.82% at the end of March, hitting the guidance.

On the second graph on the right-hand side, we see stability on a quarterly view. In the bottom graph, we see that 17.6% growth of the loan portfolio between March 2013 and March 2014, as it contracted due to better risks, mainly between AA and C.

In slide 18, we present Banco Votorantim net income development. In this quarter, BV maintained the positive results performance, R\$152 million net income. This is a result of internal changes which have been made through the past years, strengthening the bank's position that will allow positive results on the following periods.

In the next slide, we have information regarding the origination figures for light vehicles from Banco Votorantim.

On slide 20, we address the asset quality of loans originated by Banco Votorantim. The top graph shows the provision expenses where we can see an important decrease of 43.6% compared to the last quarter. As you can see, wholesale allowance were (13:15) stable compared to the first quarter 2013. The 90-days coverage ratio ended March 2014 is 6.2%. The new crop contracted (13:25) after September 11, already occupied 72% of BV, (13:29) Banco Votorantim managerial auto loans portfolio.

On slide 21, we show our performance in fees. This item performed under the guidance estimates with a 6.6% growth compared to the first quarter 2013 as a result of transparency in (13:47) customer relationship strategy. With that said, we expect an increase in fee income at medium- and long-term.

Moving to slide 22, we show our cards business which grew by 22.8% in 12 months. This line has contributed to diversify our fee income.

On slide 23, we showed a bottom line of BB's cards business. The business has become relevant and is responsible for almost 26% of our fee income. The card service income after-tax reached R\$477 million in the first quarter 2014, a growth of 37.9% in the same period of 2013.

On slide 24, we can see the performances of our administrative expenses. These expenses amounted (14:40) to R\$7.7 billion in the quarter, a decrease of 8.1% over the last quarter. Compared to the last year, the growth in this line was impacted by seasonal expenditures such as surveillance and transportation contracts renegotiation. We expect that these impacts will be diluted throughout the year.

As a result, we can observe on slide 25 the stability on our cost-to-income ratio compared to the last quarter.

On page 26, we show the BIS ratio of Banco do Brasil that ended March 2014 at 13.84% with 9.93% Tier I ratio. This metric already considered the Basel III rule which we consider to be fully (15:24) implemented measures over March 2014; the estimated BIS ratio would reach 12.4% and Tier I, 8.4%.

On page 27, we close this presentation with our guidance. We achieved 14% adjusted return on equity in the guidance for 2014 as well as our funding volume which grew by 17.7%, and our allowance for loan losses that closed March at 2.8% ratio.

We exceeded the guidance regarding net interest income that grew by 8%, compared to the first quarter 2013 and also the loan portfolio that increased 18.3%, highlighting the 35.7% growth in the agribusiness portfolio. Considering loans to individuals, fee income and admin expenses, we stayed below the guidance.

Thank you for your attention and let's now open the Q&A session.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Carlos Claudin (16:46) of Bank of America

Hi, guys. Good morning, everyone and thanks for taking my question. Actually I have a couple of questions, if I may. The first one is regarding the lawsuit against Brazilian banks. We saw this week (17:05) mentioning that Brazilian Supreme Court has rescheduled the agreement (17:10) for this month, actually if I'm not wrong it should be on 21 of this month. My question is you guys are expecting another postpone as we already saw from postponing over the last couple of months, or do you expect any material decision on 21 of this month? And still regarding the issue, do you see do any material changes of losses for the bank regarding these issues? This is the first question. And then I introduce you (17:56) my second question.

A - Leonardo Loyola {BIO 16193219 <GO>}

Carlos (18:00), thank you for your question. Unfortunately, I don't have an answer for this question. Actually, we have to wait until the court decisions.

Q - Operator

Okay. The second question is about your capital base (18:18) and BIS ratio, because we know that by now when you calculate the capital for Basel ratios, you consider or you use as a consolidation scope, the financial conglomerate. But according to CMN rules from the beginning of 2015, the consolidation scope in order to calculate the capital base (18:45), the capital for Basel ratio will be the prudential conglomerate.

My question is, when you - in your exercise that you showed in your presentation, in which you consider the Basel III fully lower, have you considered this change? I mean, have you considered the prudential conglomerate? And could you give us more color of what would be the main change from the financial conglomerate to prudential conglomerate consolidation scope when these takes place? Thanks.

A - Leonardo Loyola {BIO 16193219 <GO>}

Yes, we considered, but actually - so you can have more details with our IR team in Brazil.

Operator

Our next question comes from Saul Martinez of JPMorgan

Q - Saul Martinez {BIO 5811266 <GO>}

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Hi, good morning guys. My question is also on capital and it's I guess a little bit broader. If you can update on how you feel generally about your capital position. You mentioned on the Portuguese call that in 2015 you're leaving the possibility of reducing the dividend payout ratio on the table. And I'm just curious, do you feel that's enough based on our numbers, consensus numbers, even if you were to reduce your dividend payout ratio 10 percentage point, 15 percentage point, it would add, R\$1 billion, R\$1.5 billion to your capital, your risk-weighted assets, you're well over R\$800 billion. So it doesn't seem to be a hugely significant impact on your regulatory capital, at least initially.

So, I'm curious what - how you're thinking about that? Do you feel like you need to take more aggressive capital actions? And as a follow up to that question, do you have an estimate - you gave us the Basel III, do you have an estimate of what your core Tier I as oppose to your Tier I would look like under Basel III?

A - Leonardo Loyola {BIO 16193219 <GO>}

Saul, thank you for your question. Actually, starting from the end, so we don't have an estimate report for this. And so we - so just starting from the beginning, so we are comfortable with capital at this moment. And we are monitoring this very, very closely just according to our capital plan.

And going forward - I mean, regarding the payout, as we mentioned, so it's something that depends on our board and so it's nothing that the board - is responsible for making decisions about this item particularly. And so at this moment, we are very, very comfortable with the capital that we have. And it's good to highlight that it's above the minimum requirement of - in the view of Basel III right now, and we are monitoring this very, very closely according to our capital plan.

Q - Saul Martinez {BIO 5811266 <GO>}

Based on your capital plan, is there an estimate of when you would start to feel uncomfortable about your capital position?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Saul, Gustavo here. Just giving you a little bit more color on our capital plan. We have defined three stages of capital also for the three levels of capital, ranging from Tier II, Tier I, and core Tier I. And the different stages of capital reflect our level of comfort based on when we would in a hypothetical scenario surpass any of those limits, okay? Right now, when we look at the three levels of capital, we are comfortable with all three of them.

We have measures in place in order to strengthen our capital position and then range (23:00) from, as we have discussed in the previous call and you mentioned, a possible revision on - of the payout in the upcoming year. Of course, the growth in risk-weighted assets is an important variable. And as you have seen, we are already showing a new pattern of growth of risk-weighted assets. And, naturally, one of the most important variables is profitability.

We have a group of measures in place to increase this number. And the combined effect of these measures is what indicates that we'll be in compliance with the most - as you know, when - we talk about Basel III, we - the discretionary buffers, in our internal models we use the maximum numbers for all of them. So in these three levels with the measures that we have in place, we're comfortable that we'll be able to meet them in the upcoming years.

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A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

And, Saul, it's Ivan. And just to add, when Gustavo mentioned the word comfortable, comfortable is using the maximum buffer that we are raising for the regulation (24:05) regulation for Basel III. And this word comfortable is the minimum level, with the maximum that we have in the regulation, plus the buffer, our internal buffer that we apply in all the plans that we put in place here. Okay?

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And just final thing (24:21) because, but it is the principal question that I'm getting from investors. When you mentioned, Gustavo, part of its ROA (24:32) risk-weighted asset slowdown, part of its profitability, is it fair to say that as you look going forward, much of this feeling comfortable about your capital position will depend on returns on equity increasing from your current guidance range to a higher level?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Saul, it's hard to emphasize one of the variables, right, but it is the combination of all of them - capital retention and increased profitability.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. All right, thank you very much.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you.

Operator

Our next question comes from Eduardo Rosman from BTG Pactual.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Hi, guys. So I want to talk about the demand for credit. We have been seeing some credit dual (25:22) agency reporting that demand for credit has been trending down. (25:26) rating and retails sales have been below expectations as well. So given that Banco do Brasil is the bank with the largest distribution channel of the country, I want to know if you are really seeing some lower demand from customers, and also if you see any differences like from corporates or individuals, differences between region, et cetera, et cetera? Thanks a lot.

A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

It's Ivan. It's difficult to say. You see the performance regarding business (25:55) that was very, very, good; a very good demand. It's different from – for example, the payroll, there is a lot of competition right now. It's difficult to say exactly what (26:07) is that. But you are right, Banco do Brasil is making the work real economist (26:09) and we are still very comfortable with the economy in Brazil. That's right, if there is a low down demand, demand (26:17) inside the bank.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Okay, thanks a lot.

Operator

Our next question comes from Joshua Rosner (26:39) of Deutsche Bank.

Hi. Good morning, and thanks for the call. My question is in terms of asset quality. And the asset quality has been very much under control, and even though your loan growth has been well above the system, and I know your loan growth is slowing down a bit. But given that the economy is still – is kind of dredging (26:59) along, not growing that significantly, when do you expect to see maybe some deterioration in your credit portfolio?

And how much do you think you can deteriorate or what do you – looking at your capital plan, what do you kind of expecting how's that going to impact profitably kind of longer term in terms of kind of where you are in the credit cycle in terms of your asset quality?
Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Hi, Josh (27:26). Thank you for your question. Basically, I mean, as a strategy that Banco do Brasil has been following the last more than five years, if I remember, so we are concentrating – just speaking to (27:42) portfolio in part to, okay, so, in the individual part of the portfolio, so we have been concentrating to different credit lines as you can see in the presentation.

So basically, three – roughly, three-fourths of the portfolio is concentrating in four credit lines, auto loans, payroll, salary (28:07) loans, and mortgage, and those – so they are very low risk lines.

If we move to the agribusiness, as we can see in the presentation as well, so we have been – year-after-year, we have been using more and more mitigators; like insurance, like options, and those instruments, they tend to protect the portfolio of Banco do Brasil.

Just another part of the portfolio within the company, so we have, I believe, the tendency (28:46) to be more fragile and tend to be more affected by a downturn or an economic slowdown.

So that's part of the portfolio as we can see in the presentation as well, so it's forward – was roughly, 20% with (29:00) FGO, which is a fund that – it's a guarantee fund that protects the portfolio as well.

I mean, as a consequence of that, even in a downturn, so because we are using this strategy and have been following this strategy for quite some time, now, we do not expect to see any kind of deterioration in our credit portfolio.

Q - Operator

All right, thanks. That's very helpful. Maybe just to follow up then to that, if asset quality does remain stable, but you're growing lower-risk products, you still then maybe see some more pressure on your margins?

I'm just trying to think, in terms of profitability how – your margins coming down, even if the asset quality is stable, you may not necessarily improve profitability. So where do you see that ROE (29:56) can improve based on that?

A - Leonardo Loyola {BIO 16193219 <GO>}

In terms of margins, so you have to consider that there are many things going on at the same time. And so as a consequence of that, we have seen some compression in NIM.

But basically, so we have been – because we have a kind of technical delay, once the interest rates goes up, we take the hit in a very important – in a significant portion of our portfolio in the funding side and it takes some time for getting benefits from the asset side.

And we are – and we have to consider that the affiliate (30:43) rates grew, let's say, by 400 points since last April, if I'm not mistaken. Basically – so on the other hand, we have been – there is a mix effect because, I mean, the most important part of the portfolio in terms of NIM is individuals. And in individuals, you have to consider that we are growing faster in mortgage, for instance, and this combination of effect – so they have, I mean, difference (31:21).

On the funding side, just to mention, that we have been using more and more LTAs and LTIs (31:27) which reduce the cost of funding. I mean, as a consequence of that, we expect to see some sort of recovery in margins in NIMs going forward.

And you can see that there's a – we have another metric which is in the presentation as well, which is the strength (31:57) by different products, different lines. And after six or seven quarters, we are now seeing some sort of pickup in all the lines apart from individuals. This is an indication that we expect to see until the end of the year some sort of recovery in NIMs.

Q - Operator

Thank you. That's very helpful. And then, if I may, just one small question. I missed the Portuguese call. How much would you reduce your dividend payout ratio next year, if you didn't, (32:31) can you just reiterate that?

A - Leonardo Loyola {BIO 16193219 <GO>}

There is no final decision of that (32:36). Actually, something that, I mean, it needs to be decided by the board. It's a board decision. The only thing is this is one measure, (32:49) but the thing is there is no decision about this.

Q - Operator

All right, thank you very much.

Our next question comes from (33:02).

Hi. Good morning. Thank you so much for the presentation today. I have a couple of questions, if I may. The first one is related to capitalization and capital ratio. Your common equity Tier I ratio declined by about 40 basis points from the previous quarter, I was wondering where you see this ratio at the end of the year, and whether you have any plans for capital, basically, increase in 2014?

And my second question is related to asset quality. With a downturn, clearly, the SMEs is the most vulnerable sector, where we could see some deterioration in asset quality. I was wondering whether you've seen any early delinquencies in this sector, and I understand there are mitigating factors, but again, the guarantee fund, the guarantees only 20% of the SME loans.

And also in the agribusiness in light of the drought in Brazil, have you seen any signs of delinquencies in that sector? Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, (34:35) I mean let's just follow all the questions, so let's just see if I did not miss any one - any of those. Basically - from the end, regarding the drop, we don't - I mean there is an effect. Actually we expect a smaller drop (34:57) this year a little bit because of the drop-off (35:01).

On the other hand, you have to consider that the prices tends to move up as well, and as a consequence of those effects, at the end of the day, so we tend not to see any kind of problem with this part of the portfolio, which is an important part of the portfolio, and if you take in consideration, I mean the NPLs of this part of the portfolio, it is one of the lowest delinquency rates. This is one thing and so we have been (35:40) as well. And the second one, if you can please refresh my mind.

Q - Operator

The second one is still within asset quality whether you've seen any - the delinquency signs in the SME's portfolio?

A - Leonardo Loyola {BIO 16193219 <GO>}

Yeah. The thing is, we don't - we were just looking at the graph yesterday, and I mean a very long-term graph that we put together. I mean different kind of NPLs, NPL 15, NPL 60, and NPL 90, for the portfolio as a whole. What we could see in these early NPL indicators, they tend to have local relation with the 90 days NPL, because they tend to be more volatile. You know, sometimes they move up, but they - the impact because of seasonality. So we tend to have some effects on over the 15 NPL that does not affect the 90 days NPL. That's why I mean even if the NPL 15 moves up as it did before the last 10 years, it does not affect or it can much more affect that much - the NPLs over 90 days. Let's go to the third one.

Q - Operator

(37:25) your capital. So essentially, just to make sure I understand the response with regards to the SMEs, basically you're saying you have not yet seen a pickup in or early signs of asset quality deterioration in that segment. Is that...

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

That's correct. That's a fair assessment. Across the different levels of NPLs, as Leonardo said, 15 days, 60 days, and 90 days, even though in 15 days NPLs, you may see some volatility, completely normal and we see no indication of a delinquency pickup in the SME portfolio and in any other portfolio of Banco do Brasil.

Q - Operator

Okay. So the second question was related to capitalization and the decline that we've seen in your common equity Tier 1 ratio, and where you see that ratio for the - by the end of the year and whether you have any plans for an increase in capital this year.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Yes, most of this decline that you saw in the capital ratio, the majority of that is related to the beginning of the implementation of Basel III rule in Brazil, that's the reason for that. That's what already expected - included in our plan. At this point, we have no plans to issue stock. We have other alternatives to comply with the requirements of Basel III.

We do not give out a projection of capital ratios for the upcoming future, but what we can say is that we are confident we will maintain a capital ratio above the minimum requirement level plus our internal credential (39:10) buffer.

Q - Operator

So when you say you have other measures to increase the capital, could you please provide some more color on what these measures are besides the decline? I mean the reduction of the dividend payouts?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

When we look at capital as a whole in the capital requirement, I know that you're referring to common equity Tier 1, but starting from the top, starting from level two of - Q2 of capital and Tier 1 as a whole, Banco do Brasil has an ongoing issuance program. So alternative issues are a part of Banco do Brasil's plans for that. Specifically, on core Tier 1 capital, we have initiatives that are related to recoveries and profitability. We have discussed in this call also measures related to retention. This is an open discussion. We have no decision on that yet, but it's something that is on our radar and also discussions about the growth of our asset base. At this point, this is all that we have been disclosing to the market.

Q - Operator

Thank you.

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you.

Operator

Our next question comes from Regina Sanchez from Itaú BBA.

Q - Regina Longo Sanchez {BIO 16404038 <GO>}

Hello, everybody. I also have two questions. The first one is related to fee income. You would note because of seasonality that easily goes down in the first quarter, but this point was (40:53) also affected especially because of fees and loans that went down significantly in the quarter.

I mean do you think that can improve during the year, or the deceleration in the growth of the loan portfolio will continue affecting this line? And then my second question is regarding the partnership with the postal office Correios (41:18) that you mentioned in the financial statement in the explanatory note 16B (41:26) that is going to account when the partnership is approved and settled, that R\$1.8 billion will become (41:36) receivables as a partnership.

And you already expensed it in the first quarter, R\$297 million, and that we expect another around R\$8 million by the end of the first half of this year, which would mean it was R\$80 million in the second quarter. So if you could comment that then no longer amortization expenses will be expected, and how do you see the opportunities, I mean, in this partnership? I mean it's going to be even bigger than the previous one that was only for five years in terms of product. I mean, how do you see that benefiting Banco do Brasil? Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, Regina, for your questions. Basically starting from the first one, actually, the fee income came a little bit lower than (42:28), as we mentioned. But basically looking

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forward and I mean, we are just comparing quarter-to-quarter and just one quarter. That's why - I mean as we maintain the guidance as it was, we actually - we expect even with the - any kind of deceleration, slowdown in economy, we expect, I mean a pickup in fee income looking forward. And so we are going to monitoring this on the fourth Q.

Regarding the postal office (43:02) so we have - actually as you mentioned, so we have - there was roughly four - almost 400 provisions on the first Q and so as we expect to close this partnership with them by the end of June, and we have to - I mean 80 million, if I'm not mistaken, according to the note, 16B (43:35) of our financials, so we are going to use this probably on the second quarter (43:42) as we expect to close this deal on the second quarter.

And actually, this is a very important partnership for Banco do Brasil, because now that we intend to - as we intend to sell and cross-sell more products through the Postal Bank, this is important looking forward, and then we are aiming a long-term partnership and (44:11) in the future, it tends to be a very important channel for selling different products like cars, like insurance, and credit for many clients of the Postal Bank. This is the strategy that we are following right now.

Q - Regina Longo Sanchez {BIO 16404038 <GO>}

Okay. Thank you very much, Leonardo (44:35).

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Leonardo Loyola to continue with his closing statement. Please go ahead, sir.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, everybody, for joining our conference call and have a nice day.

Operator

That does conclude Banco do Brasil's conference call for today. As a reminder, the materials used in this conference call is available on Banco do Brasil's Investor Relations website. Thank you very much for your participation and have a nice day. You may now disconnect.

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