

Q1 2015 Earnings Call

Company Participants

- Bernardo Rothe, Head of Investor Relations

Other Participants

- Anibal Valdes, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Tiago Batista, Analyst
- Tito Labarta, Analyst
- Unidentified Participant
- Victor Galliano, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil First Quarter of 2015 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the Company presentation.

After this, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

This event is also being broadcasted live via webcast and through Banco do Brasil website at www.bb.com.br/ir, where the presentation is also available. Participants may view the 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 under performance of domestic and international market, 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. Jose Mauricio Pereira Coelho, CFO and Mr. Bernardo Rothe, Head of Investor Relations. Mr. Bernardo, you may now begin.

Bernardo Rothe {BIO 18059993 <GO>}

Good morning, everyone. Thank you for participating in our conference call. I'd like to start on slide three, where we have our highlights for this quarter. As you can see, the adjusted net income reached BRL3 billion in the first quarter of 2015, growing by 24.2% compared to the first quarter of 2014.

NNI grew by 17.6% compared to the first quarter of 2014 and fee income grew by 9.9% in the same period. Administrative expenses grew by 6.4%, compared to the same period as well.

In slide four, we start presenting our operating revenues, operating expenses and the net income. We have as a highlight here, the increase in the NII of 17.6% above the guidance of 14% to 17%, increasing fee income by 9.9%, also over the guidance that we have and we reached net income of BRL3.025 billion, increased 24.2%, and adjusted ROE of 14.5% and the total net income with one-time items BRL5.818 billion.

In slide five, we show the evolution of the net income over time and the growth of 24.2% in relation to the first quarter. And in the right side, we show the evolution of the adjusted equity where we went from BRL73 billion to BRL89 billion over time, an increase of BRL15 billion in 12 months in the equity. And that's the main reason for the 14.5% although the increase of the net income was 24%.

Sources and uses, we would like to highlight here the growth that we had in the letters of credits growing for the agri business 134.3% and the real estate's growing a 136% in 12 months. Also, I'd like to highlight that the relation between the credit portfolio, net loan portfolio through commercial funding went from 92.1% to 91.9%.

On the net interest income and net interest margin, global spread was increasing related to the first quarter last year and stable in relation to the last quarter of last year. And in the right side, we have the spread by segment where you can see that overall, we are pretty much stable over the last quarter.

Below, we show the components of net interest income and we have more information about the formation of the net interest income in the MD&A of the bank and also in one of the annexure of this presentation.

So, you can go in (inaudible) loan operations and current funding expenses and so on. I'd like to highlight here the increase of loan operation income by 14.8% and that the treasury income by 37.5%.

Slide number eight, we will talk about the loan portfolio in broad concept where we increased by 11.1% and you can see that as well a better growth than what we had in the 2014.

For the loan portfolio by contract period, we have 7.2% of the total classified loan portfolio that was on track in the first quarter of the year and 2014 now represents 33.9% of the total portfolio.

Slide 10, we show the concentration that it has with the line of spread that's risky an increase from 75.6% to 76.7% overtime, an addition of 110 bps.

Slide 11, we're still growing in lines -- lower risk lines 25% market share in the payroll loans, increase in 12 months with 4.1%, but the concentrate in civil servants with 88.5% and Retirees and Pension years at 7.8%.

Mortgage was the highlight here with increase of 49.1% in 12 months and the auto loans on the other hand decreased a little bit by BRL1.4 billion in 12 months. But we still and it's including debt expectation of the clients to be over five years of relationship with the bank.

Slide 12, loans to companies in broad concept, these shows we have a growth come from and you can see mortgage in the big portion of it, as well as guaranteed and investment lines.

Slide 13, we separate here what that I would sport it to medium and large companies and governments, the SME portfolio. As you can see we grew the SME portfolio by only 10 basis points, while the rest of the portfolio grew by 15.8%.

On the right side, you can see that the participation of FGO in front, this kind of spread insurance that we have in Brazil that guarantee the portfolio has increased by 13.3%, meaning that the participation of the total portfolio has been growing over time.

And on the borrow again we demonstrate that the time of relationship with the bank is very important. We've been growing over time as well and with the reductions in the portfolio of the participation of companies grew to less than two years, coming down from 7% to 5.5%.

Next slide, slide 14. Agri business, we grew by 9% in 12 months, concentrated in the individuals portfolio reached 18.2% and also the mitigators use is still over 50% of the portfolio with 57.3%.

Asset quality in slide 15, they are still below the average of the market at 3.92 and the cover ratio has increased to over 200%, also much more than what we have in the total market in the banking industry. Delinquency ratio is still very stable at 2.05 for the Banco do Brasil as a whole. If we take out Banco branching from that ratio, we are also stable at the time.

NPL 15 days, we have a slight increase in Company and NPL 90 days by segment. You can see that there are slight reductions, stable individuals, companies and agribusiness as well.

NPL formation looking at as whole, overtimes, we are pretty much stable at around 0.73 [ph] and has been like that over time. So, although, we have a slight increase over this last quarter, its stable all the time. We fluctuate around 70 basis points.

Slide 18, we show the allowance for loan losses and loan portfolio. Allowance for our loan portfolio 12 months reached 3.06, a little bit below the top of the guidance, and then quarterly it reached 0.87, the (inaudible) loan portfolio grew pretty much in the AA to C level, 11% growth in 12 months.

Fee income, we have the growth in credit card, debit card by 9.4% in 12 months. Even without one month of interchange after -- of the whole interchange after we reviewed the JV with Cielo creating the new company called Cateno.

Also we have a good increase in asset management fees of 15.3%, beginning at 14.2 and the capital market was we've reached almost 80%. The distributed dividend has been presented to the market last year -- last week, sorry, which grew by 46.3% the adjusted net income and I would feel have a very good participation in the market share, but and a good position going from the Brail.

Banco Votorantim change has been presenting net income in the last six quarters, we reached BRL122 million first quarter of 2015. The (inaudible) has been reducing and pretty much of the auto loan portfolio now it's concentrated in loans that are contracted after September 11 those are a better quality portfolio.

Slide 22, represent the performance of cards means of payments. Net income grew by 13.20% [ph] to BRL544 million and the total turnover now we've reached BRL58.1 billion in the first quarter.

Slide 23, it shows the administrative expense and cost to income ratio. We have shown here increase better performance in cost income ratio, growing from 44.9 to 42.5. And you can see that the personnel expenses was pretty much in line and we have a reduction in other expenses in this quarter.

BIS ratio, we end up at 16.02 in the first quarter and in terms of full implementation of the adjustments there were three measure over March 15, BIS ratio reached 15.45% and Tier I, 10.75%.

Finally, going to the guidance, as you can see, we have a better performance than the guidance in the net interest income and fee income and that we are slightly below in Agribusiness segment. So, now I'd like to open for questions and answers. Please?

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Mr. Mario Pierry from Bank of America would like to make a question.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, thank you very much. Good morning, everybody. Let me ask you two questions please. The first one is related to net interest income as you showed your net interest income is growing faster than your guidance for the year, but I think some of this growth this quarter is primarily driven by FX or treasury gains and you didn't change your guidance. So wanted to get a better feel from you, how do you see your net interest margin going forward because as you show on your slide seven right, spreads on your loans seem to be declining, but this is very contradictory to everything that we hear and then we read here in Brazil. So if you can give us an idea or what is the outlook for net interest margins and then I'll ask my second question?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay, thank you Mario. Starting with the -- if you look at slide seven, you can see that the loan operations income you know on the net lease income grew by 14.8%. These are little bit smaller than the growth on the net interest income, but we are showing here that the reprising of the portfolio is reaching our related to net interest income.

Of course, you know that our needs, we are concentrating less risky portfolio and that makes impact really how we grew that particular line. So we are growing at 14.8% this quarter. If we have the more recent portfolio, that figure could be even higher than that, but reprising is already showing intimate in choosing some.

In terms of the spread, the mix of our portfolio was keep this global spread at 4.4 and spread by segment as we've shown here in the slide seven. Less risky, less spread, better quality in BB portfolio.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So then you would imagine that your net interest margin would start to improve later this year or just spread by segment. I guess one of the reasons why it spread by segment is coming down is because of the weaker mix, when do you think that the mix impact will start to be compensated by the certification on the portfolio?

A - Bernardo Rothe {BIO 18059993 <GO>}

I wouldn't say weaker mix, I would say a better mix, but we have a very good feel about the performance of our net interest income in which the spread by segments and we think that over time we will then see very good results as well.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And then if I may ask a question then on your provisions, also when we look at provisions to average loans, now looking at the rest of 12 months, you're already running at 3.5% which is above your guidance. If you could provide also some type of color for us how do you expect this line to evolve going forward.

Also you show the changes in your credit ratings, deterioration in your credit ratings, if you could be more specific to which sector was this concentrated in specific sector or is this just like impact of one or two companies?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. About the provisions and the guidance, our projections indicate that the guidance is adequate for the year. And in relation to the performance of the first quarter as a whole, as we show in slide 16, we have a little high increase here in the company's portfolio as a time in the early delinquency, that's the only pressure that we have in terms of early delinquency is more in the company's side than the other one.

But I can tell you we have some things happened in the first quarter, the chart number 11 (inaudible) of some companies think that it's not very recurrent in our point of view and that's pretty much what happened, but I can tell you that NPL 15 days does not represent in our point of view, the future delinquency, these are nervous indicator, it's reflecting the seasonality of the first quarter, but it's usually the worst quarter of the year. And we don't see at this time, we don't see anything moving to 90 basis. We've been working with our portfolio of keeping it under control, has been under control for very long time and we are working pretty hard to keep it under control as well.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, what I meant here was more like when I look at your loans classified as be through age that ratio increased from 5.3% to 5.9%. So, I was wondering is there something much more specific to one sector or there is no concentration, the reason why you decided to change some of this ratings, it's just because there is a general slowdown in the economy?

A - Bernardo Rothe {BIO 18059993 <GO>}

We, Banco do Brasil, we as a whole, we are very conservative. So, we look at the portfolio and we change the rating of some clients, even if they are not delinquent and we don't have any expectations that they are going to be convinced, but because of the changes in situation, the company in position and the market and so on and so forth.

We do that thorough so some of these changes are related to our conservative approach throughout this volume and active beforehand and doing provisions when we need it, when we think that is appropriate.

So, we are doing that, now just to give an example I give in the previous call as well in the agribusiness segment you can see the G&A we had some migration on waste here, it's pretty much relates to clients that had a problem with rather in Brazil, they had something when going to sell assets, we automatically give down grade in their rating.

So, we did do that although again there is no reason to expect that they are not going to be on time with their presence with Banco Brasil. So we are conservative and we do that to protect the bank and so on and react beforehand, before even really something like something worse get stops.

Q - Mario Pierry {BIO 1505554 <GO>}

Great. Thank you very much.

Operator

Mr. Marcello (inaudible) would like to make a question.

Q - Mario Pierry {BIO 1505554 <GO>}

Hello everyone. Good morning. I have two questions. The first one, I know you addressed part of that announcement in Brazilian call, but we saw very strong performance on NII this quarter, but you capped your guidance pretty much unchanged in IR growth for the year to increase your NII growth forecast for 2015. And the second question is on asset quality as well, we if you look ANEEL they were explaining about the short term delinquency indicator, but if you look at your 90 days or 60 days NPLs and if you consider, calculate the new NPLs and all the NPL formation in the quarter which you calculate here with 90 days, but if you look at 60 days there seems that the NPLs -- the amount of new NPLs would be roughly BRL6.6 billion, which would indicate that your provision will likely continue to grow up either quarters to come, do you agree with that, does that makes sense or you think there is that there are one-offs that you might not be there like in the second quarter? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. About the guidance of NII, I can tell out that our guidance with stands. We've seen good things coming ahead of us, but we are not changing the guidance for NII.

Performance of our portfolio, we believe it's going to be that in the battle over time. In your relation to the NPL formation, you know, the 90 days NPL formation, the one that we will move kind of look forward close, although any transaction that become delinquent one day after, two days after, we have all the mechanism in place to act immediately.

So, we follow everything from the very beginning, even before if you have the indication that we may have a problem with swap, dealing with a particular price, even before they become the movements, but anyway we look at the NPL formation 90 days, we see it just that come back for the same level that we had before.

We are not expecting something very different from that in the future. And again, we look at the lower losses on guidance it stands.

Q - Unidentified Participant

Thank you.

Operator

Mr. Tito Labarta from Deutsche Bank would like to make a question.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning, thanks for the call. A couple of questions. First, following up on the net interest income. When we look at your treasury income increased quite a bit in the quarter, but it looks like also you may have restated some numbers from prior quarters to the numbers for the fourth quarter that you're reporting now a difference from what you reported in the fourth? So, I understand a little bit change there what happen and also we think about the treasury income going forward, you said that this quarter was extraordinarily and should normalize the levels you are reporting now for the prior quarters, just wanted to get a little bit more understanding on that. And then also another follow-up question in terms of asset quality. What really gives you the comfort that the asset quality will be under control, because just looking at early NPLs spiked a lot right-offs are the highest level in two years and with the macro scenario, the way it is I think everybody is just a bit concerned about that.

I just want to get a little better sense why do you feel comfortable that provisions will come down from this quarter. And then you can look at also risk-adjusted margins also fell, so just wanted to get a little better understanding on why you feel so comfortable there. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Hi, Tito. Thank you. If you look at -- we have to choose the net interest income in the presentation. One is slide seven, where we present -- if you look at the slide seven, in the last conference call you have the line called others. We took out the others and reallocated the thing and then we open more of the formation of the net interest income in slide 30. So, now we can go each line so we have revenues to loan.

We have each line open via cost of funding expenses opened as well and the treasury it is open as well in each line. So that's why there were some change in the reallocation because we opened a little bit more what we were showing before.

If you want to go into the choose life and death, they are also in the MD&A you can find that in the chapter five of the MD&A.

Anyways my team is to suppose you can call them and they can go line by line if you need that.

Going through the provisions, again we have everything in control, we have a good feel overall portfolio. It's a very good portfolio, still a very low risk portfolio lower than the markets as a whole and our projections demonstrate that we have everything in the control the guidance expands and that's pretty much what I can tell you.

More than that it would be hard to say, but our projections are it stands, gives the support to keep the guidance as it is.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thank you very much.

Operator

Mr. Victor Galliano, Barclays would like to make a question.

Q - Victor Galliano {BIO 1517713 <GO>}

Hello, yes. Thanks for the opportunity. I just wanted to, I think I will leave the credit quality issue, but I wanted to focus on certain sort of key areas of growth of your portfolio. And clearly the real estate is something that you've highlighted and you're growing very fast both on the corporate side and on the individual side. How do you feel about the current macro scenario, the fact that rates are high, the fact that economy is slow, capacity utilization is low, and your risk in this space both from the so said individual borrower, but also from the kind of home builder side as well.

Reading in the press, we're hearing some pretty negative stories coming through on the real estate side. So, how do you feel and how do you assess that sort of risk as you grow those loans and how do you fit into -- how does that all fit given the current macroeconomic outlook and then I have another question on capital?

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you. You have to understand first that Banco do Brasil is given the mortgage business before the government. So in terms of some difference that we have in relation to the other bank in the market, our savings are direct most of it to the agri business segments and only after 2010 we were allowed to start allocating a portion of which (inaudible) segment.

So we start from zero and been growing from zero, growing how not going after clients in the markets for a lot of banks, so we're the addressing the needs of our client base. So we had a hole in our portfolio, we completed the portfolio and now we are addressing the needs of our client

base, our client base that we see with a very good quality in terms of risk and a client base that has a very long relationship with us.

So we are addressing that need and we grew pretty fast over the years growing from a very low base and of course as this base keeps growing, now we are number two already in the market in the segment and again addressing what we have internally. We don't need to go after clients of other banks because that we don't know.

And our projections indicate that these portfolios are going to keep growing faster than the rest of the portfolio and again addressing what we have as a demand in our own home.

Banco do Brasil has a client base that we can't address their needs, their receivable for this year and the other years as well.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. And just a quick follow-up on that is that have you in the current macro environment, I mean you're seeing it was quite a lot in the last few months, have you changed in way your metrics whereby you've grown to enough heavy tight in those in turn on the corporate side, as well as on the on the individual side?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. No, I think that our stand is that apart with these, we're very conservative and with this we've established, we are not changing the any underwriting quality to be more aggressive and so on.

In fact, as I mentioned previously, we are looking at the risk of our clients giving anything there that happens, we look at the clients and we look at how they are behaving giving such scenario and we change the risk as we -- and we did change the risk giving a low risk, higher risk for sometimes it's been in the last year because we think that it was appropriate.

So we are moving the other direction being more conservative now than we were two years ago. But that's part of our policy, the policy has not changed. It's the same policy.

Q - Victor Galliano {BIO 1517713 <GO>}

Right, okay, thank you. And just quickly on capital, just to clarify here on slide 24, the -- when you look at the fully loaded Basel III at 10.75% for Tier 1 and I'd presume that there is no adjustment that for the hybrid and debt capital that's being poor, I presume is that included in that 10.75% is that right?

A - Bernardo Rothe {BIO 18059993 <GO>}

That's correct.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay, thank you. Thank you very much.

Operator

Mr. Saul Martinez from JPMorgan would like to make a question.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, thank you. Thanks for taking the question, two questions as well. First on asset quality in the commercial book, fully respecting that the 90 days will move up; you did have obviously the 15 day

move up and there is downwards migration into higher-risk bucket. If you were to sub divide your commercial book into SMEs, middle market companies and corporate. Is there any difference in terms of the level of worsening your portfolio between those, did you see any specific segments have a greater or lesser impact on your asset quality figures in your commercial book? That's my first question.

Second question, Page seven of your presentation, the global spread out, the risk adjusted net interest margin, 20 basis points lower 4Q and 1Q. But if I go back a few years, it's a pretty meaningful deterioration, it's pretty meaningful decline and it's a much lower number than a lot of your peers and that really explains the big difference between our ways between some of the private banks and yourselves.

Given everything you've discussed the mix shift, the credit people, the reprising of loans, higher (inaudible), how confident are you that you're going to start to see the risk-adjusted MIM, start to move up from current levels in the next say two quarters or do you feel like this more of a medium-term phenomenon because really that needs move up for your profitability levels start to expand versus where they are today?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay, thank you Saul. In terms of the asset quality, you know we had some advance thing in first quarter related to Chapter 11, that's of course impact the portfolio and that some of these Chapter 11 clients are among the corporate side, some of them in the medium side and the corporate and we have as well in terms of number of clients coming from the SME, medium size companies.

So there are two movements in companies, we don't break down for you guys with roughly each of these type of client, how it is performance of each one.

We put them together in order to be in line with some of our peers do, but you know that's what happened there. So in terms of number of clients both in

SME and even medium side was that we see some deterioration there.

And Chapter 11 clients impacted the provisions as well. Going to the spreads, what I can tell you is that we've been reprising the portfolio as we are doing that everywhere and that we believe is going to impact positively and not only the net interest income, but the spread overtime as well.

Q - Saul Martinez {BIO 5811266 <GO>}

The 2.5%, how quickly do you think that will start to move up?

A - Bernardo Rothe {BIO 18059993 <GO>}

It's going to grow over time, it's not a chunk movement. We always look at a need to long term.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thanks a lot. I appreciate it.

Operator

Mr. Tiago Batista from Itau BBA would like to make a question.

Q - Tiago Batista

Hi, guys. Good morning. Thanks for the opportunity. I have two questions. I'm sorry if the first one -- to ensure but I was disconnected in the part of the Q&A, but we saw a big increase in the early bill

ratio. Could you comment on how the early is transforming or performance neutral and giving us contraction in the ratio?

And the second question, if you got into the right task, we saw a big increase in the level write-offs in the first Q increasing to BRL4.4 billion against BRL2.6 billion in 4Q, so up 20% Q-o-Q. Can you give specific explanation for this big increase in the level of the write-off in the first Q.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. I'll start with your last question, Tiago. If you look at the ratio of the write-offs to the total portfolio over the time, they are pretty stable. So we went from the first quarter last year to 235 to 236 this quarter.

So we don't see a huge variation here, towards 231 in the fourth quarter, that's true. What we do is we'd follow the resolution, the Central Bank resolution that's under the latter. After 180 of our at the H2 levels, we have to write-off the loan, that's it. But we have some information in the MD&A as well that you can see that we're increasing the recovery of the delinquency up to 206 days over time and we have that in chapter 3.3.

So nowadays, we are recovering 95% of anything that goes up to 360 days. We are increasing before decreasing it. So we don't see that as a change in the behavior of the Bank, our behavior as well. To talk about the early delinquency in May and April, we prefer to keep commenting only on the first quarter okay.

Q - Tiago Batista

Okay. Thanks.

Operator

Mr. Anibal Valdes, Barclays Capital would like to make a question.

Q - Anibal Valdes {BIO 17745509 <GO>}

Hi, good morning. Thank you for the opportunity for taking questions. So the first question, it's related with renegotiated loans. I think I asked the same question last quarter because they increased 25% year-over-year last quarter and I remember that part of the explanation was that you were taking advantage of the new rules regarding with the term of payroll deductible loans, but it seems that I just wanted to know if there's something else different going on now, because after for the first quarter renegotiated loans that we laid increased 30% year-over-year to read over BRL11 billion, so I would like to know what's going on there?

And also the second question is on capital, just wanted to have an update on what's the capital plan of the bank going forward via Tier 1 ratio fell to 8.7%, but if you will see for the one of changes in risk-weighted assets last year, capital allocation of the hybrid instrument and the sale of the all of the field transaction, the bank would be in a much worse situation. So and on ongoing basis, it seems that given the ROE forecast for this year on the level of growth that you guys are forecasting also it seems to have the bank capacity to replenish capital seems very limited. So I just would like to thank to have an update how you guys are thinking about your capital plan going forward. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you, Anil. Slide 43, you have the renegotiated loan portfolio and as you can see, we have in fact a slight reduction in terms of what happened in the first quarter, but anyway it's very important to mention is that we are increasing the new renegotiation with cash received upfronts.

So we have information showing that we increased from 2015 was 59% in cash now at least we're going to 68% in cash. So we are renegotiating in good way over 68% of what all the renegotiations that we are doing. We don't see that as a problem, you know, it's very important for the banks who have clients and the -- clients so want the client to be able to repay what they have, that's why we try to solve the problem even before they get through 90 days in and you can see so long.

So (inaudible) clients that they pay two years of loan, they have more four years running. And they want to cash in and they -- we don't reach their loan. So that's something that's going to happen overtime, it's not a problem whatsoever, it is just the way that it, (inaudible) for example salary loan and so on and for us there is no problem.

In fact, we are reprising these loans and that we have good business for us as well. In relation to cash flow, I'd like to go through slide like 28 where we have some information scheduled for Basel III capital requirements.

So if you look at that even though there is the empty cycle buffer was not activated for 2016, we are looking at the implementation up to 9.5% and that our capital budget, we are comfortable with what we have and we are going to reach over 9.5% until 2019. So our capital budget is okay, we don't see any problems to reach the 9.5% overtime.

just you know clients that they do use of low ones, they have more four years running and they want to cash in and they -- we don't reach their moments. So that's something that's going to happen all the time, it is not a problem whatsoever it is just the way that it has -- and for us there is no problem. In fact, we are reprising these loans and that we have good business for us as well. In relation to capital, I'd like to go through slide like 28 where we have some information scheduled for Basel III capital requirements.

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Q - Anibal Valdes {BIO 17745509 <GO>}

Okay. Thank you.

Operator

(inaudible) from Bank of America would like to make a question.

Q - Unidentified Participant

Thank you for the call. I have a question also regarding the capitalization of the bank. We saw that from December 2014 to the first quarter of 2015 you have the drop on your common equity Tier 1 ratio, there was a big increase on prudential deduction from around 7.7 billion to 11.7 billion in the quarter and largely explained by the unfunded pension liability that you had.

I was wondering what is the expectation for this year is if this capital deduction will stay at the level of 12 billion or do you foresee that particularly in the unfunded pension liabilities will increase during the year. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Well, first of all, just to remind you, we have the intangible that was deducted in the first quarter, that's the biggest impact that we have, that's why we have this decrease in capital quarter from

the other to the other, but these implementation, we haven't seen in our budget and we consider that when we are seeing that in 2019. We are going to be above 9.5% as we show in the slide 28.

Q - Unidentified Participant

But on the intangible increase BRL1 billion in the change that I mentioned, the liability increased almost BRL1.5 billion, just looking at the pension fund situation, do you think that you will review the liability during this year or is it suppose to be stable?

A - Bernardo Rothe {BIO 18059993 <GO>}

We have two things that you have to consider. The transaction, the JV creates an intangible that's why we have increased, but in fact at the same time we have impacted in capital as well from this transaction. So the JV this year had a positive impact. But the reduction comes from the intangible. The pension plan is not funded probably you're talking about the health plan and the health plan there is no all projects is allocated we don't see any problem coming from there.

Q - Unidentified Participant

Okay. I was referring to your slide here which is 25.8 [ph] (inaudible), but I can take the discussion offline. Thank you so much.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay.

Operator

This concludes today's question and answer session. I would like to invite Mr. Bernardo Rothe to proceed with his closing statements. Please go ahead, sir.

A - Bernardo Rothe {BIO 18059993 <GO>}

I just would like to thank you everyone for participating in our conference call and then for the questions. Thank you and have a good day.

Operator

That does concludes Banco do Brasil conference call for today. As a remainder the material used in this conference call is available on Banco do Brasil investor relations website. Thank you very much for your participation and have a nice day. You may now disconnect.

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