Company Participants

- Alberto Monteiro, Vice President of Financial Management and Investor Relations
- Bernardo Rothe, General Manager of the Investor Relations Unit
- Paulo Rogerio Caffarelli, Chief Executive Officer

Other Participants

- Carlos Gomez, Analyst
- Carlos Macedo, Analyst
- George Friedman, Analyst
- Tito Labarta, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil Fourth Quarter of 2016 Earnings Conference Call. This event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After these, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This conference call 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 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. Paulo Rogerio Caffarelli, CEO; Mr. Alberto Monteiro, CFO; and Mr. Bernardo Rothe, Head of Investor Relations. Mr. Caffarelli, you may now begin.

Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Thank you. Good morning. First of all, I'd like to thank you for to take part of this conference. I ask Alberto and Bernardo to say few words for you before starting the presentation. Just tell you that I'm really confident that Banco do Brasil using the right path to reach the profitability compatible to its potential. We already took the first steps. 2016 was up first year, but we have signed showing that economic improvement is on the way allowing that our current measures became better results.

I have been telling you about reaching our peers' profitability levels. I believe we are already on the course and we will continue on it in 2017. Our net interest income will increase above the market average this year. Fee income growth will be between 6% and 9% in 2017. We are raising our customers' portfolio profitability with digital channels growth. Our goal is to end this year with 4.5

million individual clients in the digital model, which generates 44% higher margins than the traditional model.

Technology is the present and the future for us. And I can assure you that Banco do Brasil has the best digital solutions in the country. For that reason we call ourselves MAIS [ph] digital which means we go beyond the digital solutions current provided in the market. I also would like to highlight that we have elected 2017 as the year of customer service. The customer best experiencing in the base of the relationship we desire.

Moving on to expenses, I've done some important restructuring. Closing branches, opening digital offices, process improvement and over 90,000 employees retirement. These will keep our administrative expenses under this year inflation. This is our main target because we tend to maintain the same value that you expensed last year. We are estimating something between 1.5% and 4.5%, but we intend to stay near 1.5%. Provisions will also reduce between 30% and 44% compared to 2016.

Another issue is capital. About capital, in just one year, we grew 140 basis points. We see a consistent core capital growth quarter-after-quarter. In Agribusiness, we estimate an increase in the overall portfolio between 6% and 9% with the expectation of having the best harvest ever. I believe so hard in this.

I also see great opportunities for the capital markets in 2017. As the macroeconomic scenario gets better, naturally companies will be more confident to look for funding in the capital market in Brazil, that and equity as well.

With that said, I want to reassure my commitment with the ROE improvement. I said yesterday to the press that we are focused on profitability, not in market share. This is very important, because in a financial market, you need to choose and we choose profitability, okay. 2016, isolated factors that impacted our results tend to decrease as Brazil resumes its economic growth and we consolidate all the measures to improve Banco do Brasil's efficiency.

For finishing, I'd like to emphasize our commitment, my commitment, the Board commitment and with all of our employees, with these five pillars: profitability, efficiency, capital rate [ph] recovering, customer experience, and digital solutions.

I can assure to you that Banco do Brasil will have a best result in 2017. Thank you very much. Have a good day. Have a good weekend. Thank you. Bye-bye.

Operator

Mr. Alberto, you may proceed.

Alberto Monteiro {BIO 1527328 <GO>}

Good morning, everyone. I'd briefly like to introduce myself before we go to weighted detail of our figures. I'm Alberto Monteiro, I have been a career Banco do Brasil banker until 2009. When I left to accept challenges externally, I was invited to rejoin Banco do Brasil as CFO and I took the position this January year. With the 26 years service at Banco do Brasil and experience in the private sector, I believe uniquely positioning in this role. My team and I are committed to assist Mr. Caffarelli, our CEO, in achieving the bank's goal of increasing return on equity, improving efficiency. As to -- I would like to hand over to Bernardo Rothe to start our conference call. Thank you very much.

Bernardo Rothe {BIO 18059993 <GO>}

Good morning, everyone, and thank you for participating in our conference call. I would like to start from page three of our presentation where we have the highlights for 2016. So starting with pre-tax pre-provision earnings that increased by 7.3%. Our net interest income grew by 13%. Fee income had 6.8% growth. Administrative expenses totally under control and when growing below inflation at 3.5%. Getting to a cost to income ratio reduction to 39.7%.

On slide four, we have the net income of the bank, 8 billion, the accounting net income, and 7.2 the adjusted net income. On the bottom of this slide, we have the profitability ratios of the bank. Adjusted ROE finished the year with 7.5%. The shareholders ROE where we took out from the denominator the 8.1 billion of debt that's considered capital, that is not included, the cost of that is not included in the net income. So if you do that calculation we get to 9.8% ROE.

On slide five, pre-tax pre-provision earnings growing from '14 to '15 by 16.8% and from '15 to '16 by 7.3%, making 24.4% growth in two years. That's all the work that we've been doing to improve profitability is reflected here in the pre-tax pre-provision earnings.

On slide number six, some market ratios. Earnings per share, we end the year at 2.57. Bloomberg projections based on sell-side analysts' estimates. It's 3.93 for the adjusted earnings per share. Dividend yield fourth quarter 3.01. The estimate for '17 by Bloomberg is 3.16.

Price earnings 12 months, 9.74 in the fourth quarter and the projections indicate 8.08, price/book value of 0.9 for the fourth quarter and 0.95 in estimation for 2017 by Bloomberg.

Slide number seven, funding. We've reached 613 billion in funding, a decrease of 8.3% compared to December '15; basically in-line with the decrease in the portfolio. The cost of these funding reached 63.7% of Selic rate in December.

Slide number eight, the loan portfolio. We had a decrease of 11.3% to reach 708 billion. But I'd also like to highlight here the performance of the Agribusiness, with a growth of 2.8% basically coming from a decreasing Agroindustry, the Rural credit grew by 8.6% and the Individuals growing 1.5%; and these two portfolios are growing participation in the total portfolio of the bank.

Slide number nine, talking about Individuals portfolio. We are concentrated in low-risk lines of credit. That's where we see growth coming. So, Mortgages, that grew 9.5%, considering also the mortgages with companies, but the market share is 7.9 for Individuals; and the Payroll, we had zero growth, that's stable with 62.5%, market share of 22%. Salary Loans grew by 3.5% to 19.3. And Auto Loans is still decreasing, almost 26% decrease, to reaching 6.2 billion.

In terms of delinquency ratios, you can see that Mortgages is 1.47, small growth increased from September '16; Payroll Loans 1.31; only one we've changed. Auto loans, still below 1% at 0.98, and Salary Loans at 2.88.

Slide number 10, portfolio of companies in the broad concept. We have a decrease of 19.2% to 294 billion, most of this decrease came from the small companies, very small and small companies portfolio, that decrease is 23.8% reaching 68.7 billion. And the rest of the portfolio had a decrease of 17.6%.

Slide 11, Agribusiness. We have here the breakdown by Agroindustrial and the Rural credit, as you can see most of the decrease came in the Agroindustrial, pretty much in-line with the behavior of the loans to companies. The overall credit grew by 8.6 in one year. We are still number one in the market share, big participation, almost 16%, and in our working capital finance, we used Mitigators reaching 64.2% of the total working capital. For the harvest '16, '17, we grew you know with the finance of the harvest itself we grew 8% compared to the harvest '15 to '16, with disbursements up to 47.1 billion.

For next harvest '17, '18 we start with the pre working capital for this particular harvest increasing the amount to be disbursed to 12 billion, 1.7 billion more than last year.

In slide 12, we start to talk about the credit quality starting with delinquency ratios. We reached 3.29 at the end of December for the total ratio of the bank comprising of 5.83 in Companies, 2.67 in Individuals, and 0.99 in Agribusiness.

Slide 13, coverage ratios and the balance in provisions. The coverage ratio in December was 167% with total provisions 36 billion. And in this quarter we created supplementary provisions of 1.5 billion.

Page 14, coverage ratios by segments. Our portfolio Abroad has a high coverage ratio of 400%, Agribusiness 228, Individuals almost 200% and we see some improvements in Companies as well to 145. Slide 15, Average Risk reached 5.52 in December, slight improvement from September '16. The banking industry is at 6.5, meaning that we are way below the average risk in the market. And our portfolio is concentrating the risk AA to C, 90.8%.

Slide 16, provision flow to loan portfolio. Pretty much stable in the portfolio that we keep outside of Brazil. We are seeing increase in provisions for the portfolio in Companies, 2.21, the total also increased to 1.38, Individuals 1.18, on the agribusiness we had a decrease in the flow in this quarter.

The total provisions -- nominal value of provisions in the quarter increased by 12.7%, pretty much coming from Individuals and Companies. Slide 17, NPL formation, we ended quarter at 1.04, almost stable to the third quarter '16. And the coverage of the NPL formations are 107%. In the bottom of the slide, we include in the past due transactions, the portion of the renegotiated loan portfolio that was renegotiated after 90 days been past due, meaning if we did not renegotiate that particular loans, how much would be the NPL formation? In this case, we have a small increase to 1.13, but a smaller level than the second quarter and the coverage ratio almost at a 100%.

In slide 18, we have NPL formation by segments and the coverage ratio of the NPL formation by segment. Here you can see that Individuals is pretty stable in relation to September about 0.84 and the coverage ratio of 140. For Companies, we have 1.73, a small increase in relation to the third quarter, but below the highest level that we had in the second quarter and the coverage ratio is 121.

For Agribusiness, it's pretty much stable over time at 0.4 and the coverage ratio here you know what we do -- we have done in the portfolio was negative.

In page 19, we bring to you the renegotiated overdue loan portfolio. We have 3.8 billion in new contracts in the quarter, a decrease of 35.6% in relation to the fourth quarter '15. And -- in the right side, we have from these 3.8 billion that we renegotiate were how long it was past due, where we have renegotiated. So you have the breakdown by time of being past due. As you can see, 14.4% in fact was not even past due, is recovery of written off operations. And only 17% was past due over 90 days.

The concentration here is, almost 40% comes from transactions past due from zero to 14 days. By the way the presentation shows four days, it's 14 days; sorry about that. And the growth in the amount of money that we are receiving this portfolio, meaning amortization of principal, interest payments and net of interest accruing period grew in two years 92.1%. Just compare the write-offs, it grew by 59.4%; meaning that we are really increasing the level of what we are receiving in this portfolio. In page 20, we have the NPL formation for this portfolio at 9.24, a little bit higher than the third quarter, but the lowest level in this series here. And then the coverage ratio was 161.69. Page 21, guarantees provided and provisions, almost 18 billion at the end of December of guarantees outstanding and this portfolio has 431 million in provision.

In page 22, we have the net interest income, which grew 13% in 2015. Loan operations grew by 7.3% and the funding expenses way below the growth of the loan operations. That explains the increase in spreads that we are going to show in the next pages. In slide 23, the net interest margin grew to 5.06 in the quarter, the risk adjusted NIM 2.57. And in the fourth quarter, the average balance of our portfolio was 644 billion, a decrease over time during the year.

Page 24, we have the spread by portfolio, starting with Individuals, increased to 16.6, Companies increased to 6.34, and Agribusiness also increased 3 bps to 5% getting us to 7.98 in the total spread -- the credit spread. Page 25, fee income growth of 6.8% in the year coming mostly from checking account fees of 19.2, asset management also with a good performance at 9.9, and insurance pension premium bonds at 7.1.

In page 26, we have our network distribution, at the end of December, 66,000 points of sale over -- all over the country. Our own service networks of more than 16,000. Our total branches 5,440, this is before the close of the -- what we announced that we are closing branches and so on, and that's going to happen in '17, I have more information afterwards. Total customers almost 65 million and the -- in total employees are 100,000 and that numbers are already impacted by the retirement program and that we announced last year. And outside of Brazil, we have presence in 24 countries with 38 points of service. In page 27, the idea of improving customer experience, what is the strategy and how we do that. It's a combination of human solutions with digital solutions where we have the digital relationship manager serving clients through extending working hours from 8:00 AM to 10:00 PM for individuals for 8:00 AM to 6:00 PM for companies using all the tools available in the market.

Page 28, will bring the level of transactions by channels, you can see that 65% of all transactions processed by the bank are concentrating mobile and Internet. Under the mobile, we reached 10 million clients at the end of December, using the mobile, 10 billion transactions in 2016, 53.1% growth compared to 2015. Slide 29, the digital strategy evolution, the main information to provide you here is increase in number of customers considered in the portfolio of high net worth. The aim is to reach 5.5 million customers, additional 1.2 million customers through an additional 27 digital service units, it's not branches, units.

In Estilo segment, more 400,000 clients, in Exclusivo 212 offices and then 3 million clients at the end of '17, that's our goal. With that, we have the possibility of increasing the revenues with these clients, when we do that and through the Digital, these changes that we are showing here, we can improve revenues in 2018 by 1.7 billion just to give an idea.

Page 30, digital strategy gains, you can see that the profitability improves from 20% to 44% when we shift the clients from the traditional banking -- traditional banking. Efficiency grew -- increased by 35% and satisfaction is 16% higher. All of that -- that we showed so far, and gets us to slide 31 where we see the improvement in cost to income ratio growing from 41.6 in 2015 to 39.7 in 2016, a growth of 3.5% in the year for administrative expenses.

In slide 32, some information about the organizational structure, that's we are doing in the bank. So we have the retirement program with 9,400 people joining, we've closed already 274 branches in 2017 up to two days ago; and we just formed 358 branches in points of service.

In slide 33, we have been increasing our Common Equity Tier I since September '15 reaching 9.6% in December '16 and then the total capital ratio is 18.5.

Slide 34, applying all the Basel III rules, we grow from 18.5% in total ratio to 18.11%, after using all the tax credit as well. For the Tier I capital, it goes from 12.79 to 12.38, same behavior will be -- will happen for the correct Tier 1.

In slide 35, the guidance for 2016. We will be -- we are pretty much in-line with the guidance except for Companies that we project minus 19% on the board of the guidance and we end up with minus 19.2. And the Agribusiness, that had about a 4% and here we reached 2.8. In administrative expenses, we came with better than the guidance of 3.5.

Slide 36, we have the guidance for 2017, with some changes in some indicators. So instead of ROE, we're now -- we are giving you the guidance for the Adjusted Net Income in billion, so it's 9.5 to 12.5. The NII, we are considering now net of write-off recovery, so it's zero to 4%. The portfolio is the organic one, so we are not considering any more the -- any portfolio that we acquired in this guidance. So it's 1 to 4. For Individuals, 4 to 7; Companies and Agroindustrial now together, so Companies including the Agroindustrial portion of it minus 4 to minus 1.

Rural loans, this is only rated via Rural loans, that's an another change that we've made and the growth is 6% to 9%. The provision expenses, now it's net of recovery of write-offs and the ingredients. So goes from minus 23.5 to minus 20.5. Fee income growth of 6% to 9%; and administrative expenses growing from 1.5% to 4.5%.

With that, we can open now for our Q&A. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Tito Labarta from Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning, everyone. Thank you for the call. A couple of questions. First, I mean, looking at your guidance for net interest income and loan growth, roughly the same 0% to 4% and 1% to 4%. So implying that margins should be relatively stable this year, maybe even up a little bit, if you look at average balances.

Just want to understand with interest rates coming down, just get a little better understanding of your sensitivity to the reduction in rates. And I assume your funding cost can improve, but would that put some pressure on your loan spreads? Or I just want to understand a little bit better the sensitivity there.

And my second question in terms of capital, consider you see good improvements in your capital ratio, I understand you have some deductions that you have to do this year which could maybe offset some of that, but with the profitability improving, could you give us maybe where do you think you end the year at in terms of your capital ratios, particularly on the Core Tier 1? I would appreciate it. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you Tito for your questions. Starting with the behavior of NII compared to the loan growth, we don't expect that the loan portfolio will have a linear performance in 2017. So it's not really a growth all over the year. So if you look at the -- what we expect in terms of average balance for our loans, compared to '16, one should be a negative number. So even if you say that NII's going to real zero. That means that we are capturing spreads, which is the balance is going to be lower than last year.

So, and that considers the reduction in SELIC and changes in regulation Brazil and so on. Everything that we have all the information that we have until now is considered in this guidance. So we still see room to capture spreads throughout the year and we still have 58% of our portfolio that was contracted before 2015.

So even though we start the process of reprising '14 but prices in '14 are lower than what we -- we have right now. So we still have room to do reprising our portfolio to the level of interest rates that we expect throughout 2017. And that is what will give us this guidance of 0% to 4% growing more than the average balance of the portfolio.

In terms of capital, the only goal that I can tell you is the one that we will be announcing, it's 19.5% by beginning of 2019. But yes this last month, we have another 20% deduction kicking in. So from the level of correct Tier I that we have at the end of December, two days later, it was lower because of the deductions. That's considered now a capital plan and we are going to keep improving it throughout the year. Okay?

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Yeah, that's helpful, Bernardo. Thank you. Maybe just a couple quick follow-ups. So is it fair to assume that with the reprising of your loan portfolio that's with the offsetting the lower interest rates, you don't expect pressure on the spreads, is it also maybe just a lack of competition that you're able to keep prices pretty high on loans?

And then on the capital, is it then (inaudible) should we assume that capital kind of remains kind of flat, though you're saying 9.5 by 2019, and you're already 9.6 in the core capital ratio, so would the increase in profitability be offset by the deductions, is that a fair way to think about it?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay, in terms of capital, yes, we have 40% of the deductions should kick in, 20% this year already there and another 20% next year. So when we do that, we have to consider how we are going to (inaudible) assets RWAs and so on or not (inaudible) at all, the level of profitability of the bank and so on. So to get to 9.5, we are pretty comfortable that we're going to get there and still managing (inaudible) of RWA and retaining profits. We are going to compensate the deductions that are going to kick in.

On the spread side, as I mentioned, we still have loans at a very low spreads in our books. So reprising them, even with the interest rates in the market is going down, means that we can capture spreads. SELIC rate by itself in the medium term is neutral for us, because we have the impact of this on our funding base as a percentage of SELIC going down pretty fast and a lot of things that we have in the balance sheet that have a longer duration.

In the assets side, that's increased the spread right away with the decrease in the funding costs. We have things that reprise automatically liking what we invest in the market. So the overall -- the net of that SELIC by itself is neutral. And SELIC spreads, they depend on competition. We are not seeing much competition in '17. So not that much pressure on spreads. So we can't capture increasing through that fully reprising of the portfolio that we contracted before 2015. Okay?

Q - Tito Labarta {BIO 20837559 <GO>}

Thanks Bernardo and I'm sorry, just one other quick follow-up on the capital. I guess the 9.5% by 2019 is that also like a base. I mean could you be above that level given your profitability is improving, you're controlling growth. So that's just a target, right, I mean, is it possible that you could be above that?

A - Bernardo Rothe {BIO 18059993 <GO>}

9.5 is the minimum by our own standards, considering our own buffer. We can be higher than that and if we can be higher than that, we will be. 9.5 is not the end of the game, we know. We are not stopping at 9.5, we may even keep increasing over time, but they only goal that I can tell you is to be above 9.5 by the beginning of 2019.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay, great, thank you very much.

Operator

Our next question comes from Mr. Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thanks. Good afternoon, gentlemen. I have a couple of questions. First question, asset quality, provision expenses, big decline there. I was looking for a little bit more color where the decline comes from. If you look at the vintage curves for SMEs and individuals for 2016, it looks pretty grim compared to other years. So my guess is you're probably going to still have some provisioning to do for those portfolios early in the year, but obviously the corporate book should be where you have a lot of relief. Could you give us some color, just to understand where the relief is exactly going to come from?

Second, you recently sold shares of Kepler Weber. There are other companies within your portfolio that you could sell in order to improve your capital. In Argentina, everybody's talking about the sale of Banco Patagonia. I'm not asking you to comment about any specific events, but should we expect to see more activity in that front in 2017 that would help bolster your capital ratio? Thanks.

A - Bernardo Rothe {BIO 18059993 <GO>}

Good morning, Macedo. Thanks for your question. In terms of the asset quality, if you transfer the provisions, repeating is something that I've been saying for a while, now let's say that the quality doesn't improve at all in the very small and small companies portfolio. Right. Same quality, but even some deterioration in terms of quality, but in a portfolio that is decreasing now almost 50% in two years, the capacity of that portfolio to generate provisions is decreasing.

So we are going to have lower provisions coming from that portfolio even though this portfolio in terms of quality should improve, so that should improve only in the second half of the year. Right. We don't expect that -- small companies portfolio behaves pretty much in line with the economy. As everyone expects the economy to pick up in the second half, then we should see improvements coming from this portfolio in the second half as well.

So even after that, before this improvement starts, we may see the floor provision portfolio reducing. So we expect provisions to reduce gradually from the level that we had in the third quarter last year over the year being better at the end of the year.

Q - Carlos Macedo {BIO 15158925 <GO>}

But would it be fair to say though that the bulk of improvement comes from the corporate book, given you're not going to have a large company or hopefully you're not going to have as many large companies defaulting, as we improve in the economy?

A - Bernardo Rothe {BIO 18059993 <GO>}

Yeah. The bulk of provisions that we've been making over the time comes from the company's portfolio. So the improvement comes from the company's portfolio. So about assets -- selling assets given to one, any non-core assets that we have, they are available for sale, let's say, we can sell. People know investment bankers are all the time knocking on our door and (inaudible) proposals, because we have been saying that for a while.

So if there is a good proposal, okay, that makes sense for us; as we have in the case of Kepler Weber, we may well. Right. So it depends on the market, doesn't depend on us. We are not close to sell non-core assets at all, what we are not going sell, whatsoever is our asset manager, more of (inaudible) and doing IPO and anything that's very linked to our strategy, our core business. Okay.

Q - Carlos Macedo {BIO 15158925 <GO>}

All right. Thanks, Bernardo. One more thing is, I don't want to maybe put you in the spot. But can you confirm that there is a process ongoing for the sale of Banco Patagonia in Argentina?

A - Bernardo Rothe {BIO 18059993 <GO>}

What I can tell you is that what we announced in the material fact last year that we are analyzing the possibility of doing a follow-on in that particular bank, in the -- in exchange in the stock market in Argentina.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, thanks.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you.

Operator

Our next question comes from Mr. (inaudible) from Bank of America.

Q - Unidentified Participant

Good morning, everybody. Let me ask you two questions. Both of them are related to your guidance. The first one is related to your guidance for expense growth, okay. The way we're doing the numbers here, we see that you have total expenses in 2016 looking in personnel and administrative of about BRL32.8 billion, at the same time, you announced cost cutting measures totaling BRL3.1 billion, this is related to your early retirement plan of BRL2.3 billion and branch closures of about BRL750 million.

So when I look at your guidance of expenses growing 1.5% to 4.5% and if I take in consideration your cost cutting, what I see is that you're guiding for expenses to grow 12% to 15%, so I wanted to understand here, what am I missing? Why -- or my feeling is that your guidance here is being too conservative or maybe the cost cutting is not as high as you originally guided for. The second question is also related now to your provisions guidance of BRL23.5 billion to BRL20.5 billion. If I look, you had provisions of BRL27 billion in 2016. If I look -- if I consider some extraordinary provisions that you made throughout 2016 related to Sete, related to (inaudible), related to the supplementary provisions that you made in the fourth quarter.

I estimate that you had BRL4.7 billion non-recurring provisions. So this alone would bring your provisions in 2017 to BRL22.3 billion, which is roughly the midpoint of your guidance.

So it also seems to me too conservative, it's almost like you're not expecting much of an improvement in provisions in 2017. So these are my questions.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay, thank you, (inaudible), and good morning as well. In terms of expenses, if you look at only personnel expenses, the impact that we would have in terms of the increase in salaries, even with the agreements with the unions in Brazil, will be 8.4% growth in the personnel expenses for eight months of this year in relation to last year. And another 5.7 is INPC plus 1, so let's say 5.7, whatever (inaudible) going to be at that point.

So we would have an increasing cost with personnel at a high level. We are compensating that with the 9,000 people that are leaving. So if you look at the -- what would be a guidance for personnel expenses. I would say to you that zero would be inside that guidance. One compensates the other. Other than administrative expenses, part of this 3 billion that we mentioned is not going to happen right away, they are going to happen over time.

So we cannot consider that, we capture everything this year we are going to capture that in 2018 -- in 2018. And we have been growing these (inaudible) part of the expenses way below inflation for very long time. And some of these expenses, we have agreements that we negotiate not in a yearly basis, but two years, three years and so on. So we have to look at inflation -- not inflation of '17, but inflation of '16 and '15. So put that together, the threshold is the big one. We cannot consider in our forecast that we are going to manage to reduce whatever we have to increase in terms of agreements being renegotiated in 2017, but what level we want because it depends on negotiations. So something that we have to work through the year, but the guidance gives you our best forecasts at this point in time.

Q - Unidentified Participant

Just to go back up what you said on the admin expenses, you provided a slide here showing that you already closed a significant amount of the branches that you are expecting. So why wouldn't the bulk of these cost savings be realized in '17?

A - Bernardo Rothe {BIO 18059993 <GO>}

First of all, the portion of the 750 in related expense to the branches, that's 300. And we are closing in branches now, but we still have costs within these branches going through the first half. So that's why the full impact of these savings is in 2018, not in 2017, it's going to happen over time over the year. Right. So part of these costs are going to be start to be saved afterwards, although we have already closed the branch, there is no one working there and so one, but you have to cost to bear until its fully out of our books let's say. That's the thing. So it's not fully in 2017, that's the point. Okay?

Q - Unidentified Participant

Okay. And just sorry, just to stay on this topic, but at the same time you're showing right this digital evolution of the bank and the how you're processing more transactions. I would think that alone would generate some cost savings for you as well. My point here is, when I look at your private sector peers, they're guiding for similar growth in '17 as you are.

However you came out and you provided us with cost savings measures, branch closures, laying off 9,000 people. So I'm just -- it just seems to me that your guidance is too conservative.

A - Bernardo Rothe {BIO 18059993 <GO>}

I can tell you because by the way it was mentioned in the Portuguese conference call, that our goal is to keep working on expenses to bring that expenses down to be closer to the board of the guidance, and if we can even below the guidance, that's part of the job we have to do now.

It's not in our projections, right now, but doesn't mean that we are not going to work to bring that below even the guidance, if we can. So the basic guidance is for today based on the past projections that we have. That doesn't mean that we are not going to work to improve that, to have even better results. As we have been doing over the years. If you look at what we did last few years in terms of guidance for administrative expenses, we believe we are below the guidance in two years in a row. So we are going to work to get there. We are going to do our best job to get there, but the best guidance that I can give you right now is 1.5 to 4.5. In relation to, if you compare to our peers, unfortunately we cannot just go there and start the (inaudible), we don't do that. It's not unfortunate that we don't fire people, we treat them differently. We have different ways of addressing the number of employees that we need. So we don't need to announce things, they do every day. We have to do things differently here.

So, but if you look at the behavior of the number of branches, the number of employees, it's not that different from us. Right. Yes, they are doing their job as well, right job, I don't want to comment on competitors, but they are doing their jobs as everyone has to do their own job, we are doing ours. And our job is that.

Moving to provisions, the projections that we have -- of course, we want also to have lower level provision than what we are guiding the market right (inaudible). It's part of our job to keep everything on track. We believe that the guidance that we are giving you reflects the behavior expected of our portfolio and there is a big improvement in relation to last year. This year you cannot (inaudible) any big cases we may have been at. That may happen. I'm not saying it is going to happen. I believe we have pretty much everything (inaudible) already. Things are going to develop, we have to have room to allow us to cover and if anything that some things that are not now projections right now. So we believe that's the right guidance to give to you given that 2017 is a transitional year.

We are going to see things much better in 2018. That's what we expect. But '17 is still a year of recovering, it's more recovering. If you look at total report what we expect in terms of growth in GDP in Brazil, its 0.58 now.

So such transitional year we are going to go through this transition improving gradually the level of provisions that we have in our books gradually from the third quarter. Okay.

Q - Unidentified Participant

Okay. Just to stay on the provisions then really quickly. When we think about recoveries, I would imagine that your recoveries would be much higher in 2017 than they were in '16. Is that part also -- is that already incorporated on your guidance?

A - Bernardo Rothe {BIO 18059993 <GO>}

Well, recoveries, we had our record of recovery last year. So it's not that easy to repeat every year a record, right. So we consider that we have available level of recoveries for '17 in our guidance.

Q - Unidentified Participant

Okay. Yeah, I guess, right, the record level on recoveries, it's because you had record increase in NPLs as well. So I would imagine with the economy coming back, that you might be able to have a better year in '17. But okay, not -- my overall feeling here what I just want to clarify is this, I felt like your guidance is on the conservative side, I wouldn't be surprised if you deliver better than you expected in these two items. But thank you very much.

A - Bernardo Rothe {BIO 18059993 <GO>}

I can guarantee you that we are trying to make you're right.

Q - Unidentified Participant

Thank you.

Operator

Our next question comes from Mr. George Friedman from Citibank.

Q - George Friedman {BIO 3192857 <GO>}

Thank you for taking my question. Actually just one question here, related to your position of capital. The bank continued in this quarter to optimize its capital management and once again risk-weighted assets as a percentage of total assets decreased quarter-over-quarter reaching now 44%, which is the lowest level versus Brazilian large banks.

My question is related to the decline of the portfolio originated abroad in this context. As you showed in the slide number eight, this portfolio declined approximately 11% quarter-over-quarter, so how much of this decline was due to the strengthening of the Real and at what level do you think this portfolio should stabilize going forward? In addition, it will be great if you could provide also some color on the average yield of this portfolio. Thank you very much.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. Thanks for your question. First, we -- what we have outside of Brazil, I believe you -- the market has already at least heard from our CEO, that we are focusing on Brazil. So we used to do a lot of transactions outside of Brazil with companies with no link to Brazil and so on, so that's not our focus anymore.

There is a decrease coming from concentrating our business to be --have the Brazilian flavor, dealing with companies that operate in Brazil, foreign companies that operate in Brazil, Brazilian companies operating abroad, financing trades and so on so forth. That generates a decrease in total portfolio for sure. Part of it is of course is the FX rates. So the portfolio decreased in dollar terms, but also decreased in Real terms because of the shift from 3.9 in the rates to 3.2 if I'm not wrong at the end of the year. So part of it is the -- the change in the value of the Reais against dollars, part of it is a shift in terms of strategy for the branches that we have abroad.

I can give you the number exactly how much is the foreign exchange impact later on. Okay?

Operator

Our next question comes from Mr. Carlos Gomez from HSBC.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hello, good morning. I have two questions. The first one, if you could give us an update on the situation at the Banco Postal. And whether that is something that you will still pursue. And also whether not doing Banco Postal is incorporated into -- in your cost guidance also although you probably (inaudible) other income.

And second, as you have read the speculation about the possibility of large remaining state bank Banrisul perhaps undergoing a change in ownership. We understand that does not depend on you, but you focus on Brazil. How would management look at the possibility of the combination with Banrisul, is that something you would look at favorably or you prefer to concentrating your current cost control? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Hi, Carlos. Good morning, thanks for your questions. In terms of the Postal Bank -- the agreement with the Postal Bank was extended for three years at the end of the year. So we are still using the Postal Bank. They are still operating as points of service of Banco do Brasil.

We have the change in some details in the agreement. So the cost of using the Postal Bank decreased, bigger portion of it now is, it depends on performance. So the fixed portion of this is only 5 million per month. Everything else depends on their performance, so we pay for what they do. So there is a decrease in terms of cost for the Bank Overall.

But there are few serving clients for Banco do Brasil, they are still doing business and selling products, processing transactions and so on for us. So it's ongoing, we renovate that agreement for three years in December, right. In terms of what may happen with Banrisul, it's not my place to comment. We are looking at the market overall all the time, but we concentrate in doing things organically in Banco do Brasil. Okay?

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. Thank you very much.

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 want to thank you all for participating in our conference call and to put my team in at your disposal to answer any further questions you may have. Please feel free to contact us, anything that you need. Thank you very much and see you in the next conference call. Bye.

Operator

That does conclude Banco do Brasil conference call for today. As a reminder, 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 disconnect.