

# Q4 2013 Earnings Call

## Company Participants

- Leonardo Loyola, Head
- Unidentified Company Representative, Unknown

## Other Participants

- Anibo Bovodiz, Analyst
- Boris Molina, Analyst
- Forma Janez, Analyst
- Maria Santiago, Analyst
- Mario Pierry, Analyst
- Natalia Corfield, Analyst
- Onardo Oluigi, Analyst
- Regina Sanchez, Analyst

## Presentation

### Operator

Good morning, everyone. And thank you for waiting. Welcome to Banco do Brasil's Fourth Quarter 2013 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the conference 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 broadcast this lead if you Webcast and through Banco do Brasil's website at [www.bb.com.br/ir](http://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 strategy 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 estimates 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 Fourth Quarter earnings conference call. I'd like to start the presentation on slide three where we show some highlights of BB's performance in the period.

We posted a net income of BRL15.8 billion in 2013. In the adjusted view this amount was BRL10.4 billion. In the quarter the adjusted net income was BRL2.4 billion while the net income reached BRL3 billion.

Our loan portfolio in the broad concept grew 19.3% in 12 months, reaching a total balance of almost BRL693 billion. Our delinquency ratio remained the best in the banking industry, closing December '13 at 1.98%. I also would like to emphasize that cards turnover grew 22.4% between 2013 and 2012. And that BB Seguridade reached 24.3% market share.

Moving to slide number four, we present some earnings highlights starting with the net interest income, which grew 1.9% quarter-on-quarter and 1.5% year-on-year. We will detail these lines further.

In fee income we grew 10.6% in 2013, hitting our guidance. About the administrative expenses they posted the lower growth of last five years. It's worth mentioning that we had a reduction of head count from 114,182 to 112,200 fixing employees due to retirement this year.

We closed 2013 hitting our administrative expenses guidance, reaching 7.2% growth year-over-year. In allowance for lower losses we have served 7% increase quarter-on-quarter. In 2013 we reached 6.5%, hitting the guidance for provision expenses over average loan portfolio. With that said, we posted an adjusted net income of BRL10.4 billion in 2013, corresponding to an adjusted return on equity of 15%.

On slide five we present the one-off items breakdown, highlighting some of them in this quarter, additional allowance for loan losses of BRL267 million due to the semi-annual revision. Macamota and change the ordinary provision had a negative effect of BRL166 million. This provision is mainly a reflection of wholesale loans in that institution, the selling of the stake at Ita BB that brought BRL188 million of income growth in December 2013.

The effect caused by the fees impacted the net income by BRL587 million. 23% of this amount refers to the visible budget and the rest relates to the multiple bank and its affiliates. Taking into account all of the above, we ended the Fourth Quarter with BRL2.4 billion adjusted net income.

Now going to page six, we show our sources and uses where we observe the continuity of our funding diversification strategy between September and December 2013, calling your attention to agribusiness letters of credit and real estate letters of credit that together grew 142.5% in 12 months. In 2013 Banco do Brasil started to operate with corporate bonds repos. And in December 2013 with a balance of BRL33.5 billion, representing a 30.9% increase compared to last September.

This funding instrument aligned to agribusiness letters of credit and real estate letters of credit has contributed to realizing significant savings in funding costs. You can see that Banco do Brasil's loan portfolio represents 84.2% of the bank's funding usage. I'd like to highlight the adjusted loan-to-deposit ratio that show an improvement, reaching 86.2% in December 2013, which illustrates that BB's loan portfolio has adapted to its level of commercial spending.

Concerning to slide number seven, we display BB's net interest income performance. In the upper left-hand side graph you can see our global strategy. We're reaching 4.4% in this quarter. The performance was mainly impacted by higher funding costs due to the higher SELIC rate in the period. And also we have a mix and factor to the growth of the lower risk loan portfolio line. The graph on the right-hand side we show the credit spread by segments.

In the table below we show a breakdown of our NII. That grew by 1.5% on a year-on-year basis. This item is part of our guidance and stayed below our expectations that preview a growth between 2% and 5%. In the quarter view we grew 1.9%, highlighting both the loan operations income and treasury income growth. On the other hand, funding costs reflected the recent increase in the SELIC rates as well as lower income with recovery of write-offs loans due to the prioritizing the recovery in cash.

In slide number eight we have the evolution of the loan portfolio in the broad concept. You see an increase of 19.3% compared to December last year, highlighting the growth of 34% in the agribusiness portfolio and 19.5% in loans to companies, which accounted respectively for 20.9% and 46.7% of the loan portfolio of Banco do Brasil.

I'd like to emphasize that our mortgage loan portfolio grew 87.2% in 12 months. Our loan portfolio to individuals also in the growth concept grew 10.6% in 12 months. And ended the powder representing 24.3% of the new loan portfolio. We closed December with a 21.1% market share.

The next slide we have the organic portfolio with individuals. In this view we exclude a proportional consolidation of Banco Votorantim in the acquisition of portfolios of all the banks. In this basis the portfolio grew 16.2% in 12 months and 3.3% in the quarter. As you can see, 74.5% of this portfolio is concentrated in lines of lower risks such as payroll loans, salary loans, auto loans and mortgages.

On the upper graph of slide number ten we observe the comparison of BB's payroll loans balanced with our peers. We see that the balance of this portfolio in December 2013 was much higher than all other banks. And allowed BB to end the period with a 27.9% market share. If we consider the organic portfolio of 87.6% of this portfolio's customers who are civil servants, 8.3% relates to INSS retirees and pensioners. And 4.2% to private sector employees.

BB's mortgage portfolio posted a balance of BRL24.1 billion at the end of December 2013, an increase of 87.2% in 12 months. This strategy is extremely important to the bank since it promotes a long-term relationship with the client and creates an opportunity for increasing cross selling by offering products that add value to the relationship.

On page 11 we present the Company's loan portfolio totaling over BRL326 billion, representing 6.2% growth in the quarter, highlighting the increase in credit for investments in the working capital lines. This reflects the increase of credit to infrastructure.

Moving on to slide 12, we present the breakdown of the loan portfolio with companies by size, SME medium and large companies. The SME portfolio ended December 2013 was a balance of BRL 909 billion [ph], up 5.8% in the quarter and 12.3% year-over-year. BRL18.3 billion of the SME loan portfolio was covered by Operations Guarantee Fund, the FGO. It is important to note that approximately two-thirds from this BRL99.9 billion is contracted by clients with relationships of over five years with Banco do Brasil.

On slide 13 we can see our aggregate loan portfolio that grew at 11.3% in the quarter and 34% compared to December '12. Among the main reasons for this evolution I point out more attractive interest rates that helped to increase the credit demand for investments in the storage.

And transactions with large aggregate in this corporation. The operations with long corporations historically have a lower risk profile we usually higher with the AA customers. In individuals we highlight the growth of working capital for input purchase.

As we can see from the chart on the right-hand side, more than 65% of loans that went to working capital for input purchase on the '13, '14' vintage are protected with insurance options offered to our customers.

On slide 14 we begin to detail BB's asset quality. Historically BB presents a delinquency ratio better than the industry, as shown at the top graph. In December '13 the NPL ratio was 1.98% while the industry presented a 3% ratio. This is a result of the efficiency of our analysis, methodologies and credit risk monitoring. Our current provision levels enable us to record the coverage ratio up 191.65%, a much better ratio compared to the industry as posted on the bottom graph.

On slide 15 there are some important metrics that explain the low delinquency of Banco do Brasil's loan portfolio. 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 December '13 with the ratio up 3.56% while the industry posted 4.97%.

At the bottom end, on the bottom left-hand side graph we see the write-off ratio of Banco do Brasil. We are the bank who takes the least losses from operations. And when we do a collapse we recover the most, as you can see in the right-hand side chart. In this quarter we bring you new information on Banco do Brasil's collection and recovery process, which is detailed at NDA 3.3 section.

We present to you on slide 16 BB's delinquency per segment breakdown. After reaching a very low level in our delinquency in the second Q '13, we can observe that the non-performing loans have been stable compared to that observed in 2012, remaining at levels significantly lower than those reported by the industry. I'd like to call your attention to non-performing loans up to 15 days, which suggests delinquency stability for the next quarters.

On slide 17 we show our NPL formation breakdown. I'd like to concentrate on the bottom graph where blue bars represent new NPL. And in the blue line we have the ratio between this number and the loan portfolio.

We observed that the ratio posted a stable trend throughout the last years. This number shows BB plus five per bucks credit methodology that warranted a materialization of our credit extension strategy, keeping the quality of Banco do Brasil's assets.

On slide 18 we can observe our credit provision expenses, considering the average classified loan portfolio. The first graph on the upper left-hand side we have the ratio between provision expenses and the loan portfolio on a 12-months' view. This is a guidance item which is 2.78% at the end of December, hitting the guidance.

On the second graph on the upper hand, right-hand side we see the same relationship. But now on the quarterly view. In the bottom graph we see that 18.6% growth of the loan portfolio between December '12 and December '13 has been concentrated in the past risks, mainly between AA and C.

On slide 19 we present Banco Votorantim net income development. In this quarter BV reached the break-even performance, BRL121 million positive net income. I'd like to emphasize that this is a result of internal changes which have been made throughout the past years, strengthening the bank's position that will allow positive results in the following periods.

On the next slide we have information regarding the origination figures for lightweight vehicles from Banco Votorantim. We can see that the delinquency in this portfolio has shown a significant improvement over time.

On slide 21 we address the asset quality of loans originated by Banco Votorantim. The top graph shows the provision expense where we can see an increase in this quarter due to the external extraordinary provision expense taken as a strengthening of the cautious behavior of the bank for wholesale loans. In retail the expenses continued to decrease, ending the quarter at BRL414 million.

On the bottom left-hand side chart we also see an increase in Banco Votorantim's coverage ratio now at 147%. And the NPL ratio reaching 5.1%. In the bottom right-hand side we see that the portion of that portfolio with high delinquency originated between July 10 and September 11 has decreased its share of Banco Votorantim total auto loan portfolio. The new vintage contracted after September '11 already occupies 67% of BV's material auto loans portfolio.

On slide 22 we show our performance in fees. This item increased by 10.6% in 2013 and we have now reached our guidance for fee income. As you know, the bank has focused on diversifying revenues. I'd like to highlight the card revenues, which grew by 20.1% in 2013, fees from insurance, pension plans and premium bonds that grew 20 point -- 21.4% as are those from capital markets also performing very well during this period, growing 23.5%.

Moving to slide 23 we show our cards business which reached an amount of almost BRL206 billion in 2013, representing 22.4% and a year ago. We closed 2012 with a cards turnover market share of 23.2%. And we estimate for 2013 a 24.3% market share. The total cards turnover improvement has increased revenues from the cards due to its intense use as a payment instrument, as well as an alternative access to traditional credit lines.

On slide 24 we show you a new piece of information that are bringing this quarter, the bottom line of BB's card business, does not include the revolving credit lines. This business has become relevant and is responsible for almost 25% of our in fees income. On Section 6.2 of the MDNA you will find further information about this segment that ended 2013 with a BRL1.6 billion bottom line, a growth of 28.2% over the last year's results.

On slide 25 we can see the performance of our administrative expenses. These expenses amounted to \$30.2 billion in 2013, a 7.2% year-on-year growth, the lower growth in the last five years. In this quarter personal expenses were impacted by salary readjustments due to 2013 collective bargaining fully accounted since October '13. And BB enforces its strong commitment with operational efficiency and we estimate a new phase in administrative expenses between 5% and 8% in 2014.

As a result we can see on slide 26 our cost-to-income ratio worsening slightly, mainly due to the reduction of a previous contribution to our earnings.

On page 27 we show the BIS ratio of Banco do Brasil that ended December '13 at 14.53% with a 10.51% Tier I ratio. This metric already considers the Basel III rules. And if we consider this fully implemented measure over December '13, the estimated BIS ratio would reach 12.6% and the Tier I 8.5%.

On page 28 we close this presentation with our guidance. We demonstrate our 2013 performance against that we projected throughout the year. And also the estimates for 2014. We achieved 15% adjusted return on equity in the guidance for 2013.

With regards to net interest income, we stayed below our guidance, increasing by 1.5% due to the growth of the loan portfolio in lower risk lines and an increase in funding costs as a result of the growth of our funding volume, in addition to a higher SELIC rate in the period. We overcome the guidance in commercial funding, growing by 17.7%.

In loan portfolio we grew as estimated, highlighting agribusiness that grew by 34.1% in 2013 and individuals that performed under the estimates, growing by 10.6%, mainly due to a lower credit demand. Considering allowance for loan losses, fee income and administrative expenses we reached the guidance for 2013.

For 2014 we estimate an adjusted return on equity between 12% and 15%. And net interest income growth between 3% and 7%, commercial funding between 14% and 18%, as well as for the loan portfolio.

For provision expenses we estimate a ratio between 2.7% and 3.1%, while fee income might present a growth between 9% and 12%. And administrative expenses between 5% and 8%. Thank you for your attention and let's now open the Q&A session.

# Questions And Answers

## Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)  
Our first question comes from Maria Santiago of HSBC.

**Q - Maria Santiago** {BIO 19776089 <GO>}

Hi. Yes, everyone, thank you for taking my question. My question is from asset quality. We saw provisions increasing quarter-on-quarter for a Q. Although we have seen a stability in the NPL ratio, how can we look at asset quality for next year given that the loan growth will be much lower for 2014? And how should we think about provision expenses?

**A - Unidentified Company Representative**

Hi, Maria. Thank you for your question. So basically the way that we see the credit quality for the next year. So it's you can see from the guidance regarding that the allowance for loan losses. So and basically we see and we have been seeing the behavior of for many metrics.

We can see that in the long run the quality of the portfolio as a whole is behaving in very stable over the last year then. So we believe that's going to be the same way regarding that we are following the same strategy looking forward.

**Q - Maria Santiago** {BIO 19776089 <GO>}

So we should assume that NPLs will remain stable next year, this year, sorry. And provision expansion is in line with your guidance.

**A - Unidentified Company Representative**

Exactly, Maria. This is what we expect.

**Q - Maria Santiago** {BIO 19776089 <GO>}

Thank you.

## Operator

Our next question comes from Forma Janez [ph] of JPMorgan.

**Q - Forma Janez**

Good morning, still. I guess it's still a couple minutes away for you guys. I want to ask you about your post-provision margin because if you look at slide number seven your NIM after loan loss provisions, your risk-adjusted NIM has fallen quite a lot, 3.5% for Q '12 to 2.8% for Q '13. And it seems -- and your guidance seems to imply that you see further worsening there. You have 3% to 7% in net interest income growth. You have 14% to 18% loan growth. So your NII is growing much lower than your loans.

And your provisioning guidance of 2.7 to 3.1 implies that loan loss provisions will grow at or probably above your loan growth, which implies that post-provision NIM is actually falling from low levels again in 2014. How do you think about that and how do you respond to concerns that maybe you're compromising profitability in your pricing?

Then the second question is related to that. And that is your NII, net interest income growth of 3% to 7% in fact conservative, because if I look at Fourth Quarter net interest income 11961 [ph]. And if I

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keep it at those levels in '14, 1Q, 2Q, 3Q '14 no growth versus 4Q, you get to '14 NII growth that is already 3% to 4% without any sort of sequential growth.

And I'm just wondering if that growth, if that guidance is conservative for net interest income, because if you do see some growth from Fourth Quarter levels you'll actually get to the high end of the range fairly easily. So two questions, one, are you compromising NIM as it seems like on the risk-adjusted basis and, two, is your guidance conservative for net interest income?

### **A - Unidentified Company Representative**

So starting on the guidance for NII, yes it is conservative. We are stepping out of in 2013 where we revised the guidance range for NII growth twice. We don't want to repeat that. We opted for having a conservative NII growth number. And if anything changes in our projections we will announce it to the market appropriately.

When we think about credit risk and how that factors in the risk-adjusted spread, our view for credit risk for 2014 is of stability in terms of delinquency ratios, in terms even of the relationship of credit provision expenses to the average portfolio. Yes we in the guidance range for credit provision expenses over the average portfolio we are a little above the range that we had for the end of 2013.

But during 2013 we revised that downwards. So we always start the year with a very conservative view in this specific metric. And if again in this metric as well if anything changes we will communicate that to the market.

When we think about NIMs we have two different dynamics going on. First, the effect of an increase on the SELIC rate is immediate on the funding side. But it is delayed on the asset side. So we have been doing what we call technical adjustments on our credit portfolio, transferring the SELIC increases to the portfolio. But that takes time.

If we think about our credit with individuals on the payroll credit for example they have a duration of close to 18 months. That takes awhile. So the final result of that is that we have this slower NII growth number. But again if we see that changing to a more accelerated number we will communicate that to you guys.

### **A - Leonardo Loyola** {BIO 16193219 <GO>}

And so just to add to this is on terro, you can expect another decrease in the provision expenses in Banco Votorantim.

### **Q - Forma Janez**

Okay. So the guidance you -- what you're basically saying is maybe you're erring on the conservative side for both provisions and net interest income growth guidance in 2014.

### **A - Unidentified Company Representative**

Yes.

### **Q - Forma Janez**

Okay. Then just if I could ask one just very quick follow-up question since I have you on the line, what should we be expecting for -- I just want to make sure for the model what should we be expecting for Previ gains on a quarterly basis in 1Q and 2Q now that the actuarial surplus has increased considerably after Fourth Quarter? 112 goes to more or less what number in 1Q '14 and 2Q '14?

**A - Leonardo Loyola** {BIO 16193219 <GO>}

BRL146 million.

**Q - Forma Janez**

BRL146 million, okay.

**A - Leonardo Loyola** {BIO 16193219 <GO>}

BRL146 million, well sorry, BRL144 million.

**Q - Forma Janez**

Okay, okay great. That's very helpful. That's the quarterly number. That's not the monthly number.

**A - Unidentified Company Representative**

It's the monthly number so --

**Q - Forma Janez**

That the BRL146 million, BRL144 million per month, oh okay that makes more sense, great. Thank you.

**A - Leonardo Loyola** {BIO 16193219 <GO>}

So sorry. So I picked the wrong number. It's BRL149 million, to be precise.

**Q - Forma Janez**

Okay. So like 450 more or less per quarter, great.

**A - Unidentified Company Representative**

Yes.

**Q - Forma Janez**

Thanks. All right. Thank you very much.

**Operator**

Our next question comes from Regina Sanchez of Itau BBA.

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

Hi, everybody. I have a question regarding table landing that is one of the few portfolios that we are noticing that interest rates on new loans are not going up, which means that spreads are going down.

I'd like to know how competitive is this market? We've seen Banco do Brasil losing some market share. Are you really suffering from fiercer competition in this segment? Is it because of the leadership position? And do you expect further NIM compression in this segment?

And also we have seen that new resolution from the central bank actually putting some rules especially on commissions for agents. Do you think this resolution might help or not Banco do Brasil since Banco do Brasil is more focused on the organic growth and without agents in payroll lending? Then I'll make my second question later. Thank you.



**A - Unidentified Company Representative**

Regina, on the pricing of those loans it's always important to emphasize that the final profitability of those loans for us is much better than what it is for other banks, because as you know we explore our organic growth. The vast majority of our payroll credit is done through our branch network as opposed to our competitors that use independent promoters.

Competition is a factor on this dynamic that you just described. So even though we are looking at the increase on the SELIC rate we have to look at competition. It's our top competitors are very strong on this market as well. So it is a matter that we follow on a daily basis.

Regarding the central bank regulations, yes it is very beneficial for the banking industry. And most importantly for Banco do Brasil, the clear leader in this segment. This type of regulation that will provide more transparency and more fairness in terms of the relationship with the independent promoters is very good for Banco do Brasil.

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

Okay. Thank you, Salvo. And my second question is regarding administrative expenses, the guidance of 5% to 8%.

I think that it's in our view it's challenging given that you come from a similar level in 2013, or you think, as you mentioned, for the guidance of NII growth and loan loss provision expenses that it might have any conservative in this guide. It doesn't seem to me. But I would like to hear what types of plan, if any. And to improve efficiency and even grow costs low as invest. Thank you.

**A - Unidentified Company Representative**

On the admin expenses side the direct answer is that it is a fair projection. It is the best projection that we have at this moment. But I would like to provide some additional color to the recent. And by recent I'm referring to the past five years, I'm sorry.

This is the growth number that we had for this item in 2013 is the lowest for the past five years. So in '09 24%, in 2010 17%, in 2011 9.7%, in 2012 13.9%. And now in 2013 7.2%. So the bank is strongly committed to efficiency and cost control.

At this point this guidance range is the best projection that we have. But we don't stop there. We are always analyzing other possibilities and opportunities. If we're able to materialize some of those intangible plans we will announce that to the market.

**A - Leonardo Loyola {BIO 16193219 <GO>}**

And -- I just want to emphasize that what we Gustav just mentioned about the new decision from the Brazilian Central Bank about the commissions that we paid for the excess, we don't do that. And could be very good to strengthen our partnership with Banco Votorantim is that a very good measure, not only for the system as a whole. But for the banking for the partnership with [what are artenian] special.

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

Okay. Thank you. And just a follow-up on expenses, does this guidance contemplate the increase in the amortization of the postal bank that we noticed that it went to BRL120 million during the last quarter? Is this going to stay at this level of the Fourth Quarter during the entire year of 2014?

**A - Unidentified Company Representative**

It doesn't, Regina. On admin expenses we don't have the inclusion of amortization of intangibles there. So it's not in that projection.

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

Okay. So it's in the other operating expenses. But it's going to be at this same level that we saw in the Fourth Quarter for the entire year of 2014.

**A - Unidentified Company Representative**

For 2014 to which one are you referring to?

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

The postal bank amortization expense.

**A - Unidentified Company Representative**

We have an explanatory note that gives you a great detail on that. Let me just get you the number here, just one second please, Regina. Bear with me for one second. Regina, it's explanatory note 16A, 16A and B, okay?

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

Okay. Then you brought the what you expect in terms of amortization going forward.

**A - Unidentified Company Representative**

Yes.

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

Okay great. Thank you.

**A - Unidentified Company Representative**

Thank you.

**Operator**

Our next question comes from Anibo Bovodiz [ph] of Barclays.

**Q - Anibo Bovodiz**

All right. Good morning. Thank you for the opportunity. I have a question regarding capital ratios. I see you showed in your capital ratio you have a 14.5% internal VIF with a 10.5 Tier I capital.

Of that the comment here went and is 8.2%. So the question is with what level of common equity of one capital do you guys feel comfortable working with going forward? And given the answer to that, when do you expect that Banco do Brasil will have to raise capital? Thank you.

**A - Unidentified Company Representative**

So thank you for your questions. So starting from the second one, we do not expect raising capital this year and the next year. So going to the IB ratio. So as long as we have above the minimum levels so it's okay. So this is accepted where we are right now.

**Q - Anibo Bovodiz**

And I'm sorry. So are you saying that going forward you will aim to have common equity or 170 ratio around 8%?

**A - Unidentified Company Representative**

Could you repeat your question? Unfortunately the line quality is not that great. So could you repeat that please? Anido, could you please repeat that? Well we're seeing here on the conference control that we lost the call from Anibo [ph]. We will contact him right after this call.

## Operator

(Operator Instructions) Our next question comes from Mario Pierry of Deutsche Bank.

### Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Good morning, everybody. Let me ask you also two questions. The first one is related to your guidance. We noticed that you're paying your effective tax rate is running at about 23%, 24% for the year. So I was wondering. And this is lower than your peers. So I was wondering what is the expected tax rate that you have on your guidance.

Second question is related to Banco Votorantim. We noticed that Banco Votorantim had a loss of about BRL500 million in 2013. Now the bank is running, if we annualize the Fourth Quarter results, the bank is on target with BRL500 million in gains. This means a swing of about a BRL1 billion. So I was wondering how are you factoring this improvement in Banco Votorantim in your forecasts. Thank you.

### A - Unidentified Company Representative

Just starting from the first question. So there's no guidance for tax. And so that's why we don't have a figure for that. The second one Gustavo will take.

And Mario, regarding your question on Banco Votorantim, what we project for the bank in 2014 is a gradual improvement of the -- or of their performance that is already not positive today. And this is factored in our projections as well for Banco do Brasil. However, we do not disclose what the estimated and net income for Banco Votorantim is in 2014.

### Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So given that you have 50% of Banco Votorantim then if they just maintain the net income at current levels, it means that you should have about a BRL500 million benefit in your 2014 results from 2013, correct?

### A - Unidentified Company Representative

Banco Votorantim will be a benefit when you compare '14 with '13. However, Mario, we can't do this math because we're not projecting the net income for of Banco Votorantim to the market.

### Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

### A - Unidentified Company Representative

Mario, if I just to add, we expect to have a continuous benefit from the decrease and the provision expense, as you can see, as you could see in the year of 2013. You see another decrease in the provision expense in this seshu [ph] and the car finance portfolio.

### Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So but that's already reflected then on your guidance for allowance for loan losses of 2.7% to 3.1%.

### A - Unidentified Company Representative

Exactly. Everything that we have -- the performance of Banco Votorantim we are and spreaded this on our guidance and which one of the measures that we give to the market.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay. So and let me just go back then to the question on the tax rate. Is it fair then for us to assume a similar tax rate? I know you don't want to give guidance. But you are giving guidance to for ROE. So there must be some implied forecast there for taxes. And that's what I'm struggling with.

I'm seeing your peers being at tax rates above 30%. Yours is running at about 23%, 24%. So I was just wondering why, why should we expect Banco do Brasil to maintain such a different tax rate than the peers. Or should we just assume that your tax rate eventually goes back up to about 38 -- or to 30%?

**A - Unidentified Company Representative**

Mario, I'm afraid I won't have a precise answer for you. We can definitely call you and talk about the performance as a whole. But not about a projection for the effective tax rate. We're not disclosing that. And the reason why we're not disclosing that is that in different periods we find opportunities for tax efficiency, as we have in previous quarters. So it's hard to forget that.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay. And if I may then I'll just ask a final question here, Ivan. I just wanted to hear from you guys what are you expecting from this Supreme Court ruling on the remuneration savings accounts? How comfortable are you with the provisions that you have built, et cetera, if you can just give us some color on that that would be perfect.

**A - Unidentified Company Representative**

We are providing all the information to the Supreme Court that we could. And we are pretty comfortable about the levels that we have, the provisions that we have inside the bank related to the previous decision from the different courts in Brazil.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay then. Thank you.

**A - Unidentified Company Representative**

Thank you very much.

Thank you, Mario.

**Operator**

Our next question comes from Onardo Oluigi [ph] of Loomis Sayles

**Q - Onardo Oluigi**

Hi. Good morning. Thank you for the presentation. I would like to ask a couple of questions. The first one is related to your capital ratios. Could you please provide the number for common equity Tier I ratio for 2013? Slide 27 mentions the total capital ratio and Tier I. So I was wondering what the common equity Tier I ratio was.

My second question is related to your guidance for net interest income for 2014. Could you please elaborate a little bit more on how you see the 3% to 7% growth in that item given the 1.5% growth

this year?

And my final question is related to your stake in Banco Votorantim. Are there any plans to increase the equity share in Banco Votorantim? Thank you very much.

### **A - Unidentified Company Representative**

Well let me start from the last one. We have no plans to increase our stake at Banco Votorantim. We have announced that to the markets in the recent past. We -- on your question about NII growth, the range between 3% to 7% is explained by the, mainly by the projection of credit growth between 14% and 18%.

The reason you have this difference in growth metric is because 2014 is a year where we're seeing a higher SELIC rate. And the effect of that on the funding side is immediate. It's not immediate. It is delayed on the asset side, plus if we look at the mix of our credit portfolio we are seeing the two portfolios that have a lower spread when we compare them with the individuals portfolio growing faster.

So we have a projection for credit growth with individuals between 12% and 16%. And this is the portion of the portfolio with the highest yield. And the portfolio with companies growing between 14% and 18% and agribusiness loans growing between 18% and 22%. So these last two, companies and the rural portfolio, they have a lower spread. So this is how we look at these two metrics, credit growth and NII growth, okay?

### **Q - Onardo Oluigi**

Sure. So essentially what you're saying is that this -- I'm just trying to understand basically why should we expect a higher growth next year in NII than this year, which was 1.5%? So essentially you're saying that that's because of the higher SELIC rate and your growth in riskier segments. Is that -- is that the bottom line?

### **A - Unidentified Company Representative**

No not really. The higher SELIC rates will actually in for most of the year act against NII growth because you cannot transfer the SELIC rate increase to the asset side as fast as you do on the funding side. Most of the funding costs of Banco do Brasil are indexed to the SELIC rate. However, on the asset side given the duration of most of our credit portfolio, it takes awhile to transfer that.

However, what we are seeing in the reason for a stronger growth in 2014, which is the core of your question, is because if we look at the individuals portfolio, which grew by 10% in 2013, our projection for growth in this item is between 12% and 16%, okay?

### **Q - Onardo Oluigi**

And in which segment of the individuals is this growth expected?

### **A - Unidentified Company Representative**

The core of our portfolio is --

### **Q - Onardo Oluigi**

Zero [ph]?

### **A - Unidentified Company Representative**

Yes. That's the core of our portfolio. And but a smaller portion of the portfolio that's growing quite fast is mortgages. However, most of the growth in terms of at those amounts comes from payroll.

Oga Nava [ph] if I may add something. So you can see this trans white portfolio on Table 107 of our NDA on page 91.

## Q - Onardo Oluigi

Okay. Thank you.

## Operator

Our next question comes from Boris Molina of Santander.

## Q - Boris Molina {BIO 1904979 <GO>}

Yes. Thank you. I had a follow-up question on your capital ratios. You mentioned that your Tier I if you fully applied the Basel III would be 8.5%. It currently is around 10.5% now if I'm not wrong.

Now would this be solely from -- what type of deductions do you include when you assess it, only intangibles? Or do you also include certain deferred tax assets? Or the reminder to this is really, really large. So I would like to see why if you have a breakdown of that.

## A - Unidentified Company Representative

Well when we talk about performance limitation we understand that it's a useful exercise to do comparisons amongst banks. However, its Basel III will be implemented in Brazil over a period when we talk about most impactful capital deductions of five years. So specifically regarding tax credits, the exclusions that we make are of tax credits that come from fiscal losses in the past and timing differences mostly.

However, when this timing difference arises between the different criteria of recognizing credit provision expenses, according to Brazil corporate law and Brazilian's fiscal law, this is not a deduction.

This is one amendment on the Basel III rules in Brazil that these specifics that spread the ones that come from because of timing differences between Brazilian corporate law and Brazilian fiscal law they do not represent deductions. So on the asset side, on the tax asset side that's the only comment.

The other deductions come from investments in insurance companies in non-banking companies, in investments from subordinated securities from other banks. And the list goes on. It's quite a number of capital deductions that are taken. And we can gladly go through those with you on a separate call.

But what we are doing here in this full implementation metric is providing a number that is also being provided by our peers in Brazil in order to give the most transparency that we can to the market.

## Q - Boris Molina {BIO 1904979 <GO>}

Wonderful. And thank you so much. Just one detail, in your MDNA you show a deduction for funding instruments issued by other financial institutions around 3.5, BRL3.4 billion. Is this the investment in Votorantim, or what this represented?

## A - Unidentified Company Representative

Well we do -- when we calculate capital ratios the investment at Banco Votorantim is an exclusion, yes. Another exclusion that exists, I just have to check these two amounts for you. But the other

deduction that exists is if we have in our portfolio investments in subordinated securities from other banks those are deductions as well. I just have to check those and get back to you, okay?

**Q - Boris Molina** {BIO 1904979 <GO>}

So you're saying so your risk-weighted assets also does not include your proportional share of (inaudible).

**A - Unidentified Company Representative**

It doesn't on the RWA side. However, it doesn't get to that point because the investment there is an exclusion on capital.

**Q - Boris Molina** {BIO 1904979 <GO>}

Wonderful, yes. That's pretty clear. And secondly if you could provide some guidance, your outlook for the card business. And we've been looking at the numbers there and we appreciate the disclosures.

However, for us it's a little bit difficult to project how the different companies are expected to perform with this. The growth is very strong. We all understand the economics of CLO and how well that is doing. But excluding CLO what type of growth in earnings do you expect from the cards operation and BF to BSS or the other companies?

**A - Unidentified Company Representative**

Well I'm afraid I can't give you precise numbers for the different segments. Those are not included in our disclosures to the market. But I can give you an overall comment on that. And is the projections for the card industry in terms of growth for 2014 is of between past 15% and 16% we are projecting that our business as a whole. And that's the sum of our stake at CLO, our credit card business inside of Banco do Brasil and the fees generated by that.

We estimate that this business will grow by more than that number. And that is because of the specific card brands that we are one of the owners. It's called Elo. That's a new card different in Brazil that has been growing at quite fast.

And now also because we have been on the innovation front we have been using the credit card as an instrument to access traditional loans at Banco do Brasil, especially for companies. So because of these factors we are projecting that we will grow above the industry growth number in 2014.

And if I may add something, Boris, basically so looking backwards you can see that we have been growing above the industry for quite some time. So despite the fact that we do not provide any guidance for this, this is the trend that we have seen in the last years.

**Q - Boris Molina** {BIO 1904979 <GO>}

Do you have any, any like ballpark figure of the number of Elo cards that it's been growing pretty fast? About a year ago it was around 3 million. Now you're close to 7 million cards. So where then could this be by the end of 2014? Is it above 10 million, or what type of market share in cards do you think in terms of the number of cards would you find?

**A - Unidentified Company Representative**

We that -- we do not disclose this metric. I'm sorry. We will have strong growth in 2014, as we did in 2013. But we do not disclose this projection.

**Q - Boris Molina** {BIO 1904979 <GO>}

Wonderful. I appreciate it. Thank you. So much.

## A - Unidentified Company Representative

Thank you.

## Operator

Our next question comes from Natalia Corfield of JPMorgan.

### Q - Natalia Corfield {BIO 6421991 <GO>}

Hi, everyone. Thank you for the question. It's actually a follow-up on your capital ratio. Your CT1 is currently at the 8.2%. And I understand you're saying that there are no plans of raising capital in 2014 and 2015. So if I look at your guidance for loan growth and profitability I would expect CT1 in 2014. So I'm wondering if you can't give that guidance for the direction of the CT1 in 2014 if you could at least say at which level you would feel comfortable with your CT1. Thanks.

## A - Unidentified Company Representative

We always work with internal buffers that are above the minimum regulatory requirements. But when you're looking at this number of both 12.6% and 8.5%, we're talking about a fully implemented number. The implementation period for Basel III in Brazil is of five years on the most important capital deductions.

So we need to take under the duration that we would be at 12.6% and 8.5% if we take under of the durations all of the capital deductions and other adjustments projected that included on the regulations today, which is not the case. So with that said, we don't project. We don't provide the annual projection for these items over the five years. But we think that this fully loaded number is a good proxy for that.

### Q - Natalia Corfield {BIO 6421991 <GO>}

All right. But I'm not referring to the fully loaded number. I understand that's the 8.5% is this Tier I fully loaded.

## A - Unidentified Company Representative

Yes.

### Q - Natalia Corfield {BIO 6421991 <GO>}

I'm referring to your CT1, your core equity, or the common equity Tier I. And I understand that this one is now at 8.2%.

## A - Unidentified Company Representative

Correct. But the same comment is that true for that as well. We have internal buffers included in our projections. And we are not disclosing other information about how this metric will be projected for the next years.

### Q - Natalia Corfield {BIO 6421991 <GO>}

Okay. Thank you.

## A - Unidentified Company Representative

Thank you.

FINAL

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**Operator**

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

**A - Leonardo Loyola** {BIO 16193219 <GO>}

Thank you very much for joining us today. And have a nice day. Thank you.

**Operator**

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

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