

Q1 2012 Earnings Call

Company Participants

- Gustavo Henrique Santos de Sousa, Head & IR
- Ivan de Souza Monteiro, CFO
- Unidentified Speaker, Unknown

Other Participants

- Boris Molina, Analyst
- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Marcelo Telles, Analyst
- Saul Martinez, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. We will now begin Banco do Brasil's First Quarter 2012 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions)

As a reminder, this conference is being recorded and a live broadcast with a slide presentation on the banker's Investor Relations website, where questions may be sent through.

Before proceeding, let me mention that this presentation may include references and statements, planned synergies, increasing estimates, projections of results and future strategy for Banco do Brasil, its associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions, on Brazil's economic and banking system performances, as well as on international market ones. Banco do Brasil is not responsible for bringing up-to-date any estimates in this presentation.

First, we are going to have some details of the results. At the end of the presentation, the executives will answer the questions from the participants.

With us today are Mr. Ivan de Souza Monteiro, CFO and Mr. Gustavo Sousa, Head of IR. Mr. Gustavo, you may begin.

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

Thank you. Good morning, everyone. Thank you for participating in our First Quarter 2012 earnings presentation. You will know throughout this presentation that we made some changes in the format. We made it a little shorter and more objective in order to provide more time for the Q&A session.

Starting on slide 3, we have the highlights of our earnings. We reached BRL1 trillion in total assets, a growth of 16% year-on-year. Our total portfolio in the broad concepts are improving privately issued securities as a guarantee and retail portfolios were brought after the association of the future bank resolution 3533, the investment period, in the concept we reached BRL472 billion, a 19% increase year-over-year.

Our NII is growing within the guidance at 11.8%. Our delinquency rates are still the lowest in the banking industry (inaudible) significantly increased 23% year-on-year.

Moving to slide 4, we have a breakdown of our operating revenues and of our operating expenses. Our NII again growing at 11.8%, this is the most important item in Banco do Brasil's operating revenues, which accounts for 60% of our operating revenues. The fee income, that's BRL5 billion, grew 23% and I will also highlight the Previ item, this item is growing with the accrual component only and the accrual component for this first semester is at BRL130 million per month.

And in our operating expenses reaching a growth in admin expenses growing at 16.4%, we break down this item over the next slide. And we also have (inaudible). And our recurring net income at BRL2.7 billion, an extraordinary item related to both our economic trends with a growth effect of BRL361 million for a net effect after taxes and the participation in profits for (inaudible) are BRL201 million. The tax rate is at 26% and this is just a near effect of a higher debt assured [ph] arising from people and own capital.

On page 5, we have the breakdown of sources and uses. The most important source item is still the deposits, which form nearly three-quarters of our total sources. This item grew 17.2% year-on-year. I'd also highlight the growth in commercial papers composed mostly by ALCA, the Agribusiness Letters of Credit, Bank LH [ph], the equivalent of bank bonds, resulting (inaudible) and its specification in our sources are (inaudible).

In terms of our uses, analyze the growth in our loan portfolio, (inaudible) under the terms and stated resolution of the future bank, this item response was 70.8% of Banco do Brasil's total investments.

Moving to slide 6, we highlight a record amount in our foreign borrowing, we reached BRL37.3 billion, an increase of 31.4% year-on-year. And we highlight the bond issues abroad. Specifically in January, in February, we issued \$9.7 billion in hybrid (inaudible) that counts as Q1 capital. This issuance and the (inaudible) in January, with a (inaudible) in February added close to 52 basis points in our Q1 capital.

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Moving to slide 7, we have a breakdown of our NII. We talk about -- and I highlight the growth and the revenues from loan operation, which extended 16.9% year-on-year. And I can show the stability in our treasury results, the function of Banco do Brasil's strategy is to manage the bank's liquidity and also to manage the bank's exposure to several market items. On the NIM by segment, I highlight the stability in spreads from loan operations.

Moving to slide 8, we have a breakdown of our loan portfolio. This portfolio grew 19% over the last 12 months reaching BRL473 billion with a growth of 18% in the Agribusiness portfolio; 13.2% on the individuals portfolio; and 17.8% under corporates portfolio.

Moving to slide 9, we have a breakdown of our portfolio -- of our credit portfolio with individuals, where we highlight the importance of the credit lines that represent lower risk such as payroll, salary loans, auto finance. And mortgages. These items respond to 80% of Banco do Brasil's credit portfolio risk [ph] individuals. Then specifically payroll credit (inaudible) for nearly 30% of Banco do Brasil's individuals portfolio.

Moving to slide 10, we have the breakdown of our credit portfolio (inaudible) company in Brazil, where we showed an increase of 17.8% and I'll highlight our most important credit line. So that (inaudible) which is working capital at this point were 53.8% of the total portfolio of companies.

Moving to slide 11, we have the breakdown of the portfolio with SMEs and with large corporations. The portfolio with SMEs grew by 24.3% relying on the usage of the FGO (inaudible). The usage of the FGO through SME grew by 38.8% over the past 12 months.

Moving to slide 12 in our Agribusiness portfolio as well as Banco do Brasil's estimate either with 63.7% market share and saw an increase by 18.4% in this portfolio. And this will indeed be broken down into the following components. We saw a 15.9% growth in credit for small producers. And 25.7% in credit for midsize and large producers. And a 20% growth in credits for companies. The Agribusiness credit for company midsize and large producers stands at 57.2% of our total Agribusiness portfolio, a portfolio where we have very low (inaudible) reaching 0.6% 90 days past due (inaudible).

Moving to slide 13, we have a comparison of Banco do Brasil's credit portfolio by risk credit (inaudible) where we see that the compensation in this AA-C of Banco do Brasil is superior to the average in the industry.

On slide 14, we have a breakdown of our NPL plus 90 days. When we compare Banco do Brasil's consolidated numbers on the blue line, we see a stable change. But it's much better than the industry. And when we compare that with Banco do Brasil excluding the operations from Banco Votorantim we see an improving trend.

Moving to slide 15, where we have our coverage ratio. The coverage ratio on Banco do Brasil's consolidated is on the yellow line and we see that as 210%, we are well above the average of our peers and Banco do Brasil, excluding the operations from Banco Votorantim shows an increase in the coverage ratio, finishing March 2012 at 245%.

On slide 16, we project our quarterly credit provision expenses for the Second Quarter, Third Quarter. And Fourth Quarter. We know that analysts and investors are following this very closely. And we decided to give an objective number for their expenses [ph] coming quarters as you can see on this slide.

Moving to slide 17, we have the breakdown of our administrative expenses. We are announcing year-on-year of other cost and other expenses. The salary increase has happened on the end of the second semester. So the comparison of the First Quarter 2012 with the First Quarter of 2011 is unfair on that specific point. We have a decent quarter-on-quarter due to a vacation effect that we have in Brazil that the analysts and investors are very familiar with.

On the other administrative expenses, we show a growth of 15.1% or a mobilized growth of administrative expenses of 16.4%. The reason we are growing above our guidance in admin expenses still because of 8.5 billion issues [ph]. We started consolidating the operations from (inaudible) on the second half.

So the comparison with the First Quarter is not efforts to effort. And we also have new expenses from (inaudible) such as armored guard and other outsourced services that were not contained on the First Quarter of 2011. When you view the market of the last 12 months, you will see that we were within the guidance. So based on that, you project that for the fiscal year of 2012 we will be within the guidance for admin expenses.

Moving to slide 18, we have the good sum of our fee income, which grew 23% year-on-year driven based on the growth of the most important items. If you look at the first four items in the slide, account fees, fees from debit and credit cards, fees from asset management. And fees related to credit operations. Most of the items grew above 20% or close to 20%.

And this is the reflection of Banco do Brasil's investment in a new platform that we call BB2.0, where we added 10,000 employees to the branch network and reinvesting (inaudible). So that we can provide a better level of service to our clients and extract new [ph] revenues out of those relationships.

On slide 19, we have our cost income ratio. On this quarter, we finished at 45.2%. And the reason we have an increase there is mainly because of a lower participation of credit as discussed in this initial slide. And the initial expenses of Banco Postal, Banco Postal will undoubtedly contribute with improving revenues for Banco do Brasil. But in the First Quarter naturally the impact of the expenses is -- range a little more.

Moving to slide 20, we have our BIS ratio of 14.3%. As we discussed, we had an increase of close to 52 basis points that comes from the issuance of that hybrid (inaudible) that we issued in January and in February. And a Tier 1 capital of 10.9%.

Slide 21 shows a reconciliation of the portfolios in the First Quarter will provide each (inaudible). We are within the guidance for ROE, NII. And total deposits. We are growing slower (inaudible) and the domestic loan portfolios, we are growing at 14.2% in individuals

and 17% on lines to companies, whereas these are achievable within the guidance for 2012 as a whole, especially with the new program that you are very aware of (inaudible).

In Agribusiness, we have given a better guidance mainly given the growth in credits to midsize and large size deal producers and companies EBITDA on the service line. The allowance for loan losses are within the guidance, fee income growing above the guidance, admin expenses above the guidance. But we will be within the guidance for 2012 -- that's our projection -- and the tax rate of 26.1% given the factors I explained on the first slide. Thank you very much. Let's now open the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Carlos [ph], Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

So a couple of questions. First on asset quality, if you look at the bank itself, Banco do Brasil asset quality is actually improving at the bank for a lot of reasons. But overall including Banco Votorantim, there has been a deterioration. You gave guidance through the end of the year for provision expenses. Those are below the guidance that you have -- the overall guidance you have for the year. Could you give us some support or some data that can support your confidence that you will be able to meet these provision expense guidance given what we hear from your peers in terms of the auto book, particularly with respect to Banco Votorantim?

And the second question is with respect to the Boca produce [ph] program. If you can give us some data from the program over the last month, how much you have originated in loans, what kind of profitability you expect from these loans, how will that affect overall profitability of the bank? It would be great. Thank you.

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

Thank you, Carlos [ph]. (inaudible) Banco do Brasil is a little different from the other peers in the Brazilian market. As you know now (inaudible) down lines like we are in Tokyo, credit finance, (inaudible) finance and other kind of loans that we (inaudible) very big delinquency ratio (inaudible) for the bank. We feel comfortable to work with this bank as first party. It's a real difference in the other banks, that's right. In my opinion, they have some difference that could explain the behavior of the delinquency inside Banco do Brasil and the behavior in the other banks.

Talking about Banco Votorantim, we changed the methodology, credit methodology of Banco Votorantim and what was existing, it was because the competence of the market (inaudible) whereas it was (inaudible) 2010. These market potential measures create and change dramatically the dynamics of (inaudible) of finance, that's right. We started to earn from the Banco Votorantim to change the methodology, to change the approach to the markets.

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The other issues that we can originate new loans which are very good in a situation below the average of the market. It is doing well. We started this movement in September 2011 and we have now seven months with a very good delinquency ratio, talking about 90 days with past due.

That slide, the two companies [ph] that the margins that are still in place are working (inaudible) and Banco Votorantim and vis-a-vis we will note that the delinquency ratio in Banco Votorantim with our recent chart for the second semester is very, very to the station lower in comparison to first semester, very tough in the Third Quarter and Fourth Quarter, numbers there we are extremely provide to the markets recently. Gustavo will talk about the second question.

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

Carlos, on Votorantim, the measures that we are following now is an average daily participation, it's focused to talk about impacts of Banco do Brasil in our revenues and margins and all that, because we have less than one month of performance of this. So if you look at some of the credit lines on Banco do Brasil such as (inaudible) service, auto signing. And executive value, they are all growing north of 20% per month.

On the Votorantim specifically, we are growing not per month -- I'm sorry. On this metric of the average daily wage business and the Votorantim alone, we were growing about 100%, when you compare the average growth, the first in last year (inaudible). But some of the items such as (inaudible) have a very small volume. We are now particularly [ph] the average, with a daily value of BRL1 million in new credit. So we are growing more than 1% on a very small base; that's why it is too soon to talk about the impact of Banco do Brasil. Okay?

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Great. If I could just go back to the first question, you said a substantial improvement, Ivan, the NPL ratio, the 90-day past due ratio for Banco Votorantim in the First Quarter was -- on the retail block was 7.1%. What -- is the substantial going back to the First Quarter of 2011 when it was 2.3% or is it the Fourth Quarter 2011 when it's 5.5%? Where do you think --?

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

We are talking about below 2%.

Q - Carlos Macedo {BIO 15158925 <GO>}

Below 2%?

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

Yes. Where it is 1.9% since September 2011.

Q - Carlos Macedo {BIO 15158925 <GO>}

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And by the end of the year, do you think the whole portfolio is going to go to below 2% or are we just talking about are you going to have a slower migration?

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

No, no, we have included at the end of the performance of the new portfolio, because we all authorized the bank, we ask them you authorized the bank to commercialize the bank to grow at the end of [ph] our portfolio. It is too soon to say that exactly how (inaudible) that's why we feel comfortable that with a lot of that we start to do resignation in September, October, November, December, they are only in 2012, which is comfortable to start growing at the end, because these interest durations below 2% to 1.9%. And the hope this quarter is in this very good portfolio (inaudible) commercial (inaudible) of the bank.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, perfect. Thank you. So much. Thank you.

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

(inaudible).

Operator

(Operator Instructions) Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

I have a question and a follow-up. And just if I can make the request Gustavo and Ivan to speak very clearly next to the mic, because I am having a difficult time hearing you guys clearly. So if you could speak very clearly and close to the mic it would be helpful.

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

(inaudible)

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Two questions. And I am going to be very blunt with my first question because I think it is something that investors are generally worried about as you know. And the use of -- I think the government has been very clear about the use of public banks to lower lending spreads. Your tangible capital ratios are lower than some of your peers and so your guidance for loan growth for the year, 17% to 21%, obviously implies a pretty substantial pickup in terms of credit growth, which could further diminish your regulatory capital ratios.

I guess as a government owned institution, where the federal government owns 60% this Company, why should minority shareholders be concerned that their interests are going to be sacrificed at the expense of policy aims? And I have a followup question as well?

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

I don't see any kind of concern related to minority shareholders. If you have read the performance of the bank in the last 40 years, you see that with the (inaudible) what we plan to do, (inaudible) defined our strategy; that's why we feel comfortable that what we are doing now is provide the guidance in the end of 2011 we are still in this growth.

What is changing is the dynamic of the (inaudible) that is very, very low. You have the downward change as the benchmark. And that is good for Banco do Brasil, because Banco do Brasil, as you know, it's a (inaudible) economy in Brazil. We don't keep comfortable (inaudible) in our markets. We don't need money to (inaudible).

We are making money providing service. We are making money developing our long-term approach and the relationship with our investments. And we feel comfortable to work with these numerous (inaudible). You know that (inaudible) in the country. Let's show you we are the leader in all matters related to the (inaudible). We feel comfortable and familiar with this change. Let's try we -- don't view any problems related or any concern related to the minority shareholders about our strategy.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, fair enough. I have a follow-up question on Carlos' question about Votorantim as well. Can you just repeat, I am sorry, I must not have heard very well, can you repeat the guidance for delinquency rates in the Second Quarter? Did I hear correctly when you said that you think your overall NPL ratio, 90-day NPL ratio at Votorantim will improve substantially in the Second Quarter? I think it was 7.3% in the First Quarter, or you are talking about something else, early-stage delinquencies or something of the like? I wasn't clear what exactly you were referring to when you said that the NPL ratio delinquencies will improve in 2Q versus 1Q.

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

Yes, Saul, Gustavo here. I am sorry about the some (inaudible) price. And yes, in cost 1% in the cost of that, the growth 2% NTR that Ivan mentioned is related to the newer vintages, these vintages were originated specifically after September 2011, okay. So the overall portfolio has continued because if you were the net effect of the growth in the newer vintages and you explain that the commercial area is (inaudible) the instruction to reach that the origination that is normally (inaudible) NPL ratio (inaudible). However, on the newer vintages, again, we have close 2% NPL that's [ph] 90 days.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. So you are not saying that the overall NPL ratio will go down in 2Q, that's not what the -- you are just saying that the newer vintages have more -- have a lower NPL ratio?

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

Yes, newer vintages. The overall exact is hard to predict still.

Q - Saul Martinez {BIO 5811266 <GO>}

Bloomberg Transcript

Okay. Great. Then just one quick question on Votorantim. I think there is concerns about the capital ratio, 13% in light of the losses in the last two quarters. I know you said on the Portuguese call that the results should improve, although how much we don't really know. Is there a risk that you are going to have to infuse them with capital? And what would be the impact on your own capitalization ratio if you were to need to do that?

A - Unidentified Speaker

Well there are some let's say moving pieces with the capital ratios of Banco Votorantim. So we don't have a clear projection for what their ratio will be at the end of the Second Quarter. There are some treasury measures that we think would give them some increase on the capital ratio.

We also -- once if you got the performance indeed, you see what the earnings impact will be. And in terms of the impact of a possible capitalization of Banco Votorantim, as Banco do Brasil consolidated the impact is very small. And I can go through the details with our accounting with you (inaudible) or next week. But the impact of a capitalization there in Banco do Brasil, the capital ratio is very small.

Q - Saul Martinez {BIO 5811266 <GO>}

Do you believe that a capital infusion will be -- is likely in the coming quarters or is it too uncertain at this point to make that prediction?

A - Unidentified Speaker

It will depend on the commercial performance; I'm still not giving any estimate on that.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thanks a lot.

A - Unidentified Speaker

Thank you, Saul.

Thank you, Saul.

Operator

Daniel Abut, Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Daniel Abut from Citi. Couple of questions. The first one is a follow-up to the prior questions on capital, if I am not mistaken not so long ago even, you guys issued an official press release with an estimate of how the Basel III rules would impact the capital ratios of Banco do Brasil with the understanding you had at that moment of how the rules would apply. And the conclusion was there was no scenario where you ambition the need to issue equity before 2014 at the earliest. And even in 2014, you said was most

questionable. But that was before the launching of these new programs to lend at global rates as the government is pushing. So we may have revised upward your expectation for loan growth.

I don't remember what was the assumption you use in that exercise that you did a few months ago to conclude that you would not need any capital to comply with Basel III until 2014 at the earliest. But it may have been lower than the current anticipation for loan growth. If I am not mistaken it was closer to 15%. You are now trending at loan growth closer to 20%. Have you revised that estimation, Ivan? And are you still feeling comfortable that it is highly unlikely that Banco do Brasil will need to issue equity to be compliant with Basel III, given the new expectation for loan growth? That will be question number one.

And question number two on Previ, as you explained well in slide number 4, there has been a significant decline in the contribution from this line to overly BRL390 million in this First Quarter. What should we expect from this line going forward if you have some indication or guidance to leave us for the remainder of the year?

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

Thanks. We didn't change what is right to the market. We are still early in this (inaudible) bank. But I can't remember that because we keep our guidance where they include that our slide portfolio, I believe that the numbers that we provide will not change in the future. But again, I prefer to wait in the final news on the Brazilian Central Bank that I believe it will be (inaudible) rather than June, May, or June.

We'll give another numbers related to our capital, the special capital under the 21 capital. That again, I am feeling now that we will not expect any change in the model that we provided before. Gustavo will talk a little about Previ.

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

On Previ, as you saw we had BRL290 million on the quarter and that's BRL130 million for the month. You can expect that for the Second Quarter as well. We will revise this projection every six months. So for the Third Quarter, you would hear a new guidance on this number from us. And what we are projecting is the clear effect only. It tends to be close to that, Daniel. But you have a more accurate number at the end of the Second Quarter; I will be able to give you a net new [ph] of the Third Quarter and the Fourth Quarter that will come on the accrual effect from them.

If you look at the capitalization fund the correlative method, the correlative is close to BRL6 billion. The adjustment effect -- not talking about the accrual -- the adjustment effect is under the quarter, near close to BRL2 billion. So we are only expecting the impact of the accrual effect.

Q - Daniel Abut {BIO 1505546 <GO>}

Just to make sure I understand (inaudible) as on Previ, Gustavo, what you are saying is that for Second Quarter it will be the same as First Quarter, then you will revise the actuarial calculation as you normally do and then you give us more clarity on the next conference

call about that? Is there any risk that as a result of that actuarial calculation just the accrual could be lower than the BRL130 million per month in the second half of the year or BRL130 million per month is the floor?

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

This is based on the interest rate and the interest rate there is inflation measured by the IM50 if I'm not mistaken. But I will confirm that for you. (inaudible) --

Q - Daniel Abut {BIO 1505546 <GO>}

Hello?

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

-- should be close to that, okay?

Q - Daniel Abut {BIO 1505546 <GO>}

And on the first answer, you are saying the amount that you will, you want to wait for the final rules on Basel III. But assuming that those rules are no different from what you assume in your first exercise, do you still feel comfortable with the conclusion that you won't need to issue equity before 2014 at the earliest; is that correct?

A - Unidentified Speaker

Yes. That's correct, Daniel. (inaudible) --

Q - Daniel Abut {BIO 1505546 <GO>}

It seems that your expectation for asset growth are higher now than it may have been back then. That's -- in respect to the final rules of Basel III, I was questioning to what extent you might not need to revise that just because your resorted [ph] assets may yield faster?

A - Unidentified Speaker

Daniel, the only one detail on that communication that we sent on the beginning of March, the growth in risk weighted assets was projected at 15.2% on average for the next two years, 2012 and 2013. There's a growth on risk weighted assets. It depends on what the rate factor is on the global credit portfolio.

Regarding the credit, as you know, was between a growth of 217.1%. So the book value is 19%, right. So 19% credit, not -- I am not talking about the risk weight; it depends, again, on the risk factor on this growth, okay.

Q - Daniel Abut {BIO 1505546 <GO>}

All right.

A - Unidentified Speaker

As already mentioned, these numbers don't match exactly. And as a matter of fact, we didn't change any assumption.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you.

Operator

Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello, everyone. Marcelo Telles, Credit Suisse. I have some questions on Banco Votorantim. I'd like to dig a little bit deeper on the asset quality issue. You mentioned during the call that you expect a significant decline in provision expenses at Votorantim. I'm kind of having a hard time reconciling your statement. And I will turn to the numbers that I saw if I look at Banco Votorantim's notes to the financial statement.

I said that because if you look at the operations that are being classified from B2B, which are actually overdue, you have nearly -- Votorantim has nearly BRL5 billion of loans that are actually overdue that are classified in the B2B categories for which there are only about 4% of those like BRL5 billion currently being provisioned, right as per the requirement of these risk categories.

So how comfortable are you that this -- as this loans are -- that are already overdue, as they go down to the higher risk categories that this will not lead to a material increase in provisions in the quarters to come? So we are basically expecting these overdue loans to become current again? Or -- because it seems that the bank might need much higher provisions going forward based on the numbers that I see here in Votorantim's financial statement. So if you can reconcile that I would appreciate it.

And my second question is do you think that this year would see Banco do Brasil having to inject capital at Votorantim? And if so do you think that the family would also be able to inject capital to participate in the capital increase? Thanks so much.

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

And regarding the credit provisions with Banco Votorantim, the projections that these upgrades at the end of last year for the First Quarter and now the beginning of the First Quarter in terms of provisions; they match (inaudible). So we were expecting this high volume of provision expenses in the First Quarter. And the Second Quarter, we are likely to see a small decrease on this level, with a more serious decrease on the third and then the Fourth Quarters.

Which -- we are talking about a high level of provisioning. But relatively for the First Quarter and the Second Quarter, it's reasonably lower. So it's important that we qualify the (inaudible) talking about high level of provision now in the First Quarter and in the

Second Quarter. We will have an improvement and a significant decrease; that is still a larger number. And again our projections for First Quarter and what we have on the Second Quarter are matching almost perfectly.

Let me talk about capital injection at Banco Votorantim. Banco Votorantim has (inaudible) from its suit [ph] shareholders. And it is possible scenario. We have the calculations for that and it is possible that this may happen. The actual impact on the Banco do Brasil is very slow. And I can't project to you right now that this would happen.

And I didn't catch the final (inaudible) question on Votorantim about participation of the -- can you repeat that, Marcelo, please?

Q - Marcelo Telles {BIO 3560829 <GO>}

Yes, no, actually the second question should be, if the family -- in case there is the need for a capital increase at Votorantim, a capital injection, if the family would be willing to participate in the capital injection. And of course if they don't and if you do it, you might end up with more than 50% stake. And you might be forced to actually consolidate Votorantim. So maybe I can ask that question a different way. Would be willing to go beyond your 50% stake at Votorantim if necessary?

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

No. That's a (inaudible) that we analyzed. And again we have to reaffirm the commitment from the two shareholders. And that is an area that we are (technical difficulty) just about signing the first comments on the provision. We try to talk about subjective items. But on the second half of this year we're talking about a level of provision when compared to the level of new stream and (inaudible) significantly lower -- substantially lower.

Q - Marcelo Telles {BIO 3560829 <GO>}

Yes. If you allow me to follow up on that point, I mean that's exactly the point that I am having a hard time understanding because I look -- this is just policy formation in the Votorantim numbers. I mean there is BRL5 billion of overdue loans in our classified between B&G where you have less than BRL300 million being provisioned right now.

So my concern is that if these loans do not become -- are not paid or do not go back to the proper -- to the current category that you might actually -- Votorantim might have actually to provision a meaningful amount in the quarters to come. Then your expectation of lower provision expense in the second half of the year would actually not materialize.

And I mean, I'm just looking at this Note D [ph] on Votorantim's notes to the financial statements. So if you can explain -- so basically expecting this not to be -- to continue overdue to think that this will go back to the performing portfolio? So that's what I'm having a hard time understanding.

A - Unidentified Speaker

Yes, Marcelo. I suggest that -- (inaudible) with the investor relations at Banco Votorantim and then we work in detail in their financial statements. And the possibility of migration to higher or lower risk, okay? Then we can look at AA to H level and see how you are doing with objections and how we can try to reconcile their -- your projection with ours, okay?

Q - Marcelo Telles {BIO 3560829 <GO>}

I appreciate it. Thank you. So much for your answers.

A - Unidentified Speaker

Thank you.

Operator

Mr. Boris, Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Thank you for taking my question. I have a question regarding the calculation of capital ratios of Banco Votorantim because if we look at the total credit risk, including the loans that were sold with recourse, they are larger than the risk-weighted assets. So it appears that these are not included in the calculation of capital ratios. Could you explain this? And I have a follow-up question after this.

A - Unidentified Speaker

Boris, (inaudible) something very specific related to Banco Votorantim. And (inaudible) right now (inaudible). I'm really not up to date on every detail of the capital ratio calculation for Banco Votorantim. Of course we look at that and our risk teams look at that as well. But I'll investigate your question, okay?

Q - Boris Molina {BIO 1904979 <GO>}

Okay. Thank you. My follow-up question has to do a little bit with question that was also asked before about minority shareholders and strategy; (inaudible) train wreck. I think that it's pretty clear that if we think of what happened (inaudible) that their provisioning efforts this year are (inaudible) loans that we originated back in the second half of 2010 -- or 2011, the growth rates that Votorantim's had in the car loans segment and throughout (inaudible) September 2011, leads us to the conclusion that the losses are going to continue for the year and most likely capital increase holds the key.

But my question is, why -- what can you tell us regarding the risk that these type of results will not pollute the rest of the loan book in Banco do Brazil given that we have the understanding that the growth in Banco Votorantim was partly influenced by the decide of the Brazilian government to reactivate credit in the auto loan segment, et cetera. And given the measures of lower prices and stronger growth in loans, what really went wrong? Because it was -- it is a train wreck. And you probably have to increase capital and investors are rightfully feeling that this behavior could repeat itself in the larger franchise.

And when we look at the -- an average (inaudible) of Banco do Brasil. Because I remember that at some point in time, there was a provisioning that the bank would not be used as an instrument of policy expect for the agricultural sector. And there are (inaudible) revenues. So what does the law state regarding this potential risk that someone could feel that the bank is being used as an instrument of policy and that (inaudible) income and something other segments of the credit exposures. Thank you.

A - Unidentified Speaker

It is very possible about the methodology -- the price methodology that we operate inside Banco do Brasil and we changed the methodology that Banco Votorantim, we are familiar with, right. Because it is possible that the methodology that we had inside Banco do Brasil (inaudible) much larger numbers of (inaudible) and a much larger base of customers. Is there (inaudible) improvement in the methodology of Banco Votorantim? We wait for six months to let the commercial (inaudible) at the bank advance the starting (inaudible).

During these six months, it was going to finance (inaudible) BRL3 billion per month to BRL800 million. Now we are able to infuse again, why, because we feel comfortable now with the price methodology. That's why -- don't be afraid about anything related to any kind of change on our internal policy of Banco do Brasil related to our price methodology and approach to the market.

The market that we feel comfortable to work with is the real economy in Brazil. And as you know, Brazil (inaudible) a very good moment. The country is growing, the GDP is growing. And we feel confident now to work with some (inaudible) products that are not (inaudible). I still mentioned that we are the leader in the full view finance. But we are not the leader in (technical difficulty).

Q - Unidentified Participant

(technical difficulty) what we charge at those maximum rates. What I'm trying to get a sense of were they really material to profitability of the bank? Or could you, I mean, estimate the reduction of the average rates charged as a result of this announcement? Or at least how much more than the average reduction of the (inaudible) rate is being offered to price? Or -- and if you believe that again at the end of the day this will be partially compensated with better asset quality and better guarantees on loans, given that these lower rates are being offered for -- under this package (inaudible) which are payroll accounts, which in my view are safer, better clients. Then I will ask my second later. Thanks.

Regarding (inaudible) slightly to break down your question. So starting with overdraft accounts where you saw the reduction. The reduction is only top-line that opted in the Banco Votorantim further. As you know, overdraft accounts, this type of line is not a priority for Banco do Brasil. We focus on payroll. And then as you also note the (inaudible), people that can see those values to Banco do Brasil. We are not focused as -- overdraft as well as this focus on doing a financial advisory with the client in order for him to seek a more (inaudible) product line such as payroll.

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So specifically on overdraft accounts, is this material? No. It isn't. I don't have the percentage here of clients that are charged at the maximum rate. But what I actually have to look -- to give you a number is the percentage of the (inaudible) service client that are charged at the maximum rate. I will get that for you.

Regarding other items of Banco do Brasil being announced today, all of them are based on a new collateral or a new guarantee. You know Banco (inaudible), we talked about Banco (inaudible) over the past week. And there are different components of Banco (inaudible) for individuals and for companies. But what announced today, it was specifically on overdraft, as you saw, which again, isn't our focus. And on other items that as you noted to credit based on a new collateral such as (inaudible).

Okay. So, yes, we do not expect a worsening of positioning over (inaudible) given Banco (inaudible), which is a strategy to grow in lower-rate segments. We are also not revising our guidance, (inaudible) or NII.

Okay. Thanks. And my second question is regarding Banco Votorantim. In the release of Banco Votorantim, they made a comment that considering the change of resolution 3533, the bank decided not to sell portfolios in the First Quarter of 2012 and had a negative impact of BRL50 million because of prepayments and provisions related to past credit assignments.

And in the Fourth Quarter of 2011, there was a gain of almost BRL500 million related to credit assignments. And is -- this could mean, I mean, that at least you have some -- can you consider that you had some improvement from the Fourth Quarter to the First Quarter considering that in the Fourth Quarter Banco Votorantim had a positive impact of BRL500 million related to credit assignments? Then do you expect the negative impact that we saw in the First Quarter of BRL57 million to -- related to this previous credit assignments to continue in the future for a while? Or is there any chance of recovering and start to do more credit assignments again. But this time without recourse. And it would be Banco do Brasil acquiring portfolios from both Votorantim without recourse from now on, in order to improve the capital ratio at Banco Votorantim?

A - Unidentified Speaker

(inaudible) a new methodology related to this. And as you mentioned Banco Votorantim didn't sell any -- didn't sell their portfolio even the First Quarter. And the (inaudible) loss in the First Quarter of 2011. As you mentioned is that -- could be a very good alternative for the bank, Banco Votorantim (inaudible) this methodology without -- that you can have (inaudible) to the banks, then in the portfolio.

Q - Unidentified Participant

Okay. Thank you.

A - Unidentified Speaker

Thank you, again.

Operator

Eduardo, please go ahead with a question.

Q - Unidentified Participant

The first question is regarding the new savings account rules, the new remuneration that was reduced this morning. I'd like to know what do you expect as an impact for Banco do Brasil and for the industry as a whole? You as one of the largest savings deposit banks in Brazil, how do you see that impacting especially your agribusiness loan portfolio? Do you expect also that going forward all margins, loans and agribusiness loans will be linked to the (inaudible) rate if interest rates go below 8.5%? Thank you.

A - Unidentified Speaker

Thank you. (inaudible). It's -- I'm sorry to give you the answer which might be (inaudible) to take. It's just too soon to talk about any of that, okay. We are estimating all the index at this point in terms of asset liability management. Our first analysis shows that the impact is not relevant. But other impacts such as in other portfolios as you mentioned, we still have no view on that.

Q - Unidentified Participant

Okay, fair enough. My second question is regarding the household commitment --- income commitment. We are reaching almost 25% is one part of the income of families are being committed with payment of loans, right. I know that interest rates are coming -- are lowering and that will be good for the system, probably also duration will increase. But are you worried about the current leverage of the families today in Brazil? Thank you.

We are not worried, which doesn't mean that we can follow this closely. We follow this very closely; our credit department had specific studies on this. But this calculation depends on (inaudible) calculation would have a federal commitment at 21%; 12% of your interest with 20% and 9% with the interest; we mentioned that very well. The joined interest rate reduction will be in the release of this number. The possible duration extension is actually the most sensitive item. If we (inaudible). So as specifically mortgage credit grows in the country, this tends to -- because of the duration extension, this tends to be less of a problem.

So we follow this very closely. As you know our priority is on payroll credit and other items that are very low risk. So this gives us the possibility of not being impacted by excessive indefinite [ph] in the economy.

Okay. Thank you.

Operator

This concludes today's question-and-answer session. Now, the executives from Banco do Brasil will proceed with the closing remarks.

A - Unidentified Speaker

Thank you, all very much for participating today. If you have any follow-up questions, send that to our IR team. Thank you very much.

Operator

Thank you. That does conclude Banco do Brasil's conference call for today. As a reminder, the material used in the conference call is available on the Bank's investor relations website. Thank you for participating. You may now disconnect.

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