

Q4 2011 Earnings Call

Company Participants

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

Other Participants

- Daniel Abut, Analyst
- George Friedman, Analyst
- Gustavo Schorden, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Thiago Batista, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. We will now begin Banco do Brasil S.A. Fourth Quarter 2011 Results Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded and a live broadcast with slides presentation on the bank's website. At investor relations site, when more questions may be sent through.

Before proceeding, let me mention that this presentation may include references and statements. And synergies, increasing estimates, projections of results and the future strategy of Banco do Brasil, its associated and affiliated companies and subsidiaries.

These expectations are highly dependent on market conditions, on Brazil's economic and banking systems performances as well as on the international market one. 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 participants.

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

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

Thank you. Good morning, everyone. This is Gustavo Sousa. It's a pleasure to be here, hosting my first earnings conference for Banco do Brasil as Head of IR. As was mentioned, I am here with Ivan Monteiro, Banco do Brasil's CFO. And other executives of the bank.

Moving to slide three, we have the highlights of Banco do Brasil's performance. As you can see, the bank presented an increase on the NII items. The allowance for loan losses was below the guidance. Delinquency ratios were lower than the banking industry. The bank showed a control in

administrative expenses and diversification in business items. The bank showed an increase in other sources of revenue.

Moving to slide four, we have the guidance of 2011. In the performance for 2011, as you can see the bank achieved most of the items informed in the guidance with the exception of the extension of the individuals' loan book, where the guidance was 17% to 21% expansion. And the banks grew by 15.4% and the reason was the implementation of the macro prudential measures by the Central Bank early last year. When the bank prepared the budget for 2011 the bank did not take under consideration those measures. They hadn't been announced at that time.

And the extension on the corporate loan book, the guidance was 16% to 19%. And the bank achieved an extension of 14.3%. And this is due to the fact that the bank extended credit to Brazilian companies via the acquisition of corporate bonds from those companies so it is -- these are also credit items but they were not included in this item for this purpose. But had they been included the bank would have achieved this guidance. And another positive year in terms of allowance for loan losses, the bank presented a metric of 3.1%. And this metric represents the expenses for credit provision over the average portfolio.

Moving to page five, we have the net income for Banco do Brasil and we see the information of the net income and of the recurring net income. The bank posted an BRL11.8 billion recurring net income. The extraordinary items were related to -- on the positive side, the fail of non-core participation, fiscal efficiencies and on the negative side, economic trends.

On page six, we have a breakdown of Banco do Brasil's total operating revenues. We highlight the extension of the NII. This item grew by 11.1% and represents 70.4% of Banco do Brasil's total operating revenues. And we also highlight the extension of the insurance business. This business grew by 20% and -- with a total share of 3.7% of Banco do Brasil's total operating revenues.

Another item of importance is the decrease of participation of the Plazeik [ph] items. As you, this is due to a fluctuation of the Bovespa and also to the expansion of the bank's business.

Moving to page seven, we have Banco do Brasil's leadership position. Banco do Brasil is the number one in assets, with 20.9% market share -- also the number one in credit, with a 19.2% market share, the leader in deposits with 26.4% market share and the leader in asset management. Banco do Brasil's subsidiary, BBDTVM, holds 21.6% of this market.

Moving to page eight, we have a table of sources and users and I would like to highlight here the expansion of deposits. This item grew by 17.4% and the share of this item in the total funding sources of Banco do Brasil is 74.2%. And I would also highlight the expansion of commercial papers here and this not the ideal translation.

This item is composed of what we call letras con cardiac [ph] and this represents a funding instrument in Brazil very similar to a bond issue by a bank and LCA letras grande to autonegotias [ph] -- which is a funding instrument backed by agri-business loans.

Moving to page nine, we have a breakdown of the deposits and I would highlight here that our savings deposits reached BRL100 billion.

Moving to page 10, we have a breakdown of those items that I had mentioned, the LCA and the letras en aseida [ph]. These items tend to be very important funding instruments for Banco do Brasil in the near future.

In terms of foreign borrowing, on slide 11, we see that Banco do Brasil reached a record balance in foreign borrowing, reaching BRL34.6 billion in this item. I would highlight the item bond issuance at

BRL11 billion. As you know, Banco do Brasil is a frequent issuer on the global capital markets, using a variety of issuance from single bonds to subordinated securities and also hybrid instruments.

Moving to page 12, we have a graph on asset management. We have an expansion of 15.4%, year-on-year. Again, the BBDTV is the leader in this market with 21.6% market share and if we look at the fee that this business generates, in the year of 2011 this business generated over BRL12 billion [ph] in fees, an expansion of 19.7% year-on-year. And the expansion, quarter on quarter, Fourth Quarter 2011 versus Fourth Quarter 2010 is up 20%. It is a very consistent business for Banco do Brasil.

On page 13, we present a breakdown of the NII. This is a new breakdown that we are presenting this quarter. This is an effort to present a more -- a clearer way to look at Banco do Brasil's NII and the items -- the NII is broken down into loans operations -- net revenues from loans operations, the expenses for funding, the recovery of credits that were written off, treasury. And other.

And it is important to say that reconciling this table to the financial statement is not an easy task so this is a good way to look at these items because, for instance, the effect of FX changes is totally comprised on the treasury item. By looking at this table we can see that -- what we have been telling to the market that Banco do Brasil's main focus is on credit, it's very clear here.

And also that Banco do Brasil is using its treasury to manage its liquidity position and its FX exposures. So we can see the stable growth of this item -- of every component of these items here.

Moving to page 14, we have our NIM numbers and I would highlight here that Banco do Brasil's funding costs in terms of percentage of the Selic are still very competitive at 68.3%. Then moving to slide 15, we also have the information of the spread by credit, operations in the different segments.

On page 16, we start with information of our loan portfolio and we call here, this loan portfolio, in a broad concept -- in an amplified concept. We add to the loan portfolio that is considered by the Central Bank under the Resolution 26A2, we add the private bonds, the corporate bonds issued by Brazilian companies. And a guarantee.

In this concept, Banco do Brasil grew by 19.8% and we can see that the expansion on the individuals' books and on the corporates' book enable a dilution of the participation of the agribusiness credit from 19 -- almost 19.5% on December 2010 to 19.2%.

Moving to slide 17, we have a breakdown of Banco do Brasil's individuals loan portfolio, where we highlight the growth of 15.5% and the concentration of lower risk credit lines, such as mortgage, salary loans, auto finance and payroll loans. These instruments, again, are very low risk -- responds for nearly 80% of Banco do Brasil's individuals loan portfolio.

Moving to page 18, we have a slide showing the effect of the macro prudential measures that were implemented early last year by the Brazilian Central Bank. As you can see on this slide, after the announcement of the macro prudential potential measures, the volume of disbursements on a monthly basis decreased and after the announcement of the easing of these measures the volume of disbursement went back to a normal level.

Moving to page 19, we have a slide on the mortgage portfolio of Banco do Brasil, both to individuals and corporates, where the bank has been showing significant growth. Moving to page 20, we have a few of the mortgage -- two individuals in terms of new contracts and disbursements. We highlight other than the fast growth, we highlighted the bank has disbursed over BRL3.5 billion to individuals in mortgage lines in 2011.

And on slide 21, the same view but this time on corporate, the bank has disbursed over BRL1.3 billion in mortgage debt to businesses in Brazil.

On page 22, we show a breakdown of the corporate loan portfolio. This portfolio presented a growth of 19.2% and this time, in this growth metric, we include the corporate bonds issued by Brazilian companies. As I had mentioned before, when I talked about the guidance, if we were to book this item we would have achieved the guidance.

And we see that the credit related to investment and the credit executed by the acquisitions of corporate bonds is gaining participation in Banco do Brasil's overall corporate loan portfolio. This is due to the fact that these instruments are used on infrastructure projects and we think that this is a very positive trend for the country and for Banco do Brasil.

On page 23, we present another breakdown of the corporate loan portfolio, this time into loans to SMEs and loans to medium and large-sized companies. We can see a balanced growth of around 19% in those items.

On slide 24, we opened the utilization of FGO, Funco de Garantia de Operacoes. This is an important risk mitigator for the SME portfolio. This fund represents a complement to the guarantees provided by those companies and as you can see the usage of this item has grown by nearly 40% over the last year.

On slide 25, Banco do Brasil presents items that show its leadership in foreign trade with a record monthly flow in October and a record annual flow in 2011. Moving to slide 26, we see that disbursement in investments, which reached BRL10.4 billion in the Fourth Quarter and BRL33.8 billion in the year of 2011, a 63.2% increase.

And moving to slide 27, we have a breakdown of these disbursements in terms of funding sources. We can see the importance of FGO, BNDES. And Finame.

On page 28, we have an instrument that is very important to SME. This is the BNDES card and also an increase in disbursements in these lines. As you can see, Banco do Brasil is the absolute leader in the segment with nearly two-thirds of market share in different views of these lines.

On page 29, we start to show our agri-business loan portfolio. Banco do Brasil is also a leader in this item with 63.1% market share. The balance of these transactions reached BRL89.4 billion and we highlight the increased participation of credit to businesses in the agri-business. We see that with this BRL32.2 billion balance to companies, this represents 36% of the agri-business portfolios.

Moving to page 30, we see the usage of risk mitigators on Banco do Brasil's agri-business portfolio. These risk mitigators are specifically used on the stage of the cost, when you're financing the crop, the early stage of financing the crop and you can see that Banco do Brasil is use risk mitigators at this level in 56.8% of those loans. And if we look at the southern region of Brazil, a region that has been affected by weather events recently, we see that this utilization is even broader at that region with 74.2%.

Moving to page 31, we also highlight in one specifically crop, here the crop of corn, which was the one that was most affected by the weather -- that the utilization of mitigators is even more enhanced than in the others, with 90% of mitigators in this crop.

Moving to page 32 and ending on information on the agri-business portfolio, we see that the share of renegotiated loans in the agri-business portfolio is decreasing quarter over quarter. In 2008, those operations represented 11.5% of the portfolio and at the end of 2011 this share dropped to 6.4%.

Now, talking about the quality of our portfolio, on slide 33, we see the credit risk. The operations with better risk went from 93.7% in December 2010 to 93.9% in December 2011, a consequence of the growth in lower risk lines.

Moving to page 34, we see that Banco do Brasil's NPL ratios are substantially better than those presented by the banking industry, even on an opposite trend. On page 35, we see a breakdown of allowance for loan losses where we can observe the save face credit risks.

On page 36, represent the coverage ratio -- the provisions over NPL past 90 days. We see that the bank also has a metric considerable above what's presented by the Brazilian banking industry.

On page 37, we have a view of Banco do Brasil's distribution network. Banco do Brasil is the absolute leader of this item with 25.1% market share of the total branches in the country and we also highlight the increase of our distribution network with the addition of Banco Postal.

On page 38, we also talk about Banco Postal and we show some goals of our Banco Postal operation. So anticipate our objective of being in all Brazilian municipalities to increase the number of products offered in this new distribution network, to enhance the bank bankerization process in the country and to get closer to the new middle class.

Moving to page 39, another breakdown of the Banco Postal, this time showing the results of the first line of operation of this channel and we can see that this channel conducted over 7 million transactions and opened over 140,000 new accounts. You can see that this will be an important channel for Banco do Brasil.

On page 40, we see -- we have a few of the administrative expenses versus our growth in assets. We can see that the growth in Banco do Brasil's business has been faster than the growth in administrative expenses. So the ratio of expenses to assets has decreased.

If we move to page 41, we have another measure of this trend -- the efficiency trend of Banco do Brasil seeing that the bank reached 42.1% at the end of 2011, in the year of 2011. And we can see the trend that reflects Banco do Brasil's obsessive control of administrative expenses.

On page 42, we see how the bank is trying to get more profits to make its relationships with its clients even more profitable. The bank has invested in alternative channels. As you know, Banco do Brasil has a large distribution network. Now Banco do Brasil has Banco Postal and Banco do Brasil has increased its staff that deals directly with customers and as a result the commercial revenue by clients and as a result, the commercial revenue by client is increasing.

On page 43, we have the income related to the insurance activity and what we call the insurance ratio, also presenting an increase.

Moving to page 44, we have some numbers of our card business. We see that this business has shown an increase in turnover of 23.8% and I would comment that the fees related by those -- by this type of transactions, credit and debit cards, they increased by 18.6%, totaling end of the year of 2011 nearly BRL4 billion. This is one very important driver of Banco do Brasil's fee business.

Another important driver of fees for Banco do Brasil is the capital market activity and we can see that on page 45. Even in non-ideal conditions for this market in 2011, the bank has played an important role, being one of the leaders of the local fixed-income market, also participating in equities transactions from Brazilian companies. And being an important part of these companies in their access to the global capital markets.

On page 46, we have a view of Banco do Brasil's capital equity by looking at Banco do Brasil's BIS ratio. Banco do Brasil finished December 2011 with a BIS ratio of 14%. Breaking this 14% down we see a 10.5% Tier I capital and a 3.5% Tier II capital.

As you know, Banco do Brasil issued a perpetual instrument in January. The intention of Banco do Brasil is to classify this instrument as Tier I capital and we are still waiting for the Brazilian Central Bank to approve this. If we were to classify this instrument as Tier I capital, Banco do Brasil's BIS ratio would grow to 14.3%. The Tier I capital would grow to 10.8%, as you can see on the pro forma calculation on this slide.

Next slide, on page 47, we represents our guidance for 2012. Going quickly through those items and through the highlights we see that the ROE -- our guidance is that it will be between 19%, 22%. The NII will grow between 11% and 15%, total deposits between 14% and 18%. The loan portfolio will grow between 17% and 21%. And the allowances for credit risk will be between 3.1% and 3.5%. We also have other measures here, as the fee income that we project -- where we project a growth from 13% to 18%, admin expenses from 8% to 12%.

And now, ending the presentation, we move to the session of Q&A. Thank you.

Questions And Answers

Operator

Ladies and gentlemen. We will now begin question-and-answer session. (Operator Instructions). Mr. Mario Pierry with Deutsche Bank would like to ask a question. Please go ahead, sir.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi, everybody. Let me ask you a question. Let me focus on your capital ratio. I was surprised to see your Tier I ratio remaining stable with 10.5% because when the Central Bank removed some of the macro prudential measures in November the bank was estimating that this would have a 70-basis point improvement in the Tier I ratio so I wanted to understand why your Tier I ratio did not improve as you had anticipated.

Also, I would like to understand some more how do you look at your capital ratio today. And with regards to Basel III implementation, when should be expect to hear from the Central Bank in Brazil about the rules of Basel III in Brazil. And how do you look at potential sale of assets in order to boost your capital ratio? And here, specifically, if you could comment on On [ph], Energia and Cielo. Thank you.

Operator

Your next question comes from the line of Daniel Abut with the CICI [ph].

Q - Daniel Abut {BIO 1505546 <GO>}

Daniel Abut, I am ready to ask my question but I don't think Mario Pierry's question was answered. So should I wait? Hello? Operator.

Operator

I'm sorry, sir.

Q - Daniel Abut {BIO 1505546 <GO>}

I don't think the prior question was answered so should we go back to the prior question?

Operator

Okay, go ahead.

Q - Daniel Abut {BIO 1505546 <GO>}

Should I ask my question or is management going to answer the prior question?

Operator

One moment. Banco do Brasil's conference call has been interrupted for technical reasons. Please hold while we resume soon. (Operator Instructions).

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

Hello, this is Gustavo here. We had a technical difficulty on our line. We are back. Please proceed with the questions.

Operator

Mario, please go ahead.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Hi, everybody. Let me ask -- let me repeat the question, then I guess you didn't hear it. I was wondering why your Tier I ratio remained stable at 10.5% because when the Central Bank removed some of the macro prudential measures in November you had estimated that this would have a 70-basis point improvement on your Tier I ratio.

So first I wanted to understand why the Tier I ratio remained stable even though you had the benefit of the removal of the macro prudential measures, which reduced the risk rating of some consumer loans.

Then related to the capital ratio I was wondering how do you see your capital ratio in relations to Basel III. When should we expect the Brazilian Central bank to come out of the rules of Basel III implementation in Brazil. And how do you look at a potential sale of assets in order to boost your capital ratio. And here specifically if you could comment on potential sales of (inaudible), Energia and Cielo. Thank you.

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

Talking about the Tier I ratio what happened is November and December was very nice for us in terms of disbursement. I believe that could explain what happened with the Tier I.

Talking about the public hearing, we are waiting for the Brazilian Central Bank, we didn't know to specify the months that it's going to happen. Okay, we are still waiting.

Talking about -- specifically about the (inaudible) and the proposal. And new Energy, we didn't have anything concrete to tell you right now because there is always -- we always waiting for some -- there is no -- these assets are not core assets for us and are (inaudible) receive proposals from the market but there is nothing that we are setting up we are developing right now. And talking about Cielo, I'd like to pass you to Isabelle [ph] to explain our strategy for 2012.

A - Unidentified Speaker

Okay. Talking about Cielo. We are not driving any study about open it Scattle [ph]. We have Cielo since its beginning working along with the banks and the merchants in a very complementary way

so there is no conflict of interest in this business.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay let me follow up then, Ivan. First, on the Tier I ratio, I didn't understand the answer. Like in November you said that you expected it to improve 70 basis points but I didn't understand that you said that you said in December you had very strong, loan growth and that's why your capital ratio did not improve as you expected?

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

Yes. That's true. But very, very good. When you remove, when you will be start using the process for the macro prudential measures [ph] it was very good. And it's common that in the first month we had a strong growth and disbursements. That was one of the reasons that we forecast. Another it was not exactly what we forecast.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Then what do you estimate to be your Tier I ratio under Basel III, given what the Central Bank has already said in Brazil? What I'm trying to get at -- this is the main question for the bank right now, is how do you see the need of doing an equity increase in the next 12 months?

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

We don't need to do any capital increase for the next 24 months and maybe in 2013 and 2014. But again, we are waiting for the public hearing from the Central Bank just to be sure that our strategy and our approach for the capital debt is a conservative approach to keep the minimal level of 13% the BIS ratio. But we feel very comfortable now about our strategy to keep the capital -- or to keep the BIS ratio in a minimum of 13%, even on environment or under the Basel III rules.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you, Ivan.

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

Thank you very much.

Operator

Your next question comes from the line of Daniel Abut with CICI.

Q - Daniel Abut {BIO 1505546 <GO>}

Actually it's Citi. Daniel Abut from Citi. Ivan, a quick question on Votorantim, was Votorantim kind of already reported losses in the 3rd quarter and I think in this conference call you discussed some measure that had been taken to try to stabilize the situation. What we saw in the Fourth Quarter, however, was that the situation did not stabilize, actually losses got larger.

So could you comment on the fundamentals that are behind those losses? I imagine they have a lot to do with the worsening of the portfolio. What measures have been taken to stabilize the loan portfolio of Votorantim? Votorantim stopped lending in certain products, in certain sub segments.

And second, as I imagine that a big part of the losses had also to do with funding, what is the latest update that you can give us on the funding pressures of Votorantim and what's being done there to stabilize the situation? Is it possible to foresee that the losses will stop at some point in the near future? What are your expectations for the next few quarters?

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

Daniel, talking about what we decided to do -- we changed the methodology. Banco Votorantim has one product -- one product, or they have for customers. And we have here in Banco do Brasil a portfolio of products. That's why we know the behavior of the customers very, very well.

What we are doing now -- we are introducing and I've discussed this with the management of Banco Votorantim, is to improve the methodology, just to be sure that the new loans that we are generating now, this is a much better risk than it was in the past. We put a lot of measures -- I can tell you that it's more than 20 measures just to be sure that we can move the transfer of our trend, related to delinquency ratio.

And we are pretty comfortable about that. And the funny side -- there is no any kind of problems related to the funny side. You know that we provide to Votorantim a subsidy that they never used because they don't need to use this.

Really, we reduced the production twice -- since September -- that we are not comfortable with the level of the delinquency ratio. We reduced dramatically the production in Banco Votorantim and we are able to be more -- how can I say that -- we can still grow in the portfolio again but before doing this we need to be sure that all the measures that we discussed with the management of Banco Votorantim they are there and they are able to provide a very good delinquency ratio for the new assets that they are generating now.

Q - Daniel Abut {BIO 1505546 <GO>}

Is it too early to say or foresee when Votorantim, on a minimum may break even and then go back to black ink?

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

Now is too early. But we will provide all the information that you need in the next two or three months -- the performance of the bank -- we can do this. There is no problem.

Q - Daniel Abut {BIO 1505546 <GO>}

And just to finalize on Votorantim, Ivan, you said that funding is not the issue. What about capital? With the current losses, is there any scenario where Banco do Brasil is one -- being one of the two partners, may have to inject more capital there?

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

If they need to -- let's say in the approach there for the BIS ratio, the same that we have here in Banco do Brasil. We'll keep the 13% for the minimum BIS ratio and you know that there is a change on the regulatory -- the regulatory sources have changed that they cannot recognize in advance when they sell the portfolio.

This was a very important number for Banco Votorantim, not only for Banco Votorantim, for the system. That's right. If they need to increase the capital we will support not only us and Votorantim (inaudible), we do the same.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Ivan..

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

You are welcome.

Operator

Your next question comes from the line of Saul Martinez with JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, thanks for taking my call. I have two follow-ups, really. First on your capital, I just want to make sure I understood the response to Mario's question. Are you saying that even with the implementation of Basel III you don't expect to have to raise capital in 2012. And probably not until 2013, with the caveat that you're not 100% sure that Basel III -- how Basel III will be implemented. But under your understanding, you don't believe that even with Basel III you'll have to raise capital this year and even likely next year. Is that a correct interpretation?

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

This is correct.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Secondly, on Votorantim, another follow-up again to Daniel's question -- the -- is there a risk here? Obviously the Fourth Quarter was pretty awful and it's too early perhaps to make a prediction about when it'll be breakeven and profitable again. But is there a risk that earnings could even decline off of what was a very, very bad Fourth Quarter, given that origination has pretty much grinded to a halt and past loans that you've originated continue to see it in an NPL as I would expect it to continue to increase. Can we -- would you expect losses to at least improve going forward, or do you think that there is a risk that the results may even worse off of what was a very, very bad Fourth Quarter?

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

We are pretty confident that all the measures that we put in place there -- and we have some numbers that shows this -- that the new assets, the delinquency rates for the new assets is very, very good and reversed to our start levels and very good levels, in our opinion.

That's why it's -- we prefer to wait. This new methodology is running for two, three months and to be sure. We are pretty confident that we worked very well and the new products -- the new assets that we are generating -- talking about the equal finance -- will be in a very good and comfort level, talking about the delinquency ratio.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. No. I understand but the new origination is very light compared to what you're originating a year ago and even beyond that. And I guess my concern is that as those loans continue to season and experience develops. And NPLs develop that you could see a meaningful worsening even going forward in your overall delinquency ratios which could cause the losses to even accelerate versus what they were in the 4th quarter. Is that a possibility? Could you see more than BRL600 million in the coming quarters? Is there a risk there?

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

We are working. But it is very difficult for me to give you a number, exactly a number now. What is the most important thing for us is that we change the methodology, that we change the approach. But again, we are waiting just to be sure that this methodology is working well and all the measures that are put in place -- is not to change the methodology.

We put in place a lot of conservative approach -- talking about the treasury, talking about the provisions -- and not only specific points. There are a lot of measures that were put in place that reflects in these results. Again I prefer -- we prefer to wait for the next two or three months and we provide to the market all the information about the performance of the bank.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Fair enough. Okay. Thank you very much. That's helpful.

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

Okay.

Operator

Your next question comes from the line of Thiago Batista with Itau BBA.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, everyone. We saw that the bank posted some improvement in the asset quality last year even with the impact of (inaudible). What's the real level of unemployment rate in Brazil? Could you --

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

Thiago, your line is breaking up. Could you repeat a little louder, please?

Q - Thiago Batista {BIO 15398695 <GO>}

Yes, of course. We saw that the bank posted some improvement in the asset quality last quarter, even with the impact of Banco Trenchine [ph]. With the low levels of unemployment rate in the country in this year, could we see another positive performance of the asset quality during this year?

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

The guidance that we provided reflects all the -- what we expect could be a good year for Brazil in terms of GDP growth and you know that Banco do Brasil -- Banco do Brasil was good to work very, very well when the country's growing. That's why we feel comfortable that delinquency ratio be under control and we'll keep the same level as we performed since 2011 -- for 2012.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay. Thank you very much.

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

You're welcome. Thank you very much.

Operator

Your next question comes from the line of George Friedman with Bank of America/Merrill Lynch.

Q - George Friedman {BIO 3192857 <GO>}

Thank you very much. Again, in that new slide that you provided showing the breaking down of gross financial margin, I understand that equalization revenues are impacting the line of financial revenues from credit operations. I did a very straight forward and maybe over simplistic calculation, just excluding in this quarter and the past quarter the contribution from equalization revenues and divided this in a result by the balance of credit operations in both quarters.

And I noticed that using this methodology you would observe a compression in credit spreads. So just like to understand -- aside equalization, what has caused this contraction and what do you see in credit spreads going forward. And then I'll make my second question?

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

George, Gustavo here. Yes, looking at that, I think I understand the calculation that you ran. We haven't done the same calculation so I would love to see yours and then debate, based on your calculations. The reason we have an increase in equalization revenues of the Fourth Quarter is merely due to the fact that we actually had more disbursements that were, let's say, equalizable. That were entitled to those lines.

But I really have to look at your calculation to see if I agree with your line of thinking. Going forward, we expect the same trend in spreads. As you know, our peers are also seeing a scenario of possible compression in spreads due to the growth of lines of lower risk and also to a possible decrease on the Selic. So but in order to answer specifically about your question we can do this at some point in this afternoon. But I would have to look at your calculation, okay?

Q - George Friedman {BIO 3192857 <GO>}

No, perfect, Gustavo. Just to clarify, I was just trying to understand the evolution of credit spread outside the equalization contribution but you already mentioned that you expect some credit spread contraction.

I'm just a little -- it's surprising because I thought that in the case of Banco do Brasil the improvement of credit mix, favoring retail operations could maybe support in a better way the evolution of that interest margin versus your peers and this is not what I see in the guidance that you provided to the market. So you see maybe a further compression in the retail operations that will not be enough to allow you to maintain strength during 2012. That would be a correct interpretation.

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

Look, in the retail operations, as you know, 80% of the portfolio is already done in the lower risk segment and those I think already have very low spreads. We expect those items to respond for even more participation in the retail loan book but we see that as a positive because even though they have lower spreads they also have lower delinquency so if we show a slight decrease on the net interest income related to that, we also show a positive pickup on -- when we talk about the non-payable loans.

So we view that one movement compensates the other and, as you know, you have followed Banco do Brasil for quite some time -- Banco do Brasil -- we feel that we led this movement into working with lower risk. When the bank announced this a few years ago some part of the market did not understand this movement but now we feel that we have demonstrated how positive this could be to our earnings.

Q - George Friedman {BIO 3192857 <GO>}

Well okay. Fair enough. My second question -- just a clarification about what is your expectation for the year in terms of equalization revenues. I have noted that in the past two years you have been able to maintain a very strong level between BRL2.4 billion and BRL2.5 billion per year. So what could we expect in this line for 2012? Thank you.

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

You can expect the same trend for the 2011 -- 2012 -- you can expect the same trend and for 2012-2013, we have to work with the number that will be released by the government but you can expect the same trend.

Q - George Friedman {BIO 3192857 <GO>}

Yes. And these will be defined -- if I am not mistaken -- by July this year, no?

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

Exactly.

Q - George Friedman {BIO 3192857 <GO>}

Okay. Perfect. I appreciate it. Thank you.

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

Thank you.

Operator

Your next question comes from the line of Gustavo Schorden [ph] with (inaudible) Bank.

Q - Gustavo Schorden

Good morning, guys. Thanks for the opportunity. My question is related to Banco do Votorantim and possible capital increase as a formation. In case of this capital increase in Banco Votorantim, my question is how it would be designed and how it could affect Banco do Brasil ratio? Banco do Brasil would you using all your capital to increase the capital of Banco Votorantim --

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

Gustavo -- I'm sorry to interrupt -- I'm sorry to interrupt and I'm also sorry about the technical difficulty that we're having here. Can you repeat your question a little louder, please?

Q - Gustavo Schorden

Sure, sure. My question is related to Banco Votorantim and as a formation, there's a possible capital increase. In case of this capital increase in Banco Votorantim, how it would impact -- how it would be designed and how it would affect your BIS ratio? Banco do Brasil would use your own capital to increase the capital of Banco Votorantim and it could impact your BIS ratio?

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

Yes. We can -- in the shareholder agreement there is a specific talk about this, that will provide other support to the banking that the bank needs in the future and because there was a change in the regulations in Brazil that's the moment that we believe that gives the bank to keep the minimum BIS ratio of 13%. If they need to use the capital, we will do it.

Q - Gustavo Schorden

Okay. But it wouldn't affect your BIS ratio because of course you will use your own capital. So it will not affect your capital and as a consequence affect your BIS ratio.

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

It could affect the BIS ratio. But again, all the trends that I mentioned about the future in an environment under the Basel III rules and the Basel III rules, everything is there. The increasing of the bank, the business of the bank, the possible increase of the capital in Banco Votorantim everything is there and I can tell you that we don't need to increase the capital of Banco do Brasil for the next few years, maybe more than that.

Q - Gustavo Schorden

Okay. Thanks.

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

Thank you very much.

Operator

This concludes today's question-and-answer session. Now the executive of Banco do Brasil S.A. proceed with closing statement.

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

Thank you very much for your participation and as usual the Investor Relations team is available for any further question. Thank you.

Operator

That does conclude Banco do Brasil S.A. conference call. As a reminder, the materials used for this conference call is available on bank investors relations website. Thank you very much for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript