

Q3 2015 Earnings Call

Company Participants

- Andre Esteves, Chairman, CEO
- Marcelo Kalim, Board Member, Statutory Director, CFO

Other Participants

- Carlos Macedo, Analyst
- Maclovio Pina, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. Welcome to the Third Quarter of 2015 results conference call of BTG Pactual. With us here today, we have Mr. Andre Esteves, Mr. Marcelo Kalim, Mr. Joao Dantas, Mr. Pedro da Rocha Lima. We would like to inform you that this event is being recorded. And all participants will be in a listen-only mode during the bank's presentation.

After BTG Pactual's remarks, there will be a question and answer session for investors and analysts when further instructions will be given.

(Operator Instructions)

Today, we will have a simultaneous webcast that may be accessed through the website, www.btgactual.com/ir. There will be a replay facility for this call for a week; from November 5 through November 11. Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of this; the business, estimates for operating and financial results and those related to the growth prospects of BTG Pactual.

These are merely projections and, as such, are based exclusively on the expectations of BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changes in market; changes in market conditions, government regulations and competitive pressures, the performance of the Brazilian economy and the industry among other factors and risks disclosed in BTG Pactual's file disclosure documents and are therefore subject to change without prior notice.

Now I'll turn the floor over to Mr. Andre Esteves, who will begin the presentation. Mr. Esteves, please go ahead.

Andre Esteves {BIO 1939152 <GO>}

Thank you. Good afternoon, everybody. Thank you for being with us in our earnings call. We are very glad to announce our results.

So we had total revenues of BRL2.560 billion in the quarter. This is 25% higher than last quarter. And net income of BRL1.510 billion, which is 48% higher than Second Quarter of 2015.

So these are quite strong results. As you know, the Second Quarter was already good. So we are very glad to announce this set of results; and especially in an environment that was very challenging not only in Brazil, one of our core markets. But in Latin America and also globally with (doubts) about U.S., (of) action or China growth.

These results translate in annualized return on equity of 28.8%, which is above our objectives. And net income per unit was BRL1.61.

Fixed costs were under control. And here, Marcelo Kalim will be more detailed explaining the numbers for you.

For this quarter and next quarter as we conclude the BSI transaction during September, we will produce and disclose to you BTG Pactual's standalone results; just another for you to have a bridge to the consolidated results of the group.

So for this quarter, we have one month of BSI; just the month of September; but a consolidated balance sheet. And in this case, the cost to income was 54% for the whole group and BTG Pactual's standalone was 51% compensation, which is the relevant part of that. Was 35% for the group. And BTG Pactual's standalone 33%.

As I said, Kalim will go further down in the details here. But the main effect of this increase is of course bonus high revenues and some effect; FX effect in the expenses.

Total assets increased by roughly BRL100 billion, which is basically the addition of a BSI balance sheet to our previous assets.

So we use it to have about BRL200 billion. And with the BRL 100 billion of BSI we have now roughly BRL 300 billion.

Basel ratio of the consolidated entity is now 14.3%; a little bit lower than last quarter but, as we had forecasted, in-line to our target after the integration. So Kalim will also talk about this capital numbers. But generally here we prepared the BTG balance sheet.

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So pre-BSI we were above 20% of Basel ratio. And; which was a very conservative (extent), including the capital increase. And BSI standalone is a little bit less than 18%. The combined entities have these 14.3%.

And basically, the effect here is this friction between the Brazilian regulation and the Swiss regulation; I would say the international regulation.

Good news that Central Bank is in the process of adapting Brazilian regulation to more internationalized local banks which, of course, include us. And these alone will have in the next weeks and months an impact estimated by us of around 1% or one point of Basel ratio which will bring us back to our target around 15% with the same assets, credit and market exposure.

Shareholders' equity had a capital increase of BRL977 million. This was shares issued to (Generale) in the context of the closing of BSI transaction. And as always, the change in our shareholders' equity was basically our results for the quarter plus this capital increase. This took us to BRL22.1 billion of shareholders' equity at the end of the quarter.

In terms of nothing very special here, this 0.67% is already the consolidated number including BSI. So as expected, not any special addition. This small increase from the last two quarters more related to market volatility and us positioning especially our sales and trading units to benefit from that. So that's; for initial comments on the quarter.

If you take on the following page; page 4; the year-to-date performance, I think we capped annualized return on equity of 22.1%, which is very good; especially if you consider, again, submarket conditions. Margins are in-line to our expectations. So 48% in cost to income. But for standalone 47%, compensation ratio at 29%. And BTG Pactual's standalone 28% and net margin at 52%, which is more or less the target that we have.

And as I explained before, equity; shareholders' equity increased by BRL3.9 billion during the year to a total of BRL22.1 billion. So it's; and as I said, a combination of these (Glenett) earnings plus the cash capital increase that was done in this last quarter.

As I said, I think the good results of the business is related to I think that the transformation that's implemented in the last five years in diversifying the business, in different business units, different geographies and a much more fee driven composition of total revenues.

So when we go to page 5, we see the results on an area by area basis. And Kalim will go in the details about that. But I can make some specific comments here.

First, related to the corporate lending business, you will notice we reduced significantly during the last four quarters our credit exposure in reais, which basically is the credit exposure in Brazil, even though that the overall portfolio didn't change too much. Reduced it slightly. But it's just because we have the dollar portion of our portfolio, which is mostly the ex-Brazil part of the portfolio.

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And given that we report this number in reais and they are dollar denominated, they grew a lot in reais. That was the direction of a more conservative balance sheet that we position you in the last two quarters that we are moving. And I think we are now in the final phase of this process.

Also, even though the three (previous) provisions, we didn't have any specifics of price here and don't expect to have any specifics of price here. So very comfortable with levels of credit and especially levels of exposure to Brazilian corporate.

On the sales and (trading) I think it's; the key performance of the quarter. So BRL1.444 billion of results. It's very significant; above what we consider running rates for the units, especially related to good performance in commodities, globally commodities, locally or energy and FX.

Not that good performance in equity and rates. But overall, very strong results. And I think here we had more activity. As we told before, this more volatile environment with more uncertain creates more flows, clients need protection. Clients need to sell assets. Others consider this as opportunity. And as key market makers of Latin America markets, I think our franchise benefitted from this positioning; or repositioning of our clients and investors.

So it's a very strong quarter. And we are very glad with these results.

On principal investments also some specific comments. You saw negative results in private equity of 407 million. And this is basically, we did 900 million; or roughly 900 million of provisions in private equity portfolio, concentrated in the oil and gas sector. And this was partially offset by roughly 500 million of positive results on the second leg of our sale of Rede D?Or stake.

As we announced before, we sold half of our Rede D?Or position. And this was; but a little bit more than two-thirds booked in the Second Quarter, a little bit less than one-third booked this quarter. So this is; one-third of this transaction was booked now.

And the 900 million of provisions, as we also said, we are basically putting some bad investments that were relevant for us behind us. So doesn't mean that we're not fight to recover that. So we'll do day and night; dedicate to recover to this investment. (Setch) Brazil is the most important of them.

But as good banking practice suggests, we need to be prepared to; worst outcome and work day and night for a better outcome. So now, basically we concluded these provisions, even if we have a worst case scenario in some of these investments.

So we are; with these numbers, we are very, very happy with that. I think that achievements in the quarter were quite significantly. So these provisions in; not good investments, conclusion of some fair stakes, excellent performance in sales and trading. And a very good return on equity with important deleveraging of the balance sheet.

If we move to the next page, to conclude my introduction, you have; we created this new page just to show how we see the business, or the key achievement of the BSI closing impact; how this impact us.

So when you look at the assets under management, on the end of Second Quarter you see 306 billion and now, this quarter, we have BRL653 billion. So it's a lot of assets under management. Of course, a little; BRL422 billion of wealth management, BRL230 billion of asset management. Significant numbers. And especially if you consider that we have an equity capital of about BRL22 billion.

So it's significant assets under management compared to our capital. So it's; these are high numbers, even if you compare to the big commercial banks of Latin America. Probably these numbers are higher; but on a lower equity base, which means that the component of management fees that we have; it's very significant when you compare to the industry.

So with this introduction, then I will hand over to Marcelo Kalim to go into more details in each business unit and in the balance sheet. Then, of course, all of you feel free to ask us questions about our announcement.

Thank you, again.

Marcelo Kalim {BIO 16142515 <GO>}

Thanks, Andre. Good afternoon. Good morning to the ones that are in other time zones.

I think we can go to section 1 business areas. And on page 8, we have our investment banking unit. We had revenues of BRL66 million. A very slow quarter for investment banking, both in capital markets and financial advisory. And this has been the trend for the last couple of years in the region.

We still see this business as sometimes having sometimes having some lumpy sums, if you will, on specific transactions. And probably in the Fourth Quarter, we are going to see that again.

We have this expectation, because we continue to maintain our leadership position in the region; especially on M&A, financial advisory and more likely than not in the Fourth Quarter, we'll be able to see something similar as we saw in the Third Quarter last year.

So this gives us a certain confidence that we'll be able to close the year on a high note.

On page 9, we turn to corporate lending. And here we had revenues of BRL237 million. And albeit less than the previous two quarters, we think this is a very solid number. With this quarter, we didn't have any significant one-offs. It was more or less a performance of the corporate lending portfolio. And it is above what we have been showing the previous year, which was around BRL200 million. So this shows a very healthy level of results.

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On the right side, we have the composition of the corporate lending portfolio which reached BRL42.8 billion. And we separated here the lower denominated in Brazilian reais and other currencies to further evidence the decrease in the overall portfolio.

If you look where we began the year, 45.9, now we are at 42.8. But the real decrease probably is much larger than that. Just look at the Brazilian real's position decrease at BRL6.5 billion. And the other currencies increased BRL3.2 billion. If you take just the Brazilian real devaluation, this should have increased even more.

So that shows that we are really reducing our exposure.

From an outlook perspective, we are pretty confident in this portfolio. We don't see any negative trends on delinquencies and we are very comfortable with the allowances that we have made in this portfolio.

Turning to page 10, we have the sales and trading business. And as Andre mentioned, we had a record quarter; BRL1.4 billion of revenue. And here, of course, with very strong performance from our commodities desk. It's actually in coal and energy.

And we are very glad to show that result not only because of the number but to back up some of the things that we said last quarter; which, if you remember, last quarter we had that down quarter and we said that part of this was due to some volatility towards the end of the quarter. If the quarter had ended on a different day; one or two days after, we would have shown significantly different numbers. And I think this result not only backs that up and some more.

Of course, as Andre mentioned, probably this number is a little bit higher than our, let's say, moving average. But we are extremely satisfied to be able to show a result like that.

Even more so, given the performance of our equities and especially the rates desk. Our rates desk has obviously been a very important contributor to revenue. And being able to show a record revenue when our rates desk had a subpar quarter shows the strength and the diversification of our business. So that is; that's why I say we are extremely glad to be able to show a result like that with the kind of diversification we were able to achieve.

On page 11, we have our asset management business. We reached BRL327 million of revenue. And here is a little bit more of the story that they've been telling this whole year. And this BRL327 million are basically management fees which already an increase year-over-year. Last year, we had BRL315 million with some performance fees.

So this shows the; the; the profitability of our business and the increase in assets under management. Even though our investment money has been pretty flat on a year-over-year with some quarters negative and some positive, our assets under management grew from BRL201 billion by the beginning of the year to BRL230 billion. And this is reflected on the increased revenue that (we control).

Of course, part of these increases in assets under management is due to the real devaluation that increases assets under management. But this has also a side effect which is a better revenue mix.

Our dollar denominated products are usually the global hedge funds and the alternative investments, which basically almost by definition had a much higher performance fee and much higher management fee than other products.

So not only increase assets under management. But this has the effect of having a better revenue mix.

We expect for the Fourth Quarter to have not only these management fees that have been accruing so far but also performance fees. We have already some accrued performance fees throughout the year that we are going to account for that in the Fourth Quarter. So in the Fourth Quarter, probably we will have not only the best quarter for the year but a very significant increase.

So we are very confident that we will be able to also close the year on a very positive note.

On page 12, we have our wealth management business. And here, a lot of comments.

The first one, I think, is a very good performance of our Latin platform. We had revenues of BRL123 million. And here, we have included the BSI numbers for the first time. We have BRL264 million of revenue for the one month of BSI that we are showing our numbers, resulting in BRL387 million of total revenue.

We closed the BSI position on September 15. And we are showing here the month of September revenues. And of course, in the following quarter we are going to show the full results for the quarter.

And we do expect to keep showing this stage as it is today, separating what is our Latin platform and the BSI platform. And we believe this is the best way to show how the business is run, because this is exactly the way that we look at the business. We are going to manage the BSI business as an integrated wealth management platform.

And on the right side, you have the assets under management in the wealth management business that reached BRL422 billion with also the BSI segmentation by sub-products.

On page 13, we have our principal investments business. We had negative revenues of BRL469 million. And three different stories here.

The first one, in global markets, we had positive revenues of BRL62 million. We believe this is a very good performance given the poor condition of the markets and a very good performance specifically on emerging markets credit and Latin American equity.

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On the merchant banking unit, we had negative revenue of BRL448 million. Andre mentioned, this is basically due to a markdown of BRL900 million on our portfolio of companies; mainly on the oil and gas sectors. And BRL500 million positive revenue on the divestments of a part of our investment in Rede D?Or that we concluded in the Third Quarter of this year.

If you do remember, we already have in the Second Quarter of this year a part of the sale, more or less two-thirds of the total sale that we; that we made. And the one-third a little bit less in this quarter. And we still hope; our stake in Rede D?Or there is more or less the same price; actually, a little bit bigger than the stake that we already sold.

So we are still very confident of these investments and, for sure, we have some profits to make clear. And the following future seeing business market at accrued costs.

And finally, on real estate, we have BRL83 million of negative revenue, which is basically let's say the cost of funding for our BR Properties estate.

Going to section two, we have expenses. And on page 15, we have separated the numbers; consolidate the numbers. And BTG Pactual, we stand alone.

As Andre also mentioned, we are going to show that we also for the next quarter; when we are going to have a full quarter of BSI numbers. And starting 2016, we will focus on the; of course, the consolidated numbers. But we believe this bridge throughout those two quarters will be good to understand how the numbers will start to evolve in 2016.

But for this quarter, since it is just one month of BSI, I think it's more relevant to focus on the BTG Pactual (number). And although the expenses have increased and also our comp ratios and cost to income ratios have already increased, we believe this is much more linked to the real processes of the devaluation rather than a change in the level that we are operating the business; both from a cost income and a comp ratio.

Why? Because, of course, part of our costs are dollar or euro denominated. Or strong innovators strong currencies, if you will. And part of the revenues as well.

However, those two things they don't occur exactly at the same time. So when we have a process of devaluation, as I said, sometimes those things they don't match exactly. We believe that even at a higher level of real but on a more stable, these numbers will probably return and convert to the numbers that were; we are more used to.

For the quarter, we had a 52% cost to income. We will have around 41%, 42%, whether we do believe this can come back; and the same thing for the comp ratio, where we had 33% for the quarter and 28% for the nine months. And we believe this can convert to the more common 23%, 24% that we are used to.

On page three, we have the balance sheet that I believe is probably the most interesting part of this presentation, since we show the consolidated numbers with BSI. And here, as

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Andre mentioned, we reached BRL302.8 billion of total assets. And the highlight is the increase in our cash position; reached BRL40.9 billion, which; a very large number compared to the BRL302 billion that we have of total assets.

Besides that, the shape of the balance sheet remains exactly as it was. The asset financed through repo; financed through repo, of course, the trading portfolio is also financed through secured financing. The credit that increased; and we are going to see on the next page why; has a large coverage ratio of 195%. Pretty healthy one. And our illiquid assets are more than covered by our equity and our perpetual Tier 1 that we have issued.

So the balance sheet remains more or less the same shape; of course, with the much larger position in cash. And we are also going to see why.

On the next page; page 18; we have the broader credit portfolio that we saw on the previous pages. So 98.2 is the total one, 42.8 which is the bottom part; we have already talked about that, which is our corporate lending book. And the rest is related to our wealth management business; most of it coming from the BSI but some that we used to have on our own LatAm platform.

So that totaled the 98.2. And on the right side, you have the description by product. So a pretty diversified portfolio, not only from a product base but also from a geographical base. As you saw before, part of our corporate loan book is already outside Brazil, dollar denominated and throughout Latin America.

And now, the majority of it is (inaudible) wealth management-related, also not related even through Latin America. So a much broader diversification from also a geographic perspective.

Finally on the balance sheet on page 19, we have the unsecured funding base which went from BRL68 billion to BRL162.6 billion. And of course, here the highlight is demand to volume. We used to have a negligible number; BRL300 million. And now we have BRL73.5 billion of demand volume which, for us, is a major change and of course not only is a sizeable number in itself but it gives us a competitive advantage to be able to fund our business; especially the wealth management portfolio of loans; in a very efficient way.

On page 20, we have our Basel ratio in value-at-risk. And as I mentioned, this value-at-risk increased from 0.6 to 0.67. And this reflects a higher activity on our sales and trading business.

We are very glad to see that increase when you have enough here in terms of revenue but also like to the things here, the picture that we do actively manage our risk. So you can see that our value-at-risk decreased and increased, as we saw opportunities come and go. And probably you are going to see more of that in the future.

Regarding Basel ratio, the total Basel ratio was 14.3%. And as Andre mentioned, is a little bit below; or below our 15% target. But we are confident that, just as the Brazilian Central

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Bank, debates or internationalizes its Basel ratio, comp ratio, this number will grow comfortably above the 15% target.

And we can talk a little bit more about that. But basically, there is a friction between how much of risk-related assets we account in the BSI standalone basis on the BSI consolidated business.

Also, it's worthwhile mentioning our Tier 1 ratio. That reached 11.6%. And here there is; the core Tier 1 and the Tier 1. So a little bit of explanation about the Tier 1.

We have perpetual bond issues that automatically triggers into capital, if we go below core Tier 1 or 5 1/8. And we believe this is very much like equity. So we are very comfortable also with our Tier 1 that would also increase above 12% and much more likely near 13% when the Brazilian Central Bank implements this internationalization of our (WA) calculations. So we believe we are in a very comfortable position.

All in, I think this was an excellent quarter; not only from results but also because we delivered; a lot of people have been talking in the past, including the integration of BSI and preparing our balance sheet to accommodate that.

So with that, we conclude the presentation. And we can open for Q&A.

Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts.

(Operator Instructions)

Please hold while we poll for questions.

Carlos Macedo, Goldman Sachs

Q - Carlos Macedo {BIO 15158925 <GO>}

Thanks. Good afternoon, gentlemen. And thanks for taking questions. And congratulations on being the bank in Brazil with the most demand deposits at 75 billion.

On top of that, a couple of questions. One, could you give us a little bit more detail on what you hope to do with BSI going forward? You know, cost to income ratio, 80%; where do you expect that to go? How quickly do you expect AUM to grow? What are you going to do with the loan book?

You know, just an idea so that we can put it in our numbers to forecast that in more detail now that we have it consolidated in. Then what's the strategy going forward in terms of both general growth and operations?

Second question, very specific. You know, the effective tax rate excluding the tax credits in the Third Quarter was zero, approximately. What should we pencil; I know it's very volatile, depending the revenue mix. But what should we pencil in for 2016? Is 15% an adequate effective tax rate? Is 20% an; you know, a good, effective tax rate? What should we work with?

Thanks.

A - Andre Esteves {BIO 1939152 <GO>}

Regarding BSI, you are right on your assessments. We expect in the Fourth Quarter to give some additional guidance for 2016. But as you know, we have an agreement with the team managing BSI on a standalone basis. And it's independent regulated by (FEMA). But of course, it's honored 100% by us.

So we do see some efficiencies in terms of cost to income that is possible to implement. And we also do see some efficiencies in asset liability management. As you know, Switzerland is an ultra-high savings jurisdictions with ultra-low yields. Brazil is exactly the opposite. It's ultra-low savings with ultra-high yields.

Certainly, there are some easy low hanging fruits here to implement. So I'm saying about the short-term target. But of course, gradually we need to implement a more ambitious program of growth and management of the franchise. So we will do that without rocking the boat.

So it's a profitable business, it's not a turnaround story. It's a very good brand in the region. So we need to go gradually implementing this benefit. And we expect on the Fourth Quarter to give you some more clear guidance for 2016. But yes, we do expect to reduce cost to income and especially implement them some ALM optimization for the group.

On the; on the tax rate, you are right. It's a little bit volatile. It's; were; benefitted from that. We have one off around the increase in banking taxes in Brazil that by law we enforced it to recognize this quarter. But we do see probably something between 20% and 25% as a reasonable number. And understanding that we are an international player and we have different jurisdictions with different taxations. So it's a mix.

But that I would say a reasonable guidance for the future and not only next year but for the middle term future.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thank you, Andre. One; just going back to BSI. The numbers that you reported for BSI in the; just the month of September, we know that any given month there could be a number of things that affect results.

Would you consider these numbers, these figures, both on the revenue and the expense side to be representative of what we should expect for the entire Third Quarter, if you were to; if you had reported a Third Quarter? Or is this something that we need to consider when thinking about forecasting this for the Fourth Quarter and then next year?

A - Andre Esteves {BIO 1939152 <GO>}

It's; as you said, right? It's wanting to give a much; it's too much of a generalization of the results. But a (sweltering) line. If you take the last 12 months of BSI, the results were CHF150 million, which is more or less in-line with the results of the individual month of September.

So that's, I would say, an initial guidance of what we can expect. And more important than that, Carlos, is eventually the number can be a little bit lower or be a little bit higher. We'll fight to move this number higher.

But the good news about the integration is, as you know, we financed a piece; a small piece of that with the acquisitions. But the big piece of that we financed with the issuance of Tier that we did basically end of last year. One year ago.

And we carried; BTG Pactual with standalone base, with the cost; with the full cost of; or 80% the cost of BSI acquisition. So for 80% of these net earnings, they come basically on the top of what we already have in terms of capital. So without the new issuance, basically the cost was already there. So that's an interesting highlight.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you.

Operator

Mario Pierry, Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me stay on BSI first. When you announced the acquisition of BSI and looking back at their financials, in 2013, BSI had assets under management of CHF89 billion. When you finally integrated, you brought in 79 billion in AUM. So if you could discuss a little bit more about the dynamics that you see in BSI in terms of asset management growth, why do we see this drop?

Was this primarily linked to the assets in Europe? Or was this also related to Asia?

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Also with BSI when I look at the average fee that you're charging at BSI, I'm getting an average fee of 1% while Brazil operations you have an average fee of 0.5%. So also to try to understand here the key differences between BSI and your LatAm operations.

Then I'll ask my second question after.

A - Andre Esteves {BIO 1939152 <GO>}

Okay. Well thank you, Mario, for the questions. You're right on your numbers. But basically, the net new money of BSI in the last 24 months is flattish.

So the key effect in assets under management on the Swiss francs is related to FX variations. As you know, Swiss franc moved up in relation to the other countries. So; and this has; is the key impact on this change in assets under management.

Of course, reporting the numbers in reais, this increase in reais, a reduction in dollars; a reduction in Swiss francs and a stabilization in dollars. More or less, that's the ballpark.

Of course, gradually we expect net new money to move; to move further. And we need to understand that the bank was in a process of say, over the last 24 months, was not the ideal environment for net new money.

Having said that, yes, the nature of the business that we have there is; in terms of wealth management, is a little bit different than the nature of the business that we have in Latin America. Our business, Latin America, is basically a local market business. The business that we have in BSI is basically international wealth management.

So generally, when you compare that to the big global players, you have this difference in margins from what the big Swiss banks have in their local markets operation and their international asset management operation.

So I would say that it's; most of that is related to the nature of the business.

But as I said before, we expect to implement some optimizations; balance sheet optimizations and management optimizations. So as I said, it's not a turnaround story. A good brand, functional, profitable. But we can probably have some low hanging fruit here in terms of ALM.

If you take; we had some discussion on the credit portfolio. It's more related to the wealth management operation. But it's integrated to what we have in terms of wealth management Latin America. You can have some relevant margin increase on specifically this portfolio just as an example.

So that's my comments on their side.

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Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Now that's very clear, Andre. Now let me ask you, then, about your corporate lending business in Brazil. We saw this drop of about BRL70 million in net revenues from the Second Quarter, even though your long book is relatively stable. And we're seeing much higher spreads in Brazil.

So can you just, then, help us explain, like, five of the provisions? Is that the main reason why we see this drop in net revenues is because of provision charges? If you can give us an idea the direction that this is moving and if you; if you are comfortable with the asset quality of your book?

A - Andre Esteves {BIO 1939152 <GO>}

No, Mario. I think we may show that in the; in the First Quarter, in the Second Quarter. We had some NPLs special results in the First Quarter, in the Second Quarter and a little bit, too, in this quarter.

So it was our core revenues, if you want, in the corporate lending book. Should be around BRL200 million. And we basically had the performance coming from NPL transactions that we book at cost until we receive them. And we got some conclusion updates along this year. So we are seeing some extra benefits on what we can classify as corporate lending.

So the results are stable. The core results in corporate lending.

We increased the level of provisions; not only this quarter. But in the three quarters. But to a level that in a certain way we are very comfortable with the book and didn't change the results on a relevant way.

So as you can see, we deleveraged significantly the real denominated piece of the book; so moved from the beginning of the year from BRL37.3 billion to BRL30.9 billion. So it's a; it's a relevant reduction. And here is a; just moving the bank to a more conservative stance.

Of course, Brazil is not in the best moment. So we need to manage our exposure accordingly. So we; corporate lending for us is an important unit. But it's part of the whole platform. So we don't depend of credit.

So we have the flexibility of being a little bit more aggressive than a traditional commercial bank. So we basically cap the dollar denominated lending book, which is basically Latin America. And reduce the real denominated quarter lending book. And we don't see any special action in this book in the next quarter. So we are comfortable with the book; with this (multiple speakers).

Q - Mario Pierry {BIO 1505554 <GO>}

So yes. Just to summarize, then. So that you're saying that your First Quarter and Second Quarter numbers were I guess inflated by some special events. They should be running

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close to BRL200 million in revenues in corporate lending.

Is that roughly it?

Andre Esteves: Yes. It's; again, NPL is part of what we call corporate lending. But they don't happen every day. So we had these gains and probably the core results were slightly above the BRL200 million. And even this quarter, we have a small; very small but a still effect on NPL's results.

Of course, NPL is part of our core business. We have the largest company in Latin America specializing NPL. It's doing quite well.

So we expect to continue to have NPL results kicking in in the further quarters. But the corporate lending core results were; yes, more or less stable in these three quarters.

Okay, very clear, thank you.

Operator

Saul Martinez, JP Morgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good afternoon, everybody.

I have two more specific questions. One, if the BSI contribution; net revenue contribution; is BRL264 million in September, how much of that is fee-based? How much of that is credit? How much of that is other types of revenues? If you can just give us a little bit more color on the composition of that revenue, it would be helpful.

And secondly, on the corporate lending business. Would you be willing to; my understanding is based on your responses in past discussions, you're benefitting from recoveries and net recoveries or contributing to the net revenue line.

But would you be willing to share how much you took in terms of gross loan loss provisions and what the actual figure was in recoveries in the quarter to get to sort of a net number in terms of net loan loss provisions or net recoveries?

A - Andre Esteves {BIO 1939152 <GO>}

Well so I; we don't have the open number for September in terms of a specific revenue breakdown of BSI. As I said before, we expect in the Fourth Quarter to give more specific guidance for 2016.

As you said, the business mix there is in-line with the industry of Swiss private banks. So there is not; no specific inclination to us creating fees, management fees, direction.

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So you could consider your estimates are industry pattern for BSI. But as I said, we'll give some more specific direction in the Fourth Quarter where we'll have a full year of integrated business in 2016.

Regarding the corporate lending book, I think Kalim can make some comments.

A - Marcelo Kalim {BIO 16142515 <GO>}

Okay. So just for some comment about the BSI breakdown on revenues. As Andre mentioned on the Fourth Quarter, probably we'll think on some ways to better show the BSI business. I think that's a good suggestion that we may look on how to better convey how the revenue is composed of.

Regarding the; the; the (PDD), for a lack of better word, in our balance sheet, it increased from BRL1.5 billion to BRL1.8 billion. And this increase is mainly not really P&L. But actually consolidated the BSI numbers into our balance sheet.

I'm not sure if that was a specific question that you asked for about growth finance. But that's what this increase is made of.

A - Andre Esteves {BIO 1939152 <GO>}

And regarding the specifically Brazilian and Latin America part of the portfolio, as I said before we didn't see anything special. When we can see the 200 or 200-plus results, it's already included some level of provisions which is a little bit less than 100. And we work on the core book more or less in-line with these two numbers.

And on the NPL comments which was the comments around the last question, we continue to like the business and to see future of potential revenues coming on this line through an NPL management. It's just that we had in the first two quarters some very special results. This quarter was more in-line to what we see on a structural base. But even though that we'll see sometimes a little bit more, sometimes no contribution.

This (group will) come negative contribution from NPLs. And in terms of provisions as I said before, we are comfortable to; on what we have; and we don't see any negative development coming in the near term.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. On the first question, I mean, I'll look into what the broad range is for Swiss Private Bank. I don't really have that; I don't really know what that number is or what those general figures are. But is it fair to say that it; the majority of it is fee-based? Or is it (multiple speakers).

A - Andre Esteves {BIO 1939152 <GO>}

No, let's; yes. Let's look two-thirds, one-third. And of course, there is some deviations about that. But we can; we can have much more (multiple speakers)

Q - Saul Martinez {BIO 5811266 <GO>}

Sure. Okay.

A - Andre Esteves {BIO 1939152 <GO>}

(multiple speakers) accurate numbers for you going forward. But two-thirds fees, one-third other types of revenue. As a (multiple speakers) rule of thumb.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. That's fair. Okay. Thank you very much.

Operator

Maclovio Pina, INCA Investments.

Q - Maclovio Pina {BIO 16236843 <GO>}

I just want to get a little bit more color, as before, on the bonus payments. Because it sounds rather high, even when I look at BTG stand alone for either the quarter or for the nine months year to date. And on the other hand, I hear you guys say that no, I should converge down to a compensation ratio of close to 25%. So it seems that things are going, like, two different directions.

So I'd like to get a better understanding. I understand this quarter there were record revenues and whatnot. But I also think that the compensation ratio seems to be a little too high.

So how; you know, how should we think about that going forward? I mean, if; you know, is a convergence down to 25% still kind of in place? Or is this kind of a structural change going forward?

A - Andre Esteves {BIO 1939152 <GO>}

It's; you are right about this specific quarter is a combination of naturally more revenues or more profits and an FX effect. Right? Effect; because we; we paid some bonus in dollars. And we have some large populations that is performing; doing business on a dollar base.

So you have some; since the dislocation, the dollar/real was so high, we have also these effects in our own business.

On a more ongoing business, when things are stable; and, as I said, we expect on the Fourth Quarter to give you more objective lines. When we have one full quarter of BSI integrated, it will change these ratios. Because BSI is today a cost to income business of 80%. We expect to reduce that. We have targets that probably we will disclose for you about that.

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But (I had) some implications in changing that.

On the other hand, it's a pure agents' business; or almost pure agents' business. And even though that we need to afford probably a little bit higher cost to income with the incorporation of BSI. But we consider fantastic the new business mix.

And it's not only about business. It's also about regions and about jurisdictions and currency. So it creates a global footprint. And we have more than ever a strong in asset management business and are producing more than ever results in strong currencies.

So we are; we are very glad with the combination. I think markets will gradually recognize that quarter after quarter. But yes, even with optimization, it totally implicates in a little bit higher cost to income.

We will; as I said, when we have the full quarter done with BSI, we will disclose our new target for you guys in our next conversations --

Q - Maclovio Pina {BIO 16236843 <GO>}

Okay. I'm sorry. (Multiple speakers). Yes. Go ahead?

A - Andre Esteves {BIO 1939152 <GO>}

Go ahead.

Q - Maclovio Pina {BIO 16236843 <GO>}

No. I was just going to (multiple speakers). I was more keen on; I'm sorry if I wasn't clear; on the compensation ratio. That was the one I was referring to.

And you're absolutely right. The FX definitely has an impact.

Do you have any sense on how; where it would have been, say, on a; if the real would have remained flat? Just to get a better sense of that ratio in particular, the compensation ratio.

A - Andre Esteves {BIO 1939152 <GO>}

Yes. That was going to be my; my; my; my comment. We believe that the comp ratios are; without the FX effect would be more or less in-line what we had in the previous year; 21, 22. Whatever the number it was.

And I want to give you just a mechanical example on how the FX evaluation does affect our business.

Let's suppose we have just one line of business that it is dollar denominated. So we have BRL100 of revenues in the First Quarter. And let's suppose we accrue 25% of bonus.

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We accrue those two in reais. Okay? So the BRL100 in reais were converted by the rate of two. So we have BRL200 in revenues and 15 bonus.

Even if we do hedge it at 50 that we do have to pay in dollars, as the; the real devaluates, the whole 25 or 50 increases to 100. But our revenues do not go to 400. They just increase by the amount that we have hedged. So percentage-wise, this does increase.

Did you get the math?

Q - Maclovio Pina {BIO 16236843 <GO>}

Yes. Yes. No. That's actually very clear both that and what you just said that without the FX it would have been closer to 21. That's actually a pretty (how point). I didn't realize it was so much exposed to U.S. dollars. Okay, that's helpful.

Operator

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

I just wanted to follow up on Mario Pierry's question on asset quality. Just very quickly. We saw that renegotiated loans went up to 1.4 billion from basically 50 million; you know, in the quarter.

I was just wondering if this was, in effect, the consolidation of BSI or if you could give us some color what happened there.

Thanks.

A - Andre Esteves {BIO 1939152 <GO>}

No. This is; in reality it didn't impact P&L. But it's an object part of FX, which is the end of the Chapter 11 of (anava).

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay.

A - Andre Esteves {BIO 1939152 <GO>}

So it's no effect on P&L. But yes, as we said, I think in the last quarter of last year that we did some big provisions regarding this exposure.

We expect that in the future some of that money could come back.

I think we have good chance of this happening in the next quarter because the company now is fully restructured. The specters are good. So we are optimist with that.

But we decide to see a little bit of the normal life of the company. You saw some news on the cap increase a few weeks ago. And it's still being concluded. But that was a reclassification without P&L impact but probably suggests some positive news ahead of us.

Q - Carlos Macedo {BIO 15158925 <GO>}

So you kept the rating essentially but you might; you might be able to reverse part of those provisions as they; as the loans continue to perform.

A - Andre Esteves {BIO 1939152 <GO>}

Yes. But we are just being conservative here. But probably, as I said, we'll have some good news ahead of us. But let's see a few quarters of normality. Then we put this money back on the (P&L).

Operator

(Operator Instructions)

And seeing no further questions, that brings us to the end of our question and answer session. I would now like to turn the floor over to Mr. Andre Esteves for his closing remarks.

A - Andre Esteves {BIO 1939152 <GO>}

Well thank you very much for being with us on the call. Thank you, guys, for your questions. Let's see each other at the beginning of next year talking about year end results and guidance on the consolidation of BSI.

Thank you for being together with us on this call. Bye-bye. Have a good day.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time. And have a nice day.

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