Company Participants

- Bernardo Rothe, Head of Investor Relations

Other Participants

- Carlos Gomez, Analyst
- Carlos Macedo, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Nicolas Riva, Analyst
- Philip Finch, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to Banco do Brasil's First Quarter of 2016 Earnings Conference Call. This event is being recorded, and all participants will be in a listen-only mode during the Company' presentation. After this, there will be a question-and-answer session at that time further instructions will be given. (Operator Instructions)

This event is also being broadcast live via webcast and through Banco do Brasil website, at www.bb.com.br/ir, where the presentation is also available. Participants may view the slides in any order they wish.

Before proceeding, let me mention that this presentation may include references and statements, planned synergies, estimates, projections, and forward-looking strategies concerning Banco do Brasil, its associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

With us today, we have Mr. Jose Mauricio Pereira Coelho, CFO, and Mr. Bernardo Rothe, Head of Investor Relations. Mr. Bernardo, you may now begin.

Bernardo Rothe {BIO 18059993 <GO>}

Good morning. Thank you for participating in our conference call. I would like to start on page 3, with the highlights of our first quarter (Technical Difficulty).

Starting with NII, it grew by 13.7% in comparison with the first quarter of last year. Pretax and pre-provision earnings increased by 15.6%. Our fee income increased 2.5%, but if you exclude the income that migrated to Cateno, the interchange that we migrated to Cateno from the first two months of last year, that growth would be 10.8%. Administrative expenses grew only 2.5% and are still totally under control. And cost-income ratio ended the quarter at 40.8%.

In page 4, I will give you more details in how we moved from the first quarter 2015 to this quarter with all the impacts in the construction of our net income. We have reached BRL1.3 billion with an ROE of 5.6% in the adjusted net income. With the one-off items of BRL1 billion, we reached the net income, the book net income of BRL2.3 billion with an ROE of 10.5%. For this quarter, we had one particular case that we had a big provision made and just to adjust that this particular case to show you how the performance would be without that case, you can see that our adjusted net income would be BRL2.3 billion, ROE of 10.4%, one-off items of BRL26 million and reaching between book net income of BRL2.3 billion at the end of this quarter.

On slide 5, the pretax and pre-provision earnings. The annual change of 11.7%, growing from BRL36 billion in the last 12 months at the end of the first quarter of 2015 to BRL40.3 billion last 12 months ending at the first quarter of 2016. But here, also, we can make a change to take the interchange that migrated to Cateno after February last year to see how the performance would be without that particular source of revenue. And in that case, the total pretax pre-provision earnings last 12 months ending first quarter of 2015 would be BRL34.8 billion and the growth would be 15.6%. The idea is just to compare the same source of revenues and costs in each quarter.

In page 6, we bring to you some market ratios of Banco do Brasil. So at the end of the first quarter, our earnings per share was BRL0.83; dividend yield reached 7.38%; price/earnings, 5.05; and price/book value, 0.66.

In slide 7, we give you information about our funding. We have reached at the end of March BRL638 billion and the main performance in this portfolio was the increase in 12.2% over March 2015 in the agri business letter of credit and mortgage bonds, growing from BRL137 billion to BRL154 billion. Also, in savings deposits, we had a growth of 5.4% over March 2015, reaching BRL152 billion at the end of March.

Page 8, we bring information to you about other sources of funding that goes through our subsidiaries. So assets under management kept growing during this period, reaching BRL644.8 billion in assets under management by BB DTVM. We are the number one in the market with a 22% market share. And also, Brasilprev is still the number one in net inflow, with a 56.1% market share, reaching BRL3.7 billion in the first quarter of this year.

Moving to page 9, we have the loan portfolio in the broad concept that increased 2.3% in 12 months, reaching BRL775 billion, comprised of: 44.9% with companies, 24% with individuals, 23.1% in agri business and 8% is the portfolio that we keep now our branches outside and subsidiaries outside of Brazil. As you can see, we have a shift in the makeup of the portfolio, where we have increasing participation in the individuals portfolio, growing from 22.5% to 24%, and the agribusiness portfolio, growing from 21.6% to 23.1%.

Page 10, we have the information about our main lines of credit in the individuals portfolio, our lower-risk lines of credit that reach almost 76% of the total portfolio with individuals. Starting with mortgage, we can see that our portfolio grew by 22.6%, reaching BRL50 billion at the end of March 2016, and the delinquency ratio in this particular portfolio went from 1.02% to 1.38% in 12 months period. It is good to remember that these mortgage portfolios are very young portfolios. We started these back in 2011. So it's still maturing portfolio. So, it's natural that these delinquencies should go up until we reach the maturity of the portfolio and then, we will have a stabilization in this particular inventory.

Moving to payroll loans, we have a growth of 4.6% in 12 months, reaching BRL62.6 billion. The delinquency ratio reduced over the 12-month period, from 1.37% to 1.28%. And we keep the highest market share in the market with a 22.9%. Salary loans grew by 8.7% in total compared to March 2015, reaching BRL19.2 billion. Delinquency ratio in this particular portfolio also declined in comparison to March 2015, going from 2.59% to 2.3%. Auto loans have been decreasing, given the market. There is no demand in the market. So this ends up in the end of this first quarter of this year with BRL22.6 billion, a decrease of 5.3%. But the delinquency ratio is still very low, with a small growth in 12 months, from 0.83% to 0.93%, even though that the portfolio as a whole is decreasing.

Moving to slide 11, we have loans to companies in the broad concept. The total portfolio decreased by 0.9% in 12 months and that mostly coming from the decrease in the very small companies portfolio that went from BRL100.4 billion to BRL91.1 billion, 9.3% decrease. And the portfolio with middle market, corporates and governments increased by 2.4%, growing from BRL251.4 billion to BRL257.4 billion.

Page 12, we show the performance of the agri business portfolio, with an increase of 9.8% -- almost 10% in 12 months, reaching almost BRL180 billion, most of the increase coming from the companies side of the portfolio with 19.8%. Most of this increase happened last year, not in this quarter. And the portfolio with individuals grew by 6.1% in 12 months.

We would like to highlight that working capital for these segments during this harvest period that start in July last year. So we have nine months in the harvest period. We reached BRL42.1 billion disbursed in nine months, a 37.5% growth compared to the same period of the previous harvest. The total disbursement in this particular harvest was BRL59.8 billion, 7.5% growth compared to the 2014/15 harvest disbursements in the first nine months of the harvest period, mainly because we had a decrease in demand for investments in this period. So, still a very good performance anyway. But the use of mitigators for working capital reached 64.8% in the nine months of the harvest 2015/16.

Page 13, we bring to you average risk and delinquency ratios. Our average risk reached 4.87% at the end of March, still much lower than the average of the market. NPL 90-days reached 2.6%, also smaller than the average of the market; the banking industry is 3.5%. NPL 90-days for companies increased to 4%; the NPL for individuals is at 2.4%; and agribusiness ended at 1.19%.

In page 14, we bring to you the vintage for the individuals loan portfolio and the very small companies loan portfolio. As you can see, the new vintages given in the individuals and the very small companies portfolio is performing better than some of the previous vintages, even though we have almost two years of recession now. What this shows you is that even with a very challenging environment, our portfolio -- our new vintages are performing better, meaning that we have the inception of the loans we put in our book better loans than in the past, that we're able to perform better now.

Moving to page 15, we have two views of the NPL formation that we prepared for you this quarter. The first one is the traditional one that considers the new NPL in relation to the loan portfolio in the previous quarter. As you can see, the figure reached BRL7.39 billion; and the index, 1.03%. And the coverage ratio of the new NPL, considering the flow of provisions made in this quarter, the coverage ratio reached 123.8%, almost 124%.

And as you can see, most of the time we have provisions going over the level of new NPL that we have quarter-over-quarter. The only exception, this year in September 2014.

The new one that we create that comes below is we adjust the new NPL to include the portion of the renegotiated loan portfolio that was renegotiated after 90 days of being past due; so, bringing back to the NPL formation the portion of the renegotiated loan portfolio that if we did not renegotiate it would be impacting the delinquency ratios, and so on. So, with this adjustment -- although we don't agree with that, but just to give you the figure anyway -- we reached BRL8.47 million, and the index grows to 1.18%, and the coverage ratio is 108% in this quarter.

Moving to page 16, coverage ratios and the balance of provisions. As you can see, our coverage ratio for 90 -days past due transactions reached 194%, and the average of the market is 168%. The coverage ratio for our NPL over 15 days reached 104%. And as you can see over this period of time since June 2014, we always have provided more than the NPL over 15 days. At the provisions by segments, as you can see most of the growth in provisions this period came from the company's portfolio and also in the portfolio that we have in our branches and subsidiaries outside of Brazil.

In page 17, we have the renegotiated overdue loan portfolio. As you can see, we reached BRL22 billion of balance at the end of this quarter, an increase of almost 100% since the first quarter of 2015. So, you can see that contracts reached BRL3.6 billion, two times the level of contracts that we had in the first quarter. But on the positive side, you can see that amortization and the interest received after capitalized interest increased from BRL99 million to BRL450 million; so, 4.5 times what we did in the first quarter, much more than the increase in the balance and the new transactions coming in the portfolio.

So, although we are renegotiating a lot, given the scenario that we are living in Brazil right now, we have been able to receive even more than what we are doing in terms of new loans put in this particular portfolio. Delinquency ratio reached 19.5%, and the total credit renegotiated to classified portfolio now reached 3.1%, still below what you can see now on the average of our main peers in the market. In the bottom of this slide, we create also the NPL formation for this particular loan portfolio. So, we give to you what is the NPL formation and the coverage ratio of the portfolio. As you can see, we reached BRL1.19 billion in new NPL in the renegotiated loan portfolio and an index of 9.7%.

Page 18, we have the net interest income and net interest margin. Our net interest income reached BRL14.3 billion at the end of the quarter, an increase of 13.7% in comparison to the first quarter of 2015. The global spread reached 4.8% and spread by segment is 15.8% for individuals, 5.9% for companies, and 4.8% for agribusiness. And the overall loan operations NIM spread is 7.5%.

Page 19, we have more details on revenue from loans. As you can see, it has been growing over two years, to reach BRL25.5 billion, an increase of 16.5%. And now, funding expenses, as I mentioned, is very stable in terms of costs of funding over SELIC, at 75.4%, even though during these last eight quarters, the level of demand deposits has been decreasing, given the economic scenario. So, we have less demand deposits in our books. But even with the zero-cost type of funding decreasing during the period, we kept the cost of funding as a percent of SELIC very stable over time.

On page 20, we bring to you the fee income, that reached BRL5.5 billion in the quarter, an increase of 2.5% over the first quarter of 2015. As I mentioned before, we have some revenues that we had in the first quarter of 2015 that migrates to Cateno after we formed the JV with Cello. So, if we exclude that revenue, the interchange revenues that link to the (inaudible) arrangements that migrate to Cateno, if we adjust that in credit card and debit card line of fees, we have an increase of 16.9% for credit cards.

So, all the other revenues that we kept at Banco do Brasil increased 16.9% compared to the first quarter of 2015, and the total fee income would have increased 10.8%. That should give you a better feel of our performance in terms of collecting fees during this period.

On page 21, we have more information about BB Seguridade. The adjusted net income reached BRL957 billion, an increase of 0.9%. And the company continues to be as the main player in several segments and with a highlight here the pension plan business and the premium bonds.

Page 22, we have information about our service network channel. The main message that I want to pass you in this slide is the innovation that we have been doing over time since a very long time ago. So, we've been investing a lot in innovation to bring more quality to our clients, quality service and better services to increase business done with our clients, increase margins made with our clients. One example of innovation is the app Ourocard that we just launched, and that is a complete tool to manage any credit card, including tap-and-pay way of paying your bills, and so on.

You can manage all the aspects of any credit card through our app, this new app. That's a very innovative solution that we provide to our clients.

We have also the Ourocard-e, that's 100% digital card where you can create a card to pay just one, a single, bill, a single expense, or have one to use whenever you like. It's mostly used to make the purchase through the internet, but can be used for other things, as well. And 82.2% of all transactions in Banco do Brasil are being done by automated channels by now. And one big highlight is increasing the level of transactions that are performed by our mobile bank. It's increased 82% in comparison to the first quarter of 2015.

Page 23, we bring to you the administrative expenses and cost-income ratio. So, our cost-income ratio reduced from 43.2% at the end of the first quarter of 2015 to 40.8% at the end of this quarter. A big reduction. It reflects all what we've been doing in Banco do Brasil to improve our results and it's reflecting here. Also in control of costs that have a very small increase of 2.5% in 12 months.

Page 24, we have our BIS ratio that reached 16.24%: being Tier 1, 11.38%; and core assets Tier 1, 8.26%.

Moving to page 25, we have the full application of Basel III rules in our BIS ratio and Tier 1. After the anticipation of deductions and other operating rules, we moved from 16.2% to 15.3% in our BIS ratio. But if you consider also the use of tax credits, we go back to 16.2%. The same behavior we have in Tier 1, that goes from 11.4% to 10.5%, and then with the use of tax credits we moved back to 11.3%.

Finally, on page 26, we have our guidance. We just reviewed the guidance for adjusted return on equity and allowance for loan losses. That will be return on equity moved from 11% to 14%, to 9% to 12%. Allowance for loan losses moved from 3.7% to 4.1%, to 4% to 4.4%. This change was made to reflect this one particular case of a provision that we made that was a shift from additional provision to recurring provision to regular provision. And with that change, we decided to adjust these two guidance.

All the other guidance are unchanged. And our performance in relation to net interest income was over the guidance, at 13.7%. Domestic loan portfolio grew inside the guidance, at 4%. Individuals was over the guidance, at 8.7%; companies, below guidance, at minus 0.9%; agribusiness grew by 9.8%, over the guidance, as well. Allowance for loan losses was inside the guidance, at 3.9%, even before the change. Fee income grew 2.5%, below the guidance. But as I showed you in terms of (inaudible) first quarter, this 2.5% tends to move into the guidance over the next nine months. Administrative expenses came below guidance, at 2.5%.

With that, I would like to open the floor to questions and answers. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thanks. Good morning gentlemen. A couple of questions. The first question, just looking at your guidance and what you've delivered in the first quarter, two separate things. First, on asset quality, you changed your guidance for the cost of risk, and just trying to get a grip of what it would be. If you're at the bottom end of your guidance, which is 4% now, it would be around BRL6.5 billion a quarter in provision expenses, which seems a little bit low. Would it be reasonable to say, given the trends that we see in NPLs based on the percentages that you present in your release and your presentation that we're probably going to head to the upper part of that guidance?

The second question is similar. On the -- when you look at your NII guidance, a very strong quarter this quarter. In your -- sure, there's obviously still repricing, the increase in rates. If we look at the bottom-end of you guidance here, it would imply that NII would have to be 4% lower than what you delivered in the first quarter on average, for the rest of the year.

How does that fit in? Do you still expect more repricing, going forward? If rates were to come down as consensus is building in that direction now, would you be sensitive to rates coming down? Or, is the repricing of the portfolio more powerful than that impact on your NII?

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you very much for questions. Starting with the guidance for allowance for loan losses, that's our best projection for what we are going to do over the course of the year. Of course, the trend for the next quarters is the provisions to reduce in relation to the first quarter. So, we expect a reduction in the next quarters in relation to the first quarter and to be inside the guidance as we move on during the year.

In relation to the NII, we are still having to reprice. So when you compare to the first quarter, we have this high level of growth. But as the process and the impacts of the growing spreads starts to pick up and show more from the first quarter on, we tend to be in the guidance as far as our projections indicate.

In terms of sensibility to SELIC rate potential reduction during the year next year, Banco do Brasil has a neutral sensibility. It's a neutral impact on Banco do Brasil because of the way we prepared the portfolio of our assets in relation to sensibility to interest rates. In fact, our exposure to interest rate risk is very, very low. So any change in SELIC rate going down would be positive in the short-term for Banco do Brasil, but neutral in the medium to long-term. The NII would be even more sensible to spreads than changes in SELIC rates, okay.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Bernardo. Just going back to the first question, then. There is -- again, looking at the vintages that you present, the lines that represent 2015 and 2016, you can't really see, but even 2014, which you can see there, they either show weaker quality or an inflection coming into this year. Would it be reasonable to assume that your cost of risk is going to -- it might come down from the first quarter but that it would increase during the year? Would that be a reasonable assumption?

A - Bernardo Rothe {BIO 18059993 <GO>}

Cost of risk, it tends to move in anticipation to delinquencies. So, that's all. In previous cycles, you can see that the cost of risk peaked way before the peak of the delinquency, in not only for Banco do Brasil but for the industry as a whole. So, again, from our projections what we expect, even given the levels of delinquencies that we are seeing, the guidance is (Technical Difficulty). It reflects when we are going to be inside of that in terms of end of the year.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Great. And what's your forecast then for the peak in NPLs, in the NPL ratio?

A - Bernardo Rothe {BIO 18059993 <GO>}

We are not giving forecasts about that, because it depends on the economy.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Okay. Thank you so much.

Operator

Our next question comes from Mario Pierry from Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi good morning. Let me ask you two questions, please. The first one is related to the strategy to use the excess reserves this quarter. We saw some of your peers or the private sector banks actually not touching the excess reserves. So just wondering why you feel that you should be using your excess reserves now, especially considering whether the economic situation should be deteriorating?

Second question is related to your pricing power. You are growing your net interest income much faster than any private sector peers. It seems to us that you are still repricing the portfolio. Probably you started from a lower base and you have more room than the private sector banks. If you could discuss that dynamic? How much more repricing you think you can do?

And also it has to do on your fee income, as well. We're seeing your current account fees rising 25% year-on-year. Clearly, the number of accounts are not growing that fast. So can you also talk about the dynamics of repricing that is happening on your fees? That would be great. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Starting with the additional reserves, as we mentioned in the third quarter last year when we created these additional reserves, all the reserves additional are created based on some rules. You cannot just according to our price policy create reserves out of nothing. So, we have rules in two years why we are creating the additional reserves and when we should use that and make it flow to the regular regulatory provision. So, as the criteria was reached, we had to shift that to the regulatory provision, and that's what happened now. So, in terms of the level of provisions that we have, we feel that we have the right level of provisions, and we are going to keep doing whatever provisions we need to do over time that we are needing.

In relation to pricing power -- first of all, in terms of pricing power in the market, there is no competition right now for credit. So, there is no real competition; maybe in payroll loans. Other than that, there is no competition. So, everyone has pricing power, but there is indication to what we can do in that relation. But in terms of repricing of the portfolio, we still have room to price loans, for example, that we did in 2014 that are going to be renovated now. So, we still have room to reprice spreads in our portfolio, and that's what we are going to keep doing during the year. So, the guidance that we give you on the NII growth is totally in line with our projections.

In terms of fee income, that's not only adjusting prices; that also is related to the strategy of the Bank to improve quality of the services, improve availability of the service. So making our clients consume more products and as they consume more products they are paying more fees. So it's not only related to a change in prices, okay.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. So, let me go back then to the excess reserves, because in the third quarter you create your excess reserves by BRL2.4 billion and we understand that at the time all the banks had been nonrecurring gain there. So, you have used up BRL2 billion. So, technically, you have another BRL400 million. Was this other BRL400 million that you set aside also specific for this client? Or, is it a different client?

A - Bernardo Rothe {BIO 18059993 <GO>}

Additional reserves are not for any particular client. They are for segments. And as we mentioned, the additional reserves that we made that we still have BRL1 billion of additional reserves, not only (inaudible) BRL1.2 billion, in fact, is the correct number. So we still have the additional reserves that are related to non-agricultural commodities and oil and gas. So, if there is any retrieval from these additional reserves that still have in our books, we are going to reverse them and make them the available provision.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Sorry. But normally, you work with additional reserves of about BRL1 billion. And your additional reserves have increased in the third quarter by BRL2.4 billion. My point is, okay, I think that the Bank will always want to work with some type of additional reserves. So, I don't think you are going to be consuming 100% of your additional reserves. So, that's my point. It is more like when you increased -- you increased them by BRL2.4 billion. You have used BRL2 billion. So, should we consider that technically you only have BRL400 million in additional reserves to be used in the short term?

A - Bernardo Rothe {BIO 18059993 <GO>}

No, that's not how it works in Banco do Brasil. According to our portfolios, all these additional provisions have a rule, and the truth is we are going to do that. We don't have a target of keeping additional provisions, because what we do is to give regular provisions. We do regular provisions as needed all the time. So, it's not a matter of giving additional instead of being regular. If there is a need for one particular point to do the provisions, instead of doing that as an additional, we'll do that as a regular provision. So, we demonstrate to you we have just nothing points. So, that's what we do, okay.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Thank you.

Operator

Our next question comes from Mr. Thiago Batista from Itau BBA.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi Bernardo, thanks for the opportunity. I have just one question, on asset quality. When I looked at the delinquency ratio in the agribusiness segment, we saw a big jump, or a big increase, in the delinquency ratio from the last 12 months. It went up more or less 40 bps, and this is almost 50% of the delinquency ratio level before the increase. Could you comment a little about the main causes of the deterioration in the agribusiness sector? Is there any specific, let's say, sub-segment or product that is causing this problem in the portfolio?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay Thiago. No problem. I can comment on that. What we are seeing in the agribusiness is that some clients in the agro industrial side that was (inaudible) right now. So, they are impacting that. And then, also, we have [some connected] impact in some regions of Brazil -- not everywhere. It's where some regions of some states in the country that have some connecting problems, but that's going to be addressed. So, it's not something that is concerning us, at all. We have also an impact of the corn prices in some segments that depend in corn for the production. But also something that we are not concerned, because solutions are already being deployed for these particular cases and we are going to address that in the next quarters.

Q - Thiago Batista {BIO 15398695 <GO>}

Thank you.

Operator

Our next question comes from Mr. Nicolas Riva from Citibank.

Q - Nicolas Riva {BIO 16875766 <GO>}

Yeah. Thanks, Bernardo. I'm going to follow up on the first question that Carlos made on loan loss provisions. So, I understand that you assume that they are going to come down over the next few quarters, because you assume you will not repeat the provisions for this specific client. Now, loan loss provisions in the first quarter, they were 5.4% of average loans. If I exclude the BRL2 billion for this specific client, they came in at 4.2%.

Your new guidance is 4% to 4.4% for the full year. To get to that new guidance for the full year, considering the number for the first quarter, you will have to be at 4% or below in the remaining three quarters. So that means that on a recurring basis, even excluding this particular provision for this kind of first quarter, you are assuming that loan loss provisions as a percentage of the loan portfolio are going to decline in the next few quarters. So, my question is, what makes you believe that this is going to happen, that NPL formation will improve in the next few quarters?

And then, also, maybe a follow-up on this. In the guidance that you have -- the ROE, 9% to 12%, this year and also in loan loss provisions, 4% to 4.4% -- are you assuming -- are you incorporating any more provisions for this specific client this year? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Starting with the allowance for loan losses, the guidance that we provide you is totally in line with our projections. So, that covers what we believe is going to happen in the next quarters. The way the calculation in terms of that offline later if you want you have to consider also the growth of the portfolio, because this guidance is percentage of the average portfolio in 12 months. So that's why if you look at -- what we did is 2.9% in the 12 months at the average of 12 months and looking ahead of that, you have to consider the growth of the portfolio as well and we have a guidance of 3% to 6%.

In relation to the ROE, our guidance is totally in line with our projections for our return on equity at the end of the year.

Q - Nicolas Riva {BIO 16875766 <GO>}

Okay. Maybe can I just follow up? But then, your new guidance for ROEs and loan loss provisions, is it incorporating any more provisions for this specific client?

A - Bernardo Rothe {BIO 18059993 <GO>}

The provisions that are incorporates all the provisions that we are projecting to be made over the period of the next three quarters.

Q - Nicolas Riva {BIO 16875766 <GO>}

Okay. Thank you, Bernardo.

Operator

Our next question comes from Mr. Philip Finch from UBS.

Q - Philip Finch {BIO 3252809 <GO>}

Good afternoon everyone. Thank you for the presentation. I've also got a couple of questions.

First, just going back to this specific company in the oil and gas sector. On slide 13 of your presentation, you show meaningful increases in both the 15-day NPL and 90-day NPL ratios. So the question is, can you let us know how or where this company fits into the 15-day category or the 90-day overdue category? And how much did it contribute to the rise in NPLs in that first quarter?

And then, my second question, it's related to taxes. And we've obviously seen a lot of volatility in this area in the last few quarters. Looking ahead, what sort of effective tax rate could we expect? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. Starting with the tax rate, we don't give guidance on tax rates. But to understand what happened this quarter and to help you project tax rates moving forward, we have on slide page 34, where we considered what will be the earnings before tax after reallocations and then moving to the fiscal base. And with that, the tax after reallocation, and then all the impacts that particular amount [ph], going to what will be the 45% over the fiscal base.

As you can see in this page 34, the main impacts this quarter comes from the tax effect on the one-off items or mainly the reversal of these additional provisions that we made. Only putting that back in the tax which we reallocate the tax data we are showing to you in managerial world, you see that to be positive. And if we also consider that the equity income that comes in this line, it comes net of taxes. So, if you add this -- what will be the impact of this equity income back or this 461 [ph], you get to a tax rate of 30%. But we have several other things that impact the tax rate and the fact you need to reallocate in the income statement. But that's something that we can go into details with you over each line of record afterwards you can call my team in Sao Paulo and they can explain every adjustment that we're showing in the page 34, okay.

Q - Philip Finch {BIO 3252809 <GO>}

Great. Thank you. And my first question?

A - Bernardo Rothe {BIO 18059993 <GO>}

The first question. Sorry about that. About the first question, what we did -- here again just repeating what I have said -- in this particular case, we reversed from an additional, as I mentioned and that impacts the provision that flows through the adjusted net income. So, moving forward, we expect to begin the provision totally in line with the guidance. I don't know if I answered your question, because I don't remember the details. Can you just repeat to see if I missed anything?

Q - Philip Finch {BIO 3252809 <GO>}

So I'm referring to this specific company in the oil and gas sector. Essentially, where is it classified? Is it now 90 days overdue or is it in the 15-to-90 day bucket? And secondly, how much did it contribute to the rise in NPLs in either of those two categories in the first quarter, for companies?

A - Bernardo Rothe {BIO 18059993 <GO>}

This specific case did not impact the (inaudible) in this quarter.

Q - Philip Finch {BIO 3252809 <GO>}

Okay. So, this company was not included in either of these NPL ratios. Is that correct?

A - Bernardo Rothe {BIO 18059993 <GO>}

That's correct.

Q - Philip Finch {BIO 3252809 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Mr. Tito Labarta from Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi good morning and thanks for the call. A couple of questions, as well. First, just looking at the renegotiated loan portfolio, which has basically doubled from last year, from 1.5% of loans to 3.1%, I can understand why you're renegotiating in this environment. But I guess at some point these loans could become a concern, unless there's some recovery in the economy. has basically doubled from last year, from 1.5% of loans to 3.1%, I can understand why you're renegotiating in this environment. But I guess at some point these loans could become a concern, unless there's some recovery in the economy.

And then, a second question, in terms of capital. We saw your capital ratio, it was basically stable compared to last quarter, but there was a reduction in risk-weighted assets. And you said you expect to reach the 9.5% by 2019. But what kind of growth or decline? How do you see risk-weighted assets evolving this year and also kind of longer term to be able to reach that 9.5% core Tier 1? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

In relation to the renegotiated loan portfolio, when we renegotiate any loans that basically is a financial decision. We look at the best net present value of the solutions available and that's how we drive our decisions when to do the renegotiation. We renegotiate considering the capacity of any client to have disposable income in the case of individuals and free cash flow, in the case of companies. So the main idea behind the renegotiation is not just the repayment of loan, but (inaudible) of payment of our clients.

Of course, over time, as the recession moved over time, we had to renegotiate even more because sales went down, and so on. So, we expect that what we are doing during negotiations that we are doing, probably we're not going to get back 100% of that. That's why we have a delinquency ratio that's started to rose from 18% to 20%. That is part of the behavior of the delinquency ratio in this portfolio. So we expect that the delinquency ratio moving forward to be in line with our historical behavior over time. It can go over a little bit and then but returning to the average over time. So that's what we expect for the future in terms of the renegotiated property loan portfolio.

In terms of capital, it's now our strategy to allocate our assets in types of assets that consumes net capital. So what you can expect is a reduction in density over time. So, we are going to keep doing that over time to reduce density. So, we reduce the consumption of capital through our asset base.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thanks. So just to follow up some on that, the renegotiated loan loss first. I guess, will this continue to increase? How high can these renegotiated loans get as a percentage of your loan portfolio?

And then, second, on the capital, could you give any color, like in terms of maybe do you think assets can continue to decline? I understand you won't improve the density over time, but how should we think about that compared to your asset growth? Will it be negative or just slightly below asset growth? If you can maybe give some color, it would be very helpful.

A - Bernardo Rothe {BIO 18059993 <GO>}

It's hard for me to give you more color on the capital, because we don't release all our strategies in the capital base. But what I can tell you is that the growth of RWA is going to be much less than the growth of assets. So it depends. If the assets are not growing much, you may see a reduction in our RWAs. And if assets start to grow again, we may see some growth from RWAs, but at a much slower pace than the asset itself.

In relation to the renegotiated loan portfolio moving forward and behavior and things, what size, and so on, it depends on the economy. So it may still be growing for a while, but we don't see something that is going to be a big portion of the loan portfolio. You are going to still see as a small portion of our portfolio over time.

Q - Tito Labarta {BIO 20837559 <GO>}

And in terms of your expectations for the economy, when do you think you can start to see a recovery?

A - Bernardo Rothe {BIO 18059993 <GO>}

Sorry. But we do not comment on the expectations in the economy (inaudible) conference call.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, hello everyone. Thanks for your time. I have two questions. One, still regarding capital. Yesterday, I think there was an interview to the press -- I think both Brazil and Nation -- that you are not planning on raising equity until the end of 2016. So we are kind of puzzled by that comment. Does that mean that that's something that could come back to the radar screen next year? That's something that would have to revisit in 2017?

And the second point is regarding the quality of your renegotiated portfolio. If you look at the metrics of how much of your renegotiated portfolio is going back to the NPL category, there has been a very sharp rise in that metric. If you look -- historically, about 35% of your renegotiated portfolio would fall back into NPLs after a year.

Today, if you look at least in your first quarter number, you compare the amount of new NPLs in the renegotiated portfolio versus your portfolio a year ago, you're pretty much running at 90%. So, it looks like 90% of your portfolio of a year ago is coming back to non-performing. Of course, if you look based on two quarters before instead of one year, you are at a 60%-65%, but still much higher than the 30%-35% historical level.

So, it does look like there is a very severe deterioration in your renegotiated portfolio. And my question is, how do we reconcile that with your provisioning expectation? Because if you have that such amount of renegotiated loans that are going back to the NPL category, I would imagine that your provision requirements for that would definitely be higher. And we're just talking about the renegotiated portfolio here. I'm not even talking about the rest of the portfolio. So, how do we reconcile that? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Starting with your first question. Thanks for the questions. The question that was made in the presentations to the press was, are you going to raise capital in 2016? And the answer was, no. But it doesn't mean that we are going to raise capital in 2017 or 2018 and so on. So, just to be clear, the question was, are you going to do anything for this year? And the answer was simply, no. It doesn't mean that we're going to do anything in the next years. Just to clarify that.

In terms of your second question, the quality of the renegotiated loan portfolio, as I mentioned before, it's a stressed portfolio, of course. That's why we have a high level of delinquency in the portfolio, historically. Again, it goes from 18% to 20%. So, we are seeing that delinquency ratio move back to the level reaching 20% and we are going to see over time an average in this range of 18% to 20%. That's what we expect there.

As we can see in the NPL formation, we have the same as a percentage of the portfolio, the NPL formation was almost stable. You have a small number in this (inaudible), but it was around 7.7%.

What changed was in September 2015, when we have the confidence change in Brazil, and that's when we had a lot of these Chapter 11, (Foreign Language), jumping in the country. And so, for a high monthly levels request of Chapter 11 going up by a lot, that impacts the numbers here jumping from 7.7% to 9.8%. And as a percentage of the portfolio, it's quite stable in the last two quarters; a high level, but still stable as a percentage of the portfolio.

So, of course what we renegotiated before this significant event in the first quarter last year, we had some pressure on that. But looking forward, we are not seeing things getting out of control, and we should being able to recover even what becomes delinquent again. So, a level of recovery of delinquency for the whole portfolio, just to give you a data, before it reached 360 days, but still it's over 19%. So, it's a big number. It's still high, even this more challenging environment that we are.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thanks for the answers. Just one follow-up, if I may? What is the typical -- when you renegotiate a loan, what has been on average the terms that you usually grant? I understand -- I think in the previous call you mentioned about 65% of the renegotiated portfolio is related to SMEs. What is your typical renegotiation? I know it changes on a case by case, but usually you give like a grace period of like three months? How does that work? And do you continue to accrue interest on those loans?

A - Bernardo Rothe {BIO 18059993 <GO>}

Yes, we accrue interest on those loans and we do receive the interest on those loans and there has been (Technical Difficulty) principal payments, as well. There is not one way of saying that we do. We adjust the repayment schedule of the loans to the ability of the clients to repay. So there are cases that we do give a grace period, yes. There are cases that we don't need to give a grace period and may change semi-annual payments to monthly payments.

So, even the (Technical Difficulty) make it easier for the client to pay and (inaudible) for us to collect the payments in a monthly basis instead of waiting six months to collect them. So, there are several different approaches that we can take. So, there is no one, single answer that gives you what's the average. One thing that most of the time happens is increase in the tenor of the loans. That's something that happens most of the time.

And in terms of anticipation in the renegotiated loan portfolio, we are still running at the same level and it's mostly SMEs and then medium size companies going up to 85% of the total being (inaudible) in very small companies and medium size companies up to BRL200 million.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you. And for SMEs, what would be the average tenor for the SMEs that are renegotiated, that are part of your renegotiated portfolio? Just to have an idea, if you have that?

A - Bernardo Rothe {BIO 18059993 <GO>}

I can't give you the information. I don't have that with me right now.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. That's fine. All right. Thank you so much. Appreciate it.

Operator

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

Q - Carlos Gomez {BIO 15024854 <GO>}

Two questions. First, on the taxes. And I know that you don't give guidance for taxes, but can you tell us if in your guidance for return on equity, you are assuming the continuation of the current level of interest on capital? And whether you expect to use it to its full extent? It was 7.5% of TGLP?

And second -- if this has been answered, my apologies -- (inaudible) sensitivity of your margin to 100 basis points in change in rates after one or two years (inaudible)? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

The first question, the interest on capital, what we have really in Brazil right now, we don't see that changing in the midterm. Levels are not changing, in fact, for this year. I don't know what is going to change, to happen in the following years. So, interest on capital is calculated based on interest rates, but you need to (inaudible). That's what we are going to do. So, we are going to still use the interest on capital in the next quarter, that's for sure.

Your second question, I'm sorry but I didn't get that. So, if you don't mind, can you repeat, please?

Q - Carlos Gomez {BIO 15024854 <GO>}

Yes, of course. We would like to know what the impact on your net interest margin would take of a permanent decline of 100 basis points in SELIC?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. Sorry. I got that. The impact is -- we are neutral. So, there is no impact in our net interest margin, in net interest income, coming from a reduction to SELIC rates.

Q - Carlos Gomez {BIO 15024854 <GO>}

So, if you can explain in the long run? Again, banks typically have a liability spread, typically, make a bit more money -- and you can see it in the rates -- make a bit more money with higher rates than with lower rates. In terms of fees, it can be low, but (Foreign Language).

A - Bernardo Rothe {BIO 18059993 <GO>}

So, what can impact us -- the impact comes from compression of the spreads, not the SELIC rate itself. So, if the market starts to -- we have more competition in the market, you may see some compression in spreads. But it's basically spreads, not the rate of the market.

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. Thank you.

Operator

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

A - Bernardo Rothe {BIO 18059993 <GO>}

I'd just like to thank you again for participating in our conference call and to put my whole team at Sao Paulo at your disposal to clarify any doubts that you may still have. You can call here, we are available to help you. Thank you very much.

Operator

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