

## Q3 2020 Earnings Call

### Company Participants

- Andre Guilherme Brandao, Chief Executive Officer
- Daniel Alves Maria, Head of Investor Relations and Sustainability

### Other Participants

- Juan Recalde, Analyst
- Marcos Assumpcao, Analyst
- Mario Pierry, Analyst
- Natalia Corfield, Analyst
- Nicolas Riva, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Banco do Brasil's Third Quarter of 2020 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After this, there will be a question-and-answer session. At that time for the instructions will be given. (Operator Instructions)

This conference call is also being broadcast live via webcast through the Banco do Brasil website at [www.bb.com.br/ir](http://www.bb.com.br/ir), where the presentation is also available. The replay of the conference will be available through the phone number 55-11-2188-0400 until November 13, 2020, in English and Portuguese. To access the replay, please ask the operator to listen to BB's conference call. Identification will be required. Participants may view the slides in the order of they wish. With us today, we have Mr. Andre Brandao, CEO; Mr Carlos Hamilton, CFO; and Mr. Daniel Maria, Head of Investor Relations and Sustainability. Mr. Andre Brandao, you may now begin.

#### **Andre Guilherme Brandao** {BIO 2468269 <GO>}

Hello, good morning, all. I'd like to first welcome to this call. I'd like to thank you for participating on the call and -- and also very nice to meet you virtually, which is the way we are meeting people today, but you are very welcome to this call. I'm very pleased to have this first interaction with you. And I would first make any statement that I really like to emphasize that both myself and the team here will be trying to connect as much as possible with you and build the bridges and make sure that we are all ready to answer your questions and intently trying to explain our narrative as soon as possible.

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So as I said, I think I'm very pleased to be here today with my first meeting with you, share the numbers, which, for me, is just one and half months, but specifically, share my first impressions and some perspectives that we have in terms of future and some dialogue, strategically dialogue that we're having with the team here going forward. I'll try to make this very brief. We are trying to leave room for your questions. But I would like to emphasize 3 quick slides, and then Daniel will cover the presentation in a very tough mode. We're trying to focus an area that other analysis and investor has been highlighted as questions, so we try to emphasize that as well, but if trying to go very fast and leave you for you to make questions.

So turning to the first page. And again, it's just an acknowledgment of the year we are facing. So the pandemic has been affecting all of us. Us means us, people, our employees, our society and our clients. And I'm very pleased to say that Banco do Brasil had been acting tremendously to supporting both our own employees, to support our society through government programs, and being the agent, but also the structure of some of those programs, and supporting our clients in a large scale, which I will make some mentions on that.

I think the first thing to -- as a side effect of this pandemic situation we faced, that we all learned how to do home off. I think you probably are still there. We are still most of the time here. But

Banco do Brasil managed to adapt -- to have 50 -- at the peak, 55,000 employees at home office. So this is a tremendous effort from our technology area. But again, it's a good lesson learned and an open up precedent for us to rethink about the model. So I think it's quite important, if probably one of those positive side effects, there are not many, but one of those.

I would like to emphasize the support to our customers. So during this pandemic situation, we have support 4.2 million customers through lending, either first disbursement of a credit lending, but also some transitions to re -- and you say that?

**Daniel Alves Maria** {BIO 17030121 <GO>}

Rollovers.

**Andre Guilherme Brandao** {BIO 2468269 <GO>}

Yes. Thank you, Mene. For rollovers of existing transactions we have. So we'd like to spend more time on these rollovers, but I'd like to just call your attention that BRL292 billion were, in total, between rollovers and disbursements that we support our clients. I comment the side effects, probably the second positive side effect of this pandemic is -- it's the acceleration of the digital transformation that all banks has been went through. And just doing this since March this year, we have added 3.8 million clients on our digital platform, and we are now close to 20 million and growing. We have also find alternatives to support client interactions. And using WhatsApp, we have reached in excess of 100

million in interactions with clients during this dynamic. So very good lessons learned and very good, let's say, acting on behalf of Banco do Brasil to our clients and society.

Turning to this next page quickly. Again, as I mentioned, Daniel is going to cover the big numbers, but things that I got here, I'd like to call your attention for a couple of things. One is the pre-provision operating profit, which is -- which this year, I call this number because provisions have been massive because of the worldwide. And there are so many difference in terms of modeling, so I try to look at to the core of the business, how much they have been behaving. And that's the reason why I call your attention to the number, which is the BRL32 billion in profit before provision and a growth compared to last year of 9.5%.

The second point to call your attention is our core equity Tier 1, which has been substantially increased. But the most important point for me to highlight, and Daniel is going to cover how we get to that number, but we have a very solid core equity Tier 1. And I just want to make sure that, that allows us to be -- with the solid balance sheet, we can continue to grow and pursue for new business.

The third point to call it's a loan portfolio, again, the substantial amount of loans, a grow of 6.4% compared to last year, with a very high quality. So in excess of 90% of our portfolio. It's AA [ph] to see, so quite important. On that -- on the portfolio as well, I was extremely surprised to see that 23% of such portfolio is ESG-related. Not planning to expand that desire. That's probably a big discussion with you, but it's a very interesting thing. And I think very proud of the progress, and I think we should be -- continue to do that.

Last comment, as I already said, it's -- the digital transformation has been substantially those, at almost 20 million clients we have today. Digital clients are -- is a growth of 33% compared to last year, so substantially growth. And lastly, our mobile app is a fantastic tool and is the best ranked in the industry. And with our learning from this, has led us to be now expanding to digital transformation to the wholesale as well. So that's all the numbers. I move on to some highlights of our strategy that we have been discussing now at the Board level. And then I'll leave it Daniel to cover the numbers.

So we use this at -- as a circle because there is a huge interdependency of those initiatives and those quadrants, and it's very important. But probably the most important piece to mention, it's client experience. And this is on the center of that. I do believe and we do believe that providing a proper experience to our client is -- will -- is the best instrument to retain clients and provide a proper return coming because of this centrality of our clients. And on the back of that, I -- we announced yesterday some changes on the structure. One of those, it's how to be -- how -- we have an area of client solutions, which we are putting together this area between the to get synergies between what is land and what is payments and something related to payments and cards and everything. So these two main areas. And also, in terms of providing further visibility to myself and to the Board and to the ExCo of Banco do Brasil, I'm changing and creating a new unit reported directly to me to assess client experience. And that area is also -- we will be looking to the external client complaints in a more deeper way. So I think this is important transformation

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for us. And I think, again, it's starting with that, is the most important piece to retain our clients.

I mentioned ESG, so again, I will not expand on that, but this is core of our activities. The only two aspects I would like to mention. I mentioned a portfolio, so it's already substantially. We are growing. And we are trying to keep supporting our clients also on the transition to low -- to high to low-carbon environment. But also, we have our commitment that Banco do Brasil will reduce or actually neutralize its carbon emissions next year. There are more things we are doing on that base, like a solar units to provide energy to our branches. So we're going to that direction. So a very important one. The other one I'd like to really call to your attention and the -- efficiencies evidently is a key and very important to us, but we are committed to -- continuous on the cost reduction basis going forward. We have already in the last quarter mentioned some ambitions to our cost reductions going forward. I think the number was BRL3.3 billion until 2025. We at the ExCo level are looking to go further on that direction. So it's something that I -- we still don't have a number. We're still working on our strategy exercise, but I'd like just to share our and my commitment to keep reducing our cost base. And lastly, just share some initiatives that we have to increase our revenues. I'll start with the most obvious one, which are our core strength, and one is the agribusiness. We are a powerhouse on that, and -- but there are more to be done on that sector. I would say, and I was extremely impressed with the -- our client data we have in the bank. And if I maybe a little bit going even further, our data lake for the agribusiness is probably the best in Brazil. We can use that to enhance and to extract more value from this sector. And not only from the traditional rural lending, but doing further things and adding all the products. And I would highlight a couple like consortiums or insurance are specifically starting getting to the supply chain of our main clients. Eventually, government, we have a very well positioned. It's more and more providing a further services for them. It's quite important. Payroll loans, we are a leader on that market. We will continue to grow being leader. And I think it's a very good in the mix. It's a very conservative portfolio, with a very positive return on equity. So it's -- we'll keep that and we're going to keep strengthening them.

Two aspects I'd like to cover before we finish. One is it's -- I mentioned supply chains and that -- but there are more to be extracting from the business on -- or putting together and creating a collaboration through targets across our main retail, wholesale and the agri and government portfolios. It's making sure the ExCo related to those buildings has a target to enhance the other business on a jointly basis. And as I said, I think if you think about the example I just said about the agribusiness, if you can work with the large whole stake of clients we have and their total supply chain, we're going to have the large corporates, the middle market corporates, the small corporates and the retail clients all together and supporting our clients and their overall supply chain and financing that and even supporting our clients to take this balance sheet out of their business and bring to ours. So a lot to be done here and a lot of, the lending side, but also adding fee-based products on that as well. So a lot of discussions. And as you probably know, we can have payroll agreements with our corporate clients. So more and more, I have been incentivized that client relationships has to be a large -- wholesale client relationships, that we have to really pursue all the streams of revenues and retail payroll, loan payroll are one of these alternatives.

Lastly, I think, as I mentioned, we have a substantially weighting on our portfolio of payroll loans, which provides a very resilient and robust balance sheet and portfolio. When we compare ourselves to other -- some of our peers, there are some other products which we are not as aggressive as our peers that we should be pursuing. And just giving one example or two examples, one of those is its payroll loans to non-clients of Banco do Brasil, but also tackling non-clients in general through credit cards and other transactions, through directly approaching them or through using partnerships. So again, here, I'm just sharing that in a very, very initial stages, I don't have much details to comment, but I'd like to just give you a hint that where we are going to -- with the combination of a commitment of cost reduction and some areas of -- that extract more value from our existing customer base and then pursuing a new customer base.

I will pause here, ask Daniel to walk you through briefly on the presentation. Then we open for questions. Thank you.

### **Daniel Alves Maria** {BIO 17030121 <GO>}

Okay. Sorry. Can you hear me now? Let's start then on Page 7, and we go through the major numbers of the bank. And then we concentrate in the major aspects, that certainly is the concern or you want you go through. The adjusted net income that we reached was BRL3.5 billion in this quarter. This was an increase of 5.2% related to the last quarter. On the 9-months deal, we reached BRL10.2 billion, a decrease of 22%. Our return on equity is in the region of 12%. And one thing that Andre highlighted, I just come back here, is our pre-provision operating profit. That we had an increase of 5.3% when we compare to the third quarter '19 and we had 9.5% growth when we compare to the 9 months '19. Then this shows that, operationally, the bank is improving.

On the next page, we bring the NII behavior. NII is quite is -- how can I say? It's balanced. Yes? We had some reduction in the last quarter of 3.8%. That can be explained mainly by the treasury results. Yes?

Going to the next page, we go to NIM and how this was reflect in NIM. We had a reduction in NIM from 4% to 3.7%, but NIM is correlated to the liquid assets. We had an increase -- we have been observing an increase in the liquid assets. We've reached 49.4% in the last quarter. If we exclude these effects, our NIM should be 3.9%. Another way to look at this is looking at the managerial spreads on the right-hand side. You see that the managerial spread is -- in the region, it's flattish, in the region of 7.9%. We had some reduction in the individuals portfolio, but this was compensated by agribusiness and individual and companies.

Moving to the next page, Page 10. I would like to explore a little bit the ALLL expenses. In the expenses concept, we had an ALLL expenses of BRL5.5 billion. And this was a reduction in relation to the last quarter. Yes? We can explain this movement by more preemptive provisions that we had in the gross credit risk. We've reached BRL6.6 billion in credit risk. BRL2 billion inside this BRL6.6 billion can be explained by the preemptive provisions that we made to the forbearance portfolio. We had some good results for credit recovery. Part of this was in a certain rate compensated by larger impairments.

Those impairments can be explained mainly by some adjustments that we made to some cases that were in judicial recovery.

Moving to the next page, we bring the loan portfolio and how it's behaving. As Andre said, we reached 3 -- BRL730 billion. The growth in this credit portfolio is driven by the retail parts individuals, that we had a growth on an annual basis of 6.2%. We had a decrease in the large corporates, yes. And those loans is -- are being driven mainly to capital markets, yes? And we had a growth in the SME portfolio, 17.9% on an annual basis.

Moving to the next page, Page 12. I would like to explore more time here. Here is basically the loan portfolio under forbearance that we have. The balance -- the current balance we have is BRL109 billion. In those -- forbearance portfolio, we have 1.7 million transactions customers that they were affected. This represented 2.4 million transactions. This represents roughly 7% of the portfolio.

And we bring a granular view in terms of products here, and I would like to share some thoughts about it. First of all, the payroll portfolio represents BRL27 billion. This is approximately 25% of the total forbearance portfolio. Just reminding that the payroll, we have low risk, since we have 90% of this portfolio comprised by civil servants and the rears. We have BRL15 billion, that is approximately 13% of this portfolio. This is for governments. Government, we have a guarantee for almost 100% of this portfolio issued by the federal government. Then it's a very low-risk portfolio for us. For the other portion that we don't have the direct guarantee, we have as a guarantee the flow of the transfers of taxes that is paid by the federal government to the local government, yes? And when we look at the SME portfolio, we have BRL26 billion. And this BRL26 billion, we use the methodology that we developed here internally using nonstressed data, yes, using analytics to rate those customers. And this is quite relevant to the bank to take the decisions for forbearances, for the rollovers, and also to make the preemptive provisions. Yes? And 81% of this portfolio, accordingly to this methodology, are with the customers with better resilience.

Another -- just highlights some of the metrics. 95% of this portfolio is concentrated in the rating AA and C. 20 -- almost 28% of this portfolio, the rollovers happened when the transaction was being paid. And 64%, 65%, rounding up of this portfolio have guarantees and credit enhancements.

Moving to the next slide, Slide 13, we bring more color about how we make those deferrals. We're making different ways. Yes? The first cycle happened in March and April this year. And this was concentrated, as you can see, in individuals and companies, mainly the SME portfolio. We had another cycle that happened in May, June and July. As you can see, it's lower compared to the first cycle. It's concentrated more in the -- it's concentrated in individuals portfolio. And just reminding that individuals, we have almost 50% that is comprised by paper on. And we have the third cycle that happens in September, September. And this is more concentrated in the government portfolio. This -- government represents almost half of this portfolio. Yes? The -- in the bottom part on the left, we bring the breakdown of this forbearance portfolio and how is the performance. We have BRL49 billion that is performing the exposures. We have BRL59 billion that is in the grace periods. And we have BRLO.6 billion that is the -- there is some sort of delay.

This represents the number that you can see on the right-hand side, that this is 0.65% of NPL between 15 and 90 days and 0.70% NPL more than 90 days.

Here on the right-hand side, we bring just a color about the distribution of the end of the grace periods. Yes? As you can see, those numbers are based September, October. We have a participation of SMEs and individuals mostly in October and September. And what is this strategy? When we made those forbearance, we made different terms depending on the segments. For instance, when we go to payroll loan, we went straight to 180 days or 120 days. Governments, we went straight to 180 days. For companies, and mainly SMEs, that is important to take the temperature to understand how is the business, we made for 60 days, yes? And we start to unite unwind this process for individuals. For SMEs, probably there will be a third way that we are analyzing, but concentrating in the high resilience customers. And the reason for this, because there is more demand for working capital at the end of the year, yes? And for those customers that we feel that the business is going well and that we are comfortable with the risk to our risk appetite, we can do this, and again, for short term, as you can see.

The next slide, Slide 14, we bring the asset quality. As NPLs going down, the coverage, excluding the case in restructuring, we have 330%. The new NPL and the coverage, we are generating, meaning we are covering the new NPL that we are generating. The next slide, we bring the fee income. Fee income, as Andre said, there are challenges. We understand this. We are showing some resilience. We are aware of the challenges, and we are taking measures exactly to drive this. But we have good news. For instance, insurance, pension plans and premium bonds is showing a good performance. We say the same for group credit consortiums. We start to see a movement in credits. And this is one aspect that, certainly, we are driving -- we are not a driving. We are addressing those aspects.

Next page, we go to the administrative expenses and efficiency, yes? Just reminding the number I brought in the last release of BRL3.3 billion savings accumulated in the next 5 years. In those 3 measures that we are managing, the personnel expenses, that you tend to see the results starting this year. You start to see because, they are flattish, yes? And you have the trend to see more benefits coming in the fourth quarter. The (inaudible) debate that will allow the optimization, and we are executing this. And we just inaugurated the second form of solar energy.

And in the right-hand side, just we show and what's -- Andre as our initiatives are not limited to this. We have other plans. For instance, for the properties not in use, we expedite the process of auctions. Yes? Just as a reference. To sell those properties, we used to take more than 500 days. We made a partnership with a start-up, that we reduced these to 200 days, 220 days. This is a huge efficiency, yes? And shows all the plans that we're working. The same story for sales of our own properties, yes? As I said, this is completely linked to the optimization. We sold in those 9 months using virtual auctions that were quite efficient, and we have more to do in this front. And the process automation, and looking at the -- WhatsApp, it's a good example. Ways that we can service customers, reducing the marginal costs, and certainly being more efficient in this process.

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The next page, we bring the core capital. We've reached 13.11% in CET1. This movement can be explained mainly by 2 actions. Yes. Certainly, the actuarial position, the mark to market of the actuarial position contributed positively with 120 basis points, yes? And something that is new is there are the prudential adjustments. This is mainly a regulation that the Central Bank issued, that is called CEGPE, the acronym for this. And the concept is basically, you drive credit. You grow presence in a certain segments in SME. You can use those lines with right enhancements up to 30%. And you have a breakup -- breakdown for those lines. Yes? And based on that, you can apply to reduce the tax credits, yes? And the benefits of reducing those tax credits that -- by the way, the weight, more than 100% is benefit to the capital. And this is sustainable, yes, because this is applied for the capital for longer. And this represented an addition to capital 200 basis points.

The next page and the last one just remind some aspects of digital transformation. I think that Andre tackled most of the metrics, how we are evolving and so on. But I would like to concentrate in the -- all the investments we are doing for companies. Yes? And this is important because we have been working with this project in the last 3 years preparing the infrastructure. And now you're going to see acceleration in the deliveries. This is important because we bring the company, we make it easier the cash management of the company using APIs. And just some numbers related to those developments. We have -- currently, we have 170 70 customers -- 177 customers integrated using cash APIs. We have 10 partners, ERPs companies that are integrating this. This is an increase of 149% in relation to the last quarter. One example, how it is important? For instance, the collections, yes? We had in this quarter 25 -- 26 million collections, slips that were done through those APIs. This was a growth of 100%, 105% relatively to the last quarter. And this is exactly what Andre said, ways to address this.

Another way to show the benefits are the reduction or the lag time to make those transactions. A working capital that we used to do in one day in the branch, it's possible to do through the app in 7 minutes. A finance that it's used to take even 14 days, you can do it one day. And including linking the guarantees and so on, that's quite complex aspect. And the discount of receivables that (foreign language), we moved it from 48 minutes to just one minute.

And that's all. Thank you for the attention.

## Questions And Answers

### Operator

Ladies and gentlemen we will now begin the question-and-answer session. (Operator instructions) Our first question is from Mario Pierry from Bank of America, Mario you may proceed.

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

Good morning, everybody. Thank you for holding this call. I have two questions primarily to Andre. First one is, right, you have had a career at a global bank. So I was wondering



what are some of the best practices that you would like to bring to Banco do Brasil? Second question is related to the technology of the bank, right? This is an industry that is undergoing a lot of transformation, a lot of competition. How do you see the technology of Banco do Brasil so far? I know you haven't been there that long yet, but I would like to hear your views on how you see technology. And the final question is, when you were chosen to be the CEO, what was the mandate? What's your mandate for the bank? What are you planning on accomplishing over the next few years?

## **A - Andre Guilherme Brandao {BIO 2468269 <GO>}**

Good morning, Mario. Thank you for the questions. And so I would try to -- I think best practice is, I think, of my experience, I would say that, in a nutshell, when working on Europe and U.S., one of the key things the banks have done well are 2. One 1 is customer experience. So the agenda on customer experience has been weighed added so there. And that includes overall experience, plus conduct, which has to be deployed. I would say that this is here as well. I haven't found anything different. The team has been well embedded on that circumstances that we should be really having the client at the center, et cetera. But I feel that there are some strategies that have been done elsewhere that would help to keep implementing that here.

The other thing, and I think comes back to something that is also already being way discussed here at Banco do Brasil, it's about return on equity or return on assets by every disburse we do. Despite the fact that they may have some enhancements on the model, I think it's a very good discipline they have here. And the only thing I'm adding on that on my experience is having difficult questions to our customers, specifically, the wholesale customers which has been where it came from, which you have in a very candid discussion about the relationship. If returns are low, we need to really reassess that. And I think there are levers to get into that. It's a lower capital deployed and higher cross-sell. And I started that already. So I selected the top customers we have as a relationship or as capital deployed in Banco do Brasil. And I'm sitting with them one by one and starting engaging on that discussion, which is not simple because it means that we have to give up certain things. But that is probably my experience, which is hard. It's having those difficult conversations.

But just overall, I think looking to the wholesale aspect, I think a very good platform. And there are areas of -- to be strengthened. And one of those is investment banking, reason why we have engaged on our partnership to trying to expedite that process. The partnership I meant is the creation of the UBS BB.

On technology, I think I always heard that we have a very strong technology of Banco do Brasil. I was even further surprised when I got here and a very good platform, and this is not simple. And I know that, having said that, it's not about where we are. It's about the continuous investments that are required on that front. So by no means that we have to be comfortable where we are. But I'll give you one example which I think it's -- I was extremely impressed, is the data information we have, so the systems we have. Our data lake is impressively well positioned. So we centralize our client files, I don't know how many years ago, more than 10 years ago. So we have a single client file, which has all the information for millions of millions of clients. Not only the current clients, but the client has already went through us or clients who has been using us on the branches, we have the

information. So it's -- as you know well, I think data, it's very important. And I think we do have the data.

And I will add on the aspects of the agribusiness, I already said that, but I will reemphasize that the data lake for agribusiness in Banco do Brasil, it's tremendous as we have. And I think we have to use that much better, and we will in terms of more origination. And part of those origination will be to enhance and increase our portfolio. And hopefully, part of that will be to originated and distributed.

The mandate, it was very simple. And when I was called to this position, first, it took me -- probably, the first call with the first person who call me was, it took 10 minutes to say, yes, I'd like to pursue. The second call with the Minister of Finance, it took me probably an hour where he spoke about 90 minutes and then I say -- he spoke about 40 minutes, and I say, yes, just after that. So easy to accept this -- to be part of this tremendous bank and hopefully helping on their process to get where we are. But the mandate itself was very clear. It's about continuous to improve the profitability of the bank. And I will just complement that the way to get this profitability is using customer as a center. And as I said, I think this is what are rating better here, we have to do further there. So thank you for the question.

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

Very clear. Thank you. If I can follow-up, when you mentioned, right, that you engaged on this partnership investment banking to accelerate process, do you think there are other businesses where you could pursue a partnership as well, and being more specific here about the asset management business?

#### **A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

The answer is yes. Yes, absolutely. Not only on that area you just described. It so -- and again, in order to expedite the best or the better experience to our clients, and either on manufacturing of products or the -- advising of our clients, yes, we could take some short cuts and work in partnerships.

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

Okay. Thank you very much and I wish you best of luck on your new role. Congratulations.

#### **A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you very much.

#### **Operator**

(Operator Instructions) Our next question is from Juan Recalde from Scotiabank. You may proceed.

#### **Q - Juan Recalde** {BIO 21032747 <GO>}

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Hi, good morning, Andre. Thank you for the (inaudible) ask questions. So I have 2 questions. One on capital and, and the second one, on provisions. So in terms of capital, Andre, given that your CET1 is around 13% now. Next year, you have a target minimum of 11% for January 2022. And also, you ended the restriction on dividends, I think I said to expire by the end of the year. How should we think about the dividend payout for 2021? And then the second question, which related to provisions. We have seen a pretty encouraging payment behavior of the portfolio that was out of the grace period. And also Banco do Brasil showed smaller increases in provisions in the first half of the year than some prior years. Can we expect you to make additional provisions or more prudential provisions in the near term? I know that it's hard to tell, but any color would be appreciated.

### **A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you for the questions, Juan. I'll go brief on those 2. And Daniel, if you want to comment further on provisions.

On the capital resilience and the capital side, I think we are in the process of building our 2021 plan, which as I briefly comment, we have an increased risk appetite, so part of the capital that we will keep is to accommodate a further risk appetite.

In respect to dividends, we're still discussing that. And again, that will be presented that -- when we finalize our plan to the Board for assessing our dividend payout.

On provisions, I think, Daniel, cover that. I just want to make a brief comment, and Daniel, you can complement. But our model -- and I think the way we structure, in the way of the rollovers, plus the way we are disbursing the dental, the model has been indicated provisions. I really like to emphasize that there are very different models. We have peers in Brazil which has been substantially increased their provisions at a loss, and that happened in the case of this year during March or April. There are ones which are doing on a more not in the same pace. We are more cautious, and we are really following our model. And we are doing proportionately additional provisions when required by the model and the rollovers and transactions we have. We have no concern of anything today. And that -- Daniel has showed the numbers. So the delinquency figures have been quite positive so far. But we all know that this trend not necessarily represents much due to the characteristics of the rollovers we have done with a great speed. So being very brief, so we don't have yet any views, but I don't discharge any further provisions when the model comes. Again, it's simply not necessarily a view that the market is deteriorating because it isn't. And there is no areas on that and nor our portfolio. However, I think we felt that the way that we are disbursing in catch-up, it might or potentially could bring further provisions for the next quarter or for this quarter.

### **A - Daniel Alves Maria** {BIO 17030121 <GO>}

And adding some thoughts about this, Juan. As Andre said, we have a quite robust provision or methodology for provisioning. And certainly, our credit portfolio is different when you compared to the periods, then this is -- those are -- I mean the main reasons why you have different approach because you have different methodologies and different portfolios.

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But coming to our methodology, something that I would like to highlight how we build those preemptive provisions. We use non-structured data. We use analytics. That we wait the segments of the company. We wait the leverage of the company. We get information about the indebtedness of the company with us in the system. Based on that, we classify in different levels of resilience. We do something similar for individuals when we estimate how much income they lost or how this is behaving. And based on that, we have the inputs for the provisions. It's likely that we are going to have more provisions. Yes? It's different. It's difficult to precise at this point. Yes?

**Q - Juan Recalde** {BIO 21032747 <GO>}

Got it. Thank you.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you. Welcome.

## Operator

Our next question is from Nicolas Riva from Bank of America. Nicolas, you may proceed.

**Q - Nicolas Riva** {BIO 20589225 <GO>}

Thanks. Andre and Daniel for taking my questions. I have two questions. The first one, on capital. If you can explain to us what drove this increase in the CET1 ratio to 13.1%. It seems that it was lower prudential adjustments from tax credit. So I wanted to ask if there was any change in regulation in the treatment of tax credits in this quarter. And also now -- I mean you talked about your strong capital position. Right now, the CET1 is even about your internal target of the 11% by January 2022. And it also seems, based on what you have said about potential partnerships in some businesses, that you could even have even more capital coming in if you were to sell some equity stakes in those businesses. So I wanted to know your thoughts in general about your capital position right now.

And then my second question, about potential bond issuance. You have a number of global bonds that are going to be maturing in the next few years. I count in the next 3 years, you have \$5.5 billion in global bonds maturing in the next 3 years between senior bonds and some subordinated bonds. And I wanted to ask how you plan to finance these maturities. You recently had 8.5% [ph] per maturing, which you already had prefunded. And also specifically, in the case of the old style Tier 2 bonds, you would be looking to potentially replace some of that with Basel III Tier 2s. Thank you.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Okay. Nicolas, thank you for the question. Let me start with the first question about the CET1 and the dynamics of this. Certainly, there is one regulation that is important to keep an eye, is the MP992 and the Central bank resolution 4838 that creates this CGPE. This is the acronym, CGPE. That the concept is basically, you have credit portfolio for the SME segment. As you grow these segments, you can deduct the equivalent amount in the tax credits, actually reducing or reducing the reduction of the impact that we're going to have. Just to give you some numbers. If you grow with -- just hypothetical numbers. If I

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have -- if I can have BRL10 billion in a credit portfolio, and this portfolio can be comprised by the -- for 30% and the other 70% with other credits, using the online -- our online. We go to Central Bank and say, okay, we have \$10 billion with this profile that applies to CGPE, then Central Bank allows the banks that does this to reduce the impact -- the negative impact so that you have the deduction that you have of those tax credits to capital. Then you make positive adjustments in the prudential adjustments. The -- it's not linear. For that reason, the calculation is quite complex. But in the nutshell, this represented, again, for us, of 100 basis points. And our portfolio grew about 6 -- BRL6.3 billion in this period. And this is maintained for -- this is sustainable. This is one important aspect.

About the funding structure that you said, as I said, in the next 5 years, certainly, the bank is looking at this. We have opportunities for liability management. We are aware of this. The bank is liquid. It's quite liquid. Then we are observing the opportunities and the dynamics of the market to make those adjustments. This is the butter and bread of the treasury and of the division. Yes? Yes. I think so. Again, on the liquidity management, I think Daniel just pointed out, we have an extremely solid liquidity position, our liquidity ratios as it probably has been. In attention, they are massive high. So what we are paying attention now and -- to calibrate that further. And so we are in the middle of the exercise with myself and the CFO and the team. So -- but it's too early, but potentially, we will discuss about some liquidity management throughout here in the future.

**Q - Nicolas Riva** {BIO 20589225 <GO>}

Thank you very much for that. One follow-up on the first question. Then this change in regulation. This was a one-time effect. We shouldn't see more of this in the fourth quarter then.

**A - Daniel Alves Maria** {BIO 17030121 <GO>}

Okay. Just one aspect that is important. This regulation, there is a window that you can apply for this portfolio. It was from June to December. Then in the fourth quarter, we could have some positive impacts, but tends not to have to be -- in the same magnitude of this one. But again, it's premature to talk about this, but the window is open for more transactions like that.

**Q - Nicolas Riva** {BIO 20589225 <GO>}

Okay. Thanks very much, Daniel, Andre.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Welcome

**Operator**

Our next question is from Marcos Assumpcao from Itau. You may proceed.

**Q - Marcos Assumpcao** {BIO 7474402 <GO>}

Hi, good morning everyone. Andrea, first of all, I wish you a lot of success in your next endeavor. To start with, a more conceptual. Based on your initial assessment of the bank, okay, I would like to first understand, what do you see as the main strengths of the bank? What are the areas that you'd like to focus in order to improve the current competitive environment of the bank, competitive advantage of the bank? And the second one is also, given the size and scope of the bank, it seems there are a lot of opportunities to divest from noncore assets or even make partnerships, as you just mentioned. So what do you see as the low-hanging fruit in this front? You have been mentioning like selling real estate assets, so on and so forth. But what do you see as the most likely hanging fruits in the short term? Thank you.

### **A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you, Marcos, for the comments and the wishes and the questions. I think I commented briefly earlier. First impression has been very positive. I wasn't expecting a positive impression when I got here, but it's even further good impression. I think, as you know, being close to us, the quality of the team. And I think -- but if you could bring what is the most important thing on the Banco do Brasil aspect is the client base. So it's a massive and a very positive client base. We have very good relation, very solid, very resilient. And clients which we have -- we are a principal or a major bank in most of the cases. So this is very strong.

If I make this -- and again, you probably have saw on this slide, I have been introduced of my looking ahead there, which we are our core strengths and sectors, of course, strengths. And for us, the government relationship we have, which we need to keep enhancing services to retain those relationships we have. And the agribusiness, which, as I said, I mean, by far, we are the lead bank on that sector, and we need to do more on that. So I mean those are the key trends that I would say.

But -- and moving to the low-hanging fruit, and there are 2 lower-hanging fruits, and I'll get to the questions about the areas of this investment or reducing investments. But the low-hanging fruit -- and again, I highlight that on the pie I have introduced in the presentation is that we can extract more value for our customers by integrating ourselves more. And I think that can be done. And I'm very positive. We are working on that as a team. The ExCo has been very engaged in how to do that. And further exercise of collaboration between the business about -- it is being put in place. There are -- on the assets we have, I don't see -- I mean there are very small low-hanging fruits here and there. There are obvious ones which I don't -- I'm not planning to share names, et cetera. But there are all these low-hanging fruits. And they are very important core assets, which, as I commented before, we need to see how can we enhance our customer experience on those relationships we have, and those partnerships or investments we have which are outside Banco do Brasil. So I think there are areas to pay attention. There are areas -- there are small areas which are noncore. But again, I will protect some -- my time here to keep analyzing them before taking any decision.

### **Q - Marcos Assumpcao** {BIO 7474402 <GO>}

All right, thank you very much, Andre. And Good luck again.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you. Welcome.

## Operator

Our last question is from Natalia Corfield from JPMorgan. Ms. Natalia, you may proceed.

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

Good morning, everybody. And thank you for taking my question. I'll go back to your capitalization. So Daniel, you said -- I think you repeated several times that this impact of the CGPE is sustainable. I am just a little bit confused because you said that there was a window that's from June to December. So I'm trying to understand how sustainable this is, particularly because you kept the target of the CETI at 11%. So I think my fear is that, we got this 13% now, and then we go to, I don't know, to 2021. And we see your capitalization, you're correct, going down to 10.5% again. So I don't know. If you could give -- to explain why you keep saying this is sustainable. Is the competitor going to stay at this 13% level? Or...

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Natalia.

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

Yes.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Sure. And just understood the question. Thank you for your question. And so it's Andre here. 2 comment on that. First, this -- for you to apply to this benefit, you have to -- this window to apply up to the end of this year. So transactions that we have done this year which -- that related to these programs can be applied to this program. This is the first thing. So this is why the window we will close. This is first thing, of the application of those requirements to be adjusted on our customer base. The second point is how sustainable that, is the word sustainable. It's not a right one. That benefit will be staying from this year, starting applying as we saw now, and until the end of this year. And they will keep applying this until 2025. So -- and again, so the sustainability of that is -- it actually is the gap between now and 2025. They are not forever. And the reason of why a cushion of this will be kept at our level because we know that this will be reduced by 2025. The question is that, how can we generate sales capitalization between now and there to be able to keep going -- increasing further and then paying this back? So there is a component of this 13%, which as you rightly said, that it's in excess of our 11% target, which we need to also keep in mind that part of these adjustments, prudential adjustments, 1%, one point in our capital will be reducing by '25.

**A - Daniel Alves Maria** {BIO 17030121 <GO>}

And just some addition (Technical Difficulty)

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**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Sorry

**A - Daniel Alves Maria** {BIO 17030121 <GO>}

No, no, I said that this go by the end of '25, then the decrease will happen in the first day of 2026. Just to be more precise.

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

Okay. No. Understood. In the -- for instance, for next year, do you have an idea of -- I know it's too early, and you're still doing your budget right now. But do you have an idea of where your core is going to be? Like it's going to be at least like closer to the 10.6% that you had before or more to the 13% that you have now?

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

No. So just -- yes, as you comment, our budget exercise is still ongoing. The only things that we feel us to decide is the level of the dividend payout we're going to make. But despite of that, so we keep the cushion reduced by whatever dividend, that payout we agree with the Board by December and the plan. And then we'll keep the capital for -- or accommodate our risk appetite. And again, we will preserve a cushion of that during those years to make sure that, prudentially, we are prepared for getting to the end of 2025 or 2026 to be prepared.

**A - Daniel Alves Maria** {BIO 17030121 <GO>}

And just to make some observation, inside discussions, certainly, we take into consideration the actuarial position since this is linked to the market variables. This is part of our capital management, yes? To project several scenarios, and certainly, we preserve our cash exactly to absorb in market movement.

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

Okay. Thank you. Very clear. Andre, I have to say that as a credit analyst, I was very happy to see you are correct at 13% and I'm sure that the holders of your AT1 were very happy as well. Thank you.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

Thank you.

**Operator**

This concludes today's question-and-answer session. Mr. Andre will proceed with his closing remarks. Please go ahead, sir.

**A - Andre Guilherme Brandao** {BIO 2468269 <GO>}

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Okay. Once more, I'd like to thank you for your participation. And I'd like also to comment again that our connection with you will be enhanced. And that any comments, how do you prefer that to be enhanced, please send to Daniel, and we'll keep working together. I will be here in all the quarter results, but I really like to emphasize our proximity will be enhanced going forward. So thank you for your time, and thank you for participating. Bye-bye.

## Operator

And this concludes Banco do Brasil conference call for today. As a reminder, the material used in this conference call is now available on the Banco do Brasil Investor Relations website. Thank you very much for your participation. Have a nice day. You may now disconnect.

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