Q1 2017 Earnings Call

Company Participants

- Bernardo de Azevedo Silva Rothe, Head of Investor Relations

Other Participants

- Nicolas Riva, Analyst

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to Banco do Brasil First Quarter 2017 Earnings Conference Call. This event is being recorded, and all participants will be in a listen-only mode during the company presentation. After these, there will be a question-and-answer session. At that time further instructions will be given. (Operator Instructions) This conference call is also being broadcasted 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. Alberto Monteiro de Queiroz Netto, CFO; and Mr. Bernardo Rothe, Head of Investor Relations. Mr. Bernardo, you may now begin.

Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Good morning, everyone. Thank you for participating in our conference call. I would like to start in Slide 4, where we have the highlights, the comparison between the first quarter '17 and first quarter '16.

Fee income grew by 12.3%. Net interest income grew by 0.8%. This is net interest income without the recovery of bad loans. Administrative expenses declined 0.4% in the comparison in the period, meaning that we are keeping our expenses totally under control. Cost-to-income ratio reached 39.3% at the end of this quarter.

In Page 5, we are showing the net income. We grew 95.6% in comparison to the first quarter '16, reaching BRL2.5 billion in the adjusted net income. The accounting net income grew 3.6% to 2.4 billion. Profitability ratios, the market ROE, the way that market calculates ROE, reached 12.4% at the end of this quarter.

Moving to Page 6. We have the earnings breakdown. NII of 14.5 billion; provisions, loss provisions of 6.7 billion; fee income at 6.1 billion; total administrative expenses at 7.8 billion; other items, like taxes and so on, 3.6 billion, reaching 2.5 billion in the adjusted net income. One-off items reached 0.1 billion and net income at 2.4 billion.

Slide 7, we have some market ratios. Earnings per share -- adjusted earnings per share was BRL2.57 in '16; dividend yield, 2.57%; price/earnings 12 months, 11.6; and price book value at 1.05.

Funding, we have decreased the total funding to BRL584 billion, a decrease of 8.5% in relation to March '16. The funding expenses as a percentage of SELIC reached 64% and the adjusted net loan portfolio to commercial funding is 87.2, improving through this period, meaning that we are increasing our liquidity.

In Page 9, we the have loan portfolio, the broad concept, a decrease of 11.4%. And as you can see, we have a change in the mix in our total portfolio, where loans to companies reduced participation from almost 45% to almost 41% while individuals grew to 26.9% and agribusiness to 26.1%.

In Slide 10, we have the individual portfolio, highlighting the lower risk lines of credit. So mortgage increased by 6.6%, being 10.9% in mortgages to individuals; a market share of 7.9%. And the delinquency ratio was 2.09%. Payroll loans was stable, reaching 62.4 billion; market share of 21.5%, some in relation to the market share that we had in the past; and delinquency ratio at 1.45%.

Salary loans increasing 2.9% in the period reaching 19.7 billion and a delinquency ratio of 3.05%. Auto loans at 1.2% delinquency even with the big drop in terms of balance almost 27%, reaching 5.8%.

Slide 11, we have the loans to companies in a broad concept, a reduction of 19.4% to 280 billion, most of it coming from very small companies. Portfolio companies that -- with annual revenues up to BRL25 million decreased 28.5% and the rest of the company's portfolio decreased by 16.5%.

Moving to Slide 12, agribusiness. We have a growth of 0.3%, mostly because of a sharp decrease in agroindustrial, pretty much in line with the performance of the company's portfolio; while the rural loans grew 5.7%. This 5.7% considers also rural product bills as kind of a way of financing agri business in Brazil that had a decrease. Without that, would be over 6%, the growth in rural loans. And for working capital, we are still using a lot of mitigators, so 63.6% of our portfolio in working capital is insured.

Moving to Page 13, we have delinquency ratio.

At the end of this quarter, we reached 3.47%. If we exclude a specific case that we have in this quarter, a case that involves the company in Chapter 11, Recuperacao Judicial as we call it in Brazil. Also, if we consider a stability in the portfolio, that ratio would be 3.39%, an increase of only 10 bps to the fourth quarter last year.

Moving to Page 14, delinquency ratio by segment. As you can see, companies was impacted by that particular case. Without that, the ratio would be 5.7%, below the ratio in December '16. Also, if you take out the impact of the decrease in portfolio, that ratio will go down to 5.47%, below what we have in the fourth quarter. Individuals reached 3.09%; and agribusiness, 1.28%.

Moving to Slide 15. Coverage ratio without this specific case that I mentioned, the coverage ratio was pretty much stable at 164%. The total provision was BRL36,414,000,000, meaning BRL1.7 billion -- almost BRL1.7 billion in supplementary provision, an increase of BRL150 million in this quarter.

Slide 16, we have the coverage ratio by segment. Foreign branches and subsidiaries were 153%; individuals at 183%; agribusiness at 181%; and companies without the impact of the specific case, 153%, a little bit more than what we had in the fourth quarter. Average risk and loan portfolio by risk level. Average risk reached 5.70% and 9.4 -- 90.4% of the transactions that we have are concentrated in levels AA to C.

In Slide 18, the provision flow to the loan portfolio by segment. In the quarter, the total was 1.05%, a little bit below what we had in the fourth quarter but higher than what we had in the third quarter. The total provision, the loss provision was BRL6,713,000,000, being BRL600 million in agribusiness, BRL4,370,000,000 in companies and BRL1,600,000,000 in individuals.

Moving to Page 19, NPL formation, it reached 1.08% without the impact of the particular case that we mentioned, a little bit higher than the fourth quarter.

And the coverage of the new NPL was 94.93. If we included past due loans renegotiated in the quarter that were past due over 90 days, that's -- the NPL formation will grow to 1.19%, a little bit more than what we had in the fourth quarter, and the quarterly ratio would be 86.43%.

In Slide 20, we have the breakdown of the NPL formation by segment, where individuals is at 1%. Agribusiness grew to 0.57%, pretty much in line with what happened in the first quarter last year at 0.56%. Again, these two indicators were impacted by some climates affecting certain productions in agribusiness, things that are seasonal and should be addressed during the year. In companies, if you look at the NPL formation without the specific case, we would see a reduction from 1.73% to 1.5%.

In Page 21, we have the renegotiated overdue loan portfolio. The main highlight here is the growth of almost 100% in the amortization net of interest, meaning principal, plus interest less capitalized interest in the period. So almost 100% growth, and that compares to the first quarter. And the total amounts received in cash was close to BRL1.4 billion in this quarter.

NPL stood at 27% and the coverage ratio of the portfolio grew to 166. Also it's worth mentioning that the balance of this portfolio decreased a little bit. We can say it's stable in this quarter.

One other thing that's important to highlight is that we've been renegotiating loans past due. Most of this came from loans past due from 0 to 14 days at 47% and over 90 days was only 14.8%. Also, written-off transactions that we recorded in the period, installments represents 9.5% of what we contracted in this quarter.

Net interest income in Page 22, moving gears to the income of the bank. It reached 13.5 billion, a growth of 0.8% in comparison to first quarter '16.

In Page 23, we show the spreads by segments and the NIM. One thing that I would like to make clear, spreads in fixed interest rates type of loans are fixed at the time of the disbursement, so there is no impact in that spreads from any change in SELIC rates. So the SELIC rate decrease is not impacting these spreads unless they are floating. So individuals, what you see here in terms of reduction is pretty much in line with the reduction in interest rates for credit cards more than any impact from SELIC.

But in companies, there's a big portion of what we do is with big companies, that's the floating rates linked to CDI that follow SELIC rates. That spread was impacted by the reduction in SELIC rates. NIM end of the quarter was 4.82, but that decreased from 5.06, and largely due to seasonal effects and temporary impacts coming from difference in calendar days and business days.

In Page 24, we have the fee income, a growth of 12.3% in comparison to the first quarter '16, reaching BRL6,100,000,000, coming pretty much from account fees, a growth of 11.3%, asset management fees, a growth of 29%. But also for several quarters, we have been showing a growth in terms of loan fees, 14.5%. And credit cards grew also at a good pace at 13.3%.

Slide 25, we shift to administrative expenses and cost-to-income ratio. The ratio went down from 40.9% to 39.3%.

Total expenses in comparison to the first quarter last year decreased by 0.4%. In the right side, we are showing the total employees, branches and points of service in comparison -- the annual comparison, a decrease of almost 10,000 employees in one year. We decreased branches and increased points of servicing line, we announced of our reorganization.

Also just an information, the cost of the institutional reorganization brought an impact of 6 million to 7 million in administrative expenses in this quarter. Excluding these expenses, the decrease against the first quarter '16 would be 1.4% and 0.4%.

In Page 26, we move to capital ratios. Total capital ratios, 18.15%, a decrease from the last quarter, pretty much impacted by another phasing of Basel III, rose another 20% deductions in capital. So that explains the decrease. And the common equity Tier 1 reached 9.2%.

In Page 27, we have the full application of Basel III rules. So the total ratio would grow from 18.15% to 18.16%, considering the use of bank spread. Same behavior in Tier 1, going from 12.41% to 12.42%; and also in common equity Tier 1 going from 9.2% to 9.21%.

Moving to Page 28. We have guidance -- our guidance for 2017. We have in the adjusted net income, our performance was 2.5 billion; NII, 0.8%, inside the guidance. And then as we start, what we are missing in terms of guidance is the credit growth, the growth of our loan portfolio. So the total portfolio decreased by 9.2%; individuals came at 1.6%, below the guidance; companies, at a decrease of 19.6%, also below the guidance; and rural loans at 5.7%, very close to the bottom of the guidance.

The allowance for loan loss expenses, net of recovery of write-offs, came at minus 5.8 billion, expense of 5.8 billion; and fee income, 12.3% over the guidance; and administrative expenses at minus 0.4%, below the guidance.

And now we can go to the Q&A and start the Q&A. 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. Nicolas Riva from Citibank.

Q - Nicolas Riva {BIO 16875766 <GO>}

Yeah, thanks, Bernardo for taking my question. I have just one question on Patagonia. I remember that in the past, you had mentioned that assets outside of Brazil were considered noncore, and you had mentioned that you are analyzing what to do -- a secondary offering of the bank, which you currently control. Now Bloomberg published a few weeks ago that there were some banks interested in buying this bank, the National City Banks, Itau, Macro Bank, BBVA Frances. My question is, have you changed your mind at all about doing a secondary offering? Would you consider offers from other banks? And then just one more on this. What would be the impact on your common equity Tier 1 if you were to sell the bank at current market price? Thanks.

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Thank you, Nicolas. Patagonia, we share Material -- not a Material Fact, a communication to the market in March, where we were saying that we are moving on with the idea of doing a follow-on, right, or as some people would like to say a re-IPO. So -- but for our assets outside of Brazil, we are open to see alternatives.

But in the case of Patagonia, as we mentioned, what we have -- it's what we have in the communications in the market that is a follow-on, pretty much a follow-on. And as we don't have the case in our hands, we prefer not to mention something on something that is not really happening now. If there's anything in the future in relation to the follow-on, more details and so on, we can come and give you more information of potential impact to whatever we do there in our capital. Okay.

Q - Nicolas Riva {BIO 16875766 <GO>}

Okay. Thanks, Bernardo.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Bernardo Rothe to proceed with his closing remarks. Please go ahead, sir.

A - Bernardo de Azevedo Silva Rothe {BIO 18059993 <GO>}

Just I want to thank you everyone for participating in our conference call and to remind you that all the team of Investor Relations of Banco do Brasil is at your disposal if you have any questions in the future. Thank you very much. Have a nice day.

Operator

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