Q1 2020 Earnings Call

Company Participants

- Daniel Alves Maria, Head of Investor Relations

Other Participants

- Analyst
- Natalia Corfield
- Nicholas Riva
- Tito Labarta
- Victor Schabbel

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to Banco do Brasil First Quarter 2020 Earnings Conference Call. This event is being recorded and all participants will be in listen-only mode till the company's presentation. After this, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This conference call is also being broadcast live via webcast through Banco do Brasil website at 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 May 15, 2020, in English and Portuguese. (Operator Instructions) Participants may view the slides in any order they wish.

With us, we have Mr.Carlos Hamilton, CFO; and Mr.Daniel Maria, Head of Investor Relations. Mr.Daniel Maria, you may now begin.

Daniel Alves Maria {BIO 17030121 <GO>}

Okay. Thank you, Palermo. Good morning, everyone. Thank you for attending the call. I hope that everybody is well and safe.

Let me start the presentation on Page 4. Page 4, we bring the earnings highlights. First of all, for 2020, we tend to have an impact coming from the new coronavirus, COVID 19, and we expect some impact. In this first quarter, we mainly presently credit provision that we did in the total of BRL 2 billion. This movement implies in a growth in the credit provisions of 63%, when we compare to the first quarter '19. The impact of this was in the adjusted net income, we had a reduction of 20% reaching BRL 3.4 billion in the adjusted net income.

For the other metrics, for instance NII, we an increase of 9.9%, reaching BRL 14 billion. The fee income, we reached BRL 7.1 billion, an increase of 4% in comparison to the first quarter '19. And administrative expenses, we had a growth below inflation 2.7%, reaching BRL 7.8 billion in administrative expenses.

Now moving to Page 5, we bring the net income and profitability. As I said, we delivered BRL 3.4 billion in this quarter. This analyze represents 12.5% return on equity, and return on assets of 0.8%. Probably another way to look at the results is to look at the pre-provision operating profits. In these metrics, we exclude this movement -- prudential movements of the -- in the credit provisions. We saw an increase of 15.4%, when we compare to the first quarter '19 and 7.8% in relation to the fourth quarter '19. This shows that operationally, the banking improved in apparent numbers.

We can move to Page 6 that we bring the more description of the NII. First of all, we have a quite resilient NII. It grew 9.9%, as I said, in comparison to last year and a reduction of 1.8%, when we compare to the fourth quarter. And this is mainly due to the structural -- to the structure of the assets and liabilities that we have. For instance, we had a reduction in the base rate of about 30%.

Our funding costs is following these trends of the base rates, reducing the cost by 30.2%, mainly because of the liabilities, the net position is slowing. The treasury results observed an increase of 6.3% when we compare to the first quarter. However, we see a reduction in comparison to the fourth quarter, and this was mainly due to the new tax -- to the new interest rates. And we see some decrease in the loan operations revenues. This is a consequence of the new base rate in the company and also some products, for instance, the overdraft facilities that we have, new regulations limiting the interest rate that we charge for it, and that we are going to discuss much more ahead.

Now, we can move to Page 7, that we show the credit provisions. And I would like to highlight in the first quarter this -- the prudential credit provisions that we presently adopted. This represent BRL 2 billion, and this implies an increase in the cost of risk moving from 3.15% to 3.41%.

We can go to Page 8, that we show the behavior of the NIM and the spread for -- the credit spread for the portfolio. First of all, we see a reduction in NIM from 4.37% to 4.24%, when we compare fourth quarter to the first quarter 2020. We see an increase when we compare it to the first quarter '19. We have different trends here. The movement from 3.97% to 4.24%, is that movement that we were in the process of changing the mix going to lines that shows better profitability. However, in the fourth quarter, we have one instance that explains the capital is basically the gap that we have for the overdraft facility that impacted the credit portfolio as we show in the right hand side of these slides.

We see, for instance, that the credit spreads that we have for the portfolio movement from not credit spread, but the portfolio spreads moving from 8.19% to 8.03% from the loan operations for the total portfolio. And when we look at the spreads sperate by segment, we can observe that the contribution of this reduction came from the individuals portfolio, and this can be explained by the gap in the overdrafts, as I said.

Also for the NIM, coming back to the left hand side of the slide, we have also reduction in the treasury that I mentioned previously. The adjusted NIM, risk adjusted NIM can be explained by the higher credit provisions that we made in these periods explains the slowness.

We can move to Page 9. On Page 9, we bring the loan portfolio. We have seen an increase of 5.8% relative to March '19 and an increase of 6.5% when we compare to December '19. By the way, when we compare March to December, we have an increase of BRL 45 billion in the loan portfolio. BRL 22 billion can be explained mainly by the FX devaluation. We have some portfolios that we have referenced in FX, for instance, the portfolio growth for instance, we have also the government portfolio that we are going to discuss ahead.

And some of the highlights that we have also in the growth of the portfolio is the growth of the SME, individuals portfolio. By the way, those are ral reference. There is nothing to do with the foreign exchange. Also, something I would like to highlight is the bulk trade part of (inaudible) that are the company's portfolio. We have an increase in this first quarter of '20. And this is basically due to the dynamics of capital markets as we're going to discuss a little bit ahead.

Now moving to Page 10, we bring individuals portfolio. As I said, a growth of 9.6% in this portfolio. Some of the highlights of these is the growth in the payroll loan of 16.4% March-on-March, and the consumer finance that we observed an increase of 36% is by the way that was in the yellow yeah. 41.5% of the loans originated in the first quarter '20 were made through the app. This shows the penetration of the digital solutions for this product.

Moving to Page 11. We bring the company's loan portfolio. First of all, as I said, we had mainly an increase in the December compared to March '20. This increase can be explained by the company's portfolio companies with revenues above BRL 200 million that is the great part in the portfolio. This movement is basically because we have been servicing those customers through capital markets. As the capital markets shutdown, certainly, there is more demand in Brazil provided credit to our customers, but we understand that as soon as the capital markets opens again, those loans tend to migrate capital market.

And finally, just some highlights in the SME portfolio. We show the yellow part of the bar, we open here on the right hand side, how is the growth of this portfolio with some observations about the composition in the short-term profile of this portfolio and working capital.

Now, moving to page -- to the next page, Page 12. We bring the agribusiness loan portfolio. We have two -- basically two dynamics here. The total portfolio including the agroindustrial, we see a reduction year-on-year from BRL 187 billion to BRL 186 billion. However, this is basically can be explained by the dynamics of the agroindustrial. That's quite similar to what we observed in the large corporates, growing much more to capital markets and so on.

And when we look at the rural loan portfolio, we see a growth from BRL 169 billion to BRL 173 billion. And this participation, this BRL 173 billion in the rural loans represents market share of 64.2% in this market.

Just some highlights about the performance of this portfolio. First of all, the CPRs, it's a rural product bills, it's a negotiable instruments and guarantees grew in this portfolio by 60.2%, when we compare March 19 against March '20. And 80% of the transactions done in the first quarter '20 were done due to mobile, showing that more products that we have a high penetration in the digital channel. And another highlight is the growth in the working capital, 3.9%. And by the way 50.1%, 52% of the working capital that we have is insured by or has any sort of mitigates, it's weather insurance or price insurance or weather.

Moving to the next page, Page 13. We bring the credit portfolio. By the way we saw a reduction in the NPL plus 90 days. We reached 3.17%, including the specific case that is in chapter 11. This is below the industry that reached 3.20%. When we look at these metrics through the coverage ratio, we reached 200% in coverage ratio against the system that went down to 193%.

Moving to the next page, Page 14, we bring the credit quality by the best segments. First of all, we have the individuals portfolio. We show some growth in the NPL plus 90 for this segment. That gives us a funding coverage with 199%. Company's portfolio so far, we see a downward trend, which is 2.83%, including the restructuring case, when exclude this is lower. And in terms of coverage, we see growth in the coverage ratios, reaching 283%, considering the case. And the same for agribusiness that we saw the NPL reaching 3.75% and have presenting a good coverage for the industry -- not for the industry, but for this segment with 114%.

Moving to the next page, we present the new NPL, the next Page 15. On the bottom part of the bar, we show the new NPL formats in each quarter. By the way, we didn't show here the exclusion of specific case that we had in the second quarter and third quarter that explains why it's higher. But we show here and by segment in this upper line. And we show also the coverage ratio for the new NPL. And we see above 100% and mainly this quarter 126%.

Next page, Page 16. We bring the fee income. We had an increase of 4% with the first quarter '20 compared to the first quarter '19 and we bring some highlights of some lines that (inaudible) that the profit ratios and efficience ratios. Administrative expenses grew 2.7% below inflation. Just observe that personnel expenses grew I think, almost inflation. And this is having an increase of the personnel above inflation, but this shows the cost control and the measures that the bank did to mention it. In terms of the fee income to administrative expenses, we reached 93%. And by the way, something to highlight is the concern about efficiency and cost control with sustainability.

By the way, in the first quarter, we had the inauguration of the first solar plants, that the bank buys. This product business this brings efficiency in terms of the reduction costs and also moves to the energy metrics of the bank towards a more clean synergy. This is the only first step and other steps are in progress.

Moving to Page 18. We bring the capital and the CET1. CET1 one was almost stable when we compare to the next to the last quarter. And in the bottom part, we bring just the building blocks of this. We are just highlighting, we have consumption coming from RWA, about 84%, actually, 84% -- 84 basis points.

We had also some gains, some increase in capital coming from resolution issued by the regulator that a loss that some tax credits will not be reduced from the capital base. And we had also the repricing of the actuarial position that contributed with 31 basis point in the CapEx. Then this way, we have almost a flattish movement for the capital. Just to get some time to speak about the digital process. By the way, we have been investing a lot in the digital experiences of the customers and the digitalization of the process. This is a consistent process and we have been talking a lot with you all about this.

And by the way, our app consistently is the best evaluated app in the Brazilian system. And then, of course, we have been doing -- we have been delivering this in the last years with a quite sizable number of evaluations. And also, we have a strategy of having omni-channel approach for the products in a way that you can reach the customers in different channels and you can mention this. And also, all those investments that we have been doing in the last years certainly put us in an unrivaled position. At the moment, we want to offer to our customers a remote serve. And just some examples. Our transactions made by app and internet that used to be 80% -- 81%, reached 84.5% in the first quarter '20.

All the initiatives that we have and just an example, we issued 6 million credit cards with NFC, in addition to the Apple Pay and Google Pay that we have, and with this, we are seeing growth in the usage of those products. And also the digital accounts that we saw increase in the digital accounts. By the way, we reached 4.5 million-ish accounts since we established this product. The bank is offering a quite good condition to present services to our customers in this moment.

And moving finally to page 20. I just bring some highlights of Brazil, in this pandemic situation. By the way, Brazil is an institution with more than 200 years. Yeah, we have more than 70 million -- and actually, to be precise 70.9 million customers. We are present in 98.9% of the municipalities with 625,000 point of service, branches and the shared services that we have with third parties. We have more than 97,000 people working with us. This definitely changes the suppliers or the third party service providers and also the serve at -- the people that we service through Banco do Brasil. Banco do Brasil has quite relevant position in the Brazilian economy, in Brazilian society, we understand this role. And mainly, we are social responsible company. And when in this situation is one -- we understand all this possibility in this process. By the way, in the management report, we bring more color about all the actions that we have been taking to the different stakeholders in the society.

And just pointing out some of the things that we did for the customer centrality and the customers. And mainly this -- at those moments having the relevance of a large institution in Brazil, providing services in the different parts of the country, certainly, we are channeling to digital service. However, some of them, they need to be done face-to-face. And we're doing this very responsibly and taking into consideration the security of the employees and the customers. And the credit extension this product n this moment and being closer to the customers with another important aspect in terms of the relationships with the customers. And just an example, how fast the bank adjusted itself. For instance, we used to have a product and of service through WhatsApp, we showed more than 10 million services done, have gone through this and not disrupting the cost of service, even though you have some restrictions in social isolation.

When we go to the employees' safety is another aspect that the bank took several measures, for instance, identifying the risk groups or isolating the risk groups, finding ways to service remotely. We placed almost 1/3 of our employees working through home-office. This is only some of the initiatives we did exactly to take into consideration those aspects. And certainly, the social initiatives of the bank in the nations through our foundation, FBB that has several important social impact aspects. And also, it's important to preserve capitalization and liquidity. And this is a relevant aspect that we are monitoring.

By the way, our senior management is getting -- is meeting every day exactly to fine-tune all the measures that are necessary, and we're presenting a quite good flexibility in this process.

And finally, we move to Page 21 that we show the guidance. By the way, we suspended the guidance as we have no clarity about the variables to project the results. And just to highlight some of the aspects, for instance, the credit provision that we expected in the interval of -- in the range of 10% to 13% -- BRL 13 billion, we delivered almost half of this in just the first quarter. And certainly, this impacted the adjusted net income that came lower compared to this. And the other metrics, some of them are more or less affected.

Saying that, we can move to the Q&A. And thank you for the attention.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Victor Schabbel from Bradesco BBI.

Q - Victor Schabbel {BIO 17149929 <GO>}

Hi, good morning, everyone. Thank you guys. Hi, -- Daniel [ph]. Thanks for the opportunity. So we have spent a lot of time during the Portuguese call discussing the impacts of the actuarial gains of Banco do Brasil's equity, but there is one point, I think that ahs impacted most of the banks, all the big banks during the quarter. And I think people overlooked a little bit which was the fact that mark-to-market of available for sale securities have basically weighed on the equity impacting negatively all the banks during the quarter. And I would like to understand the drivers behind of it? Because available-for-sale, securities available-for-sale in the bank's balance sheets are basically debentures, right?

So are basically credit risk. Usually high-quality credit risk, which are being only mark-to-market because the rates move up during this crisis. And if there is no problem, right, regarding the credit quality of these usually AAA securities we would probably have a positive impact when the rates normalize again. So just wanted to understand if this is the case, if we are talking about the impact of BRL 1.7 billion negative during the quarter is about the repricing or mark-to-market of the debentures? And if these debentures are really long term and are really high quality? Or if there was any other securities that weighed on the equity as well? thank you.

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

Okay. Thank you. Thank you Victor. To be very frankly, we had some impacts in mark-to-market as you see on page 18, about 26 basis points. Our security portfolio has -- doesn't have a larger concentration of private securities. I would say that most of the mark-to-market came from the product securities since we had some shocks. But the concentration the participation of the private securities in the case of the bank is not so large. We have, for instance, the case of the portfolio in debentures, about BRL25 billion. And just to give you the reference in terms of mark-to-market, we had mark-to-market for private securities of BRL1.5 billion. And for the public securities, it was around BRL706 million. About the credit quality, there, they have good credit quality. Actually what happens is that we have a shock in the market. And manily of the prices of those assets certainly, they had some impact. But credit wise, this is not a major concern for us.

Q - Victor Schabbel {BIO 17149929 <GO>}

Perfect, very clear and Daniel. Thank you.

Operator

Our next question comes from Joanna Gajuk [ph] from Bank of America.

Q - Analyst

Hi everyone. Thanks for the opportunity. I have two questions as well. The first one is related to the NIM. You had a benefit in your funding cost related to the decreasing of the judicial deposits costs. So all the impacts happened already in the first Q? Or should we expect further impacts going forward? Also on the NII, how do you expect it's evolved through the year taking into consideration the change in mix that we should probably see going forward? And my second question is regarding the NPL formation. Can we expect teh NPL formation coverage to continue to be above 100% as NPLs will probably take longer to appear given the grace periods you are offering to your clients. So should we continue to see you provision ahead of NPLs? Thanks.

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

Okay Joanna. Thank you. Let me get start with the NIM and the NII behavior. As we said since the when we started when we deliver the guidance for this year; one major contribution for the NII would come from the funding side and certainly the judicial deposits. We made some renegotiations last year with important courts. This decreases the cost -- we adjusted the cost to the real. And this is one of the positive aspects. I would say that we got part of this benefit, probably have some more to come but it's liner. Probably in the next quarter, you're going to see more impacts, for instance, mainly in the second quarter coming from the reduction in the base rate.

By the way, just to give back information about this. So judicial deposits usually, we negotiate in a long-term deal and we had some contracts we hired we granted in the past, considering some scenarios of Selic rates with a fixed components.

At the moments, the Selic rate rates starts to go down, down down, this fixed component starts to gain more relevance in the cost. And for that reason, the cost of deposits starts to grow. And what we made is basically a negotiation in bringing economically equilibrium Previ and bringing some -- these compensation as a percentage of the variable costs of the Selic rate and this is basically the dynamics for this year. And certainly, yes, this will help NII and this will help means as we expect.

On the other hand, the -- we have some aspects that probably could put some pressure in, certainly, at the base rate and this goes straight to the treasury results. Having less treasury results, , and certainly we expect to lower treasury results relatively to the historical numbers, yes, because the rate is much lower. This tends to reduce uncertainly. Just reminding that 2019, we had a threshold much higher. Then our historical numbers. Then we expect for 2020, a lower treasury even compared to the historical numbers. Then this is some of the effect that it certainly brings to different dynamics for NII needs. But just fine-tuning some perspectives that I had the opportunity to pass to the market previously that we have been expecting NIMs and for the year from stable to gradual increase.

Adjusting this perception, we expect NIMs for 2020 from stable to gradual reduction. This depends on how those variables will behave, certainly be because we have some structural positions as the asset and liability positions of assets at fixed rates and liabilities at floating rates. At the moment, if the base rate goes down, then certainly, we can't -- this benefit means. But this depends on how fast the asset will be repriced. Then this goes to the first question and the importance of the restructuring of those contracts for the behavior of our margin.

Secondly, about NPL, what we can expect of NPL. Banco do Brazil is conservative in terms of managing risk. And I think what we showed in the first quarter is a good proxy on how we see this. Because what we did, we anticipated some of the impacts, because looking at our balance sheet, NPLs were behaving well. We are expecting improving the NPLs, certainly, because these NPLs represents the reality of 90 days ago, and the impact of COVID-19, it's not fully -- it's not given in the balance sheet. And what is the stance of the bank trying anticipates as we did part of this in more anticipation you can expect then probably in the past, is a good proxy on how we can look at the management of the bank in a very prudent and conservative way ahead. Did I address your points?

Q - Analyst

Yes. Thank you.

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

Thank you for the question.

Operator

Ladies and gentlemen. (Operator Instructions). Our next question comes from Tito Labarta from Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, Daniel, thank you. A couple of ask questions. I guess, following up in terms of asset quality and provisions, I know it's hard to say how bad things could get. But just to put into perspective, right, if we look at the cost of risk this quarter was around 3.5%. If we look back at prior crisis, right, looking back in 2016 I think the cost of risk peaked at around 4.7% in early 2016. If we go back a bit further to like 2008, 2009, the cost of risk maybe keeping up 4%. How do we think about this crisis in comparison to previous crisis? And how much cost of risk and NPLs can increase? If you can maybe give some color, I think, at least to put in perspective, would be helpful. And then I have a second question on loan growth asset.

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

Okay. Tito. Thank you. I think that is a fair question. First of all, it's hard to create parallels to this shock. Because certainly, there are components that we've never seen as this. For that reason -- exactly for that reason we suspended guidance. Certainly we have our internal metrics. We're following up to the behavior of those metrics but it's hard because the variables are changing every week or I'm not saying every day. And then this makes quite difficult. But probably I can answer your question just showing what are the differences in our portfolio. First of all, we have a deep portfolio that is more defensive relativity to the portfolios we had in the past, including -- we understand that relatively to the system. First of all, we have 25% in agribusiness. The perspectives of the business are quite well. Prices for the main commodities is behaving well. For those ones that they had some reduction, this was compensated by the tax. And looking at the costs of the producers that are either in dollars or even in dollars, but they were locked with the lower dollar or even in reais that is even better.

Margins tends to be quite well for the producers. And for these molecules that you have, certainly, we have ways of addressing it. Then this is not a real aspect, but only Banco do Brasil has this portion this composition of the portfolio. When we go to the individuals portfolio that represents the other one third of the total portfolio. Our growth, we had increase in the participation of the non-payroll loan business. We have 1/3 of this individuals portfolio comprised by payroll loan. And just reminding that roughly 90% of this portfolio is Previ loans to public service that we have profitability. Then certainly, the biggest risk we have in this scenario is unemployments increasing. And for this, in a certain way, we have some mitigation for this process due to the structure. And when we go to the company's portfolio, comparing to 2016 for instance, we had the larger portfolio, and we had some concentration in some groups. And we have lower portfolio, we decrease this portfolio. We're cleaning up this portfolio in the last years.

We started growing this portfolio last year. And the companies that are in this portfolio, we have long-term relationships with them. We know them very well in a different risk profile compared to the past. And in addition to this, we have a quite good guaranteed package for those business. Then saying that, I think that is a quite important asset just to say that we are in better shape for facing this crisis. Even when we consider concentration you can look at the concentration of groups that we used in the last years. Another important information in terms of collateralization of security. Roughly 65% of our portfolio we have guarantees -- is comprised by companies with guarantees. And we have additional 15% of that we have in sort of mitigators then only 20% of this portfolio, we've no guarantee.

But again, we see a very serious shock in the future. NPL tends to go out to go up in the system. But we understand that we are quite well prepared for this moment, even comparing to the last moments. Then this is basically -- although we don't have the final numbers this is our perception, why we understand that we are -- I don't think we did but more prepared for this scenario. Did I address your point?

Q - Tito Labarta {BIO 20837559 <GO>}

Yes and I think that's very helpful ot put in perspective. Okay. And then my second question on loan growth, right? As expected, your corporate loans went up quite a bit in the quarter, but you are still growing your loan portfolio less than private sectors peers. So just to think about going forward how we might see your loan growth evolve, right? I mean, some of that was just corporate seeking liquidity. So that demand how it goes away. But do you also facing any pressure from the government to lend more? Thinking about your loan growth compared to private sector banks, could you see a scenario where you start to increase, while they decrease going forward? Or just help us with your kind of your loan growth outlook in perspective given the environment and the moving products would be helpful.

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

Okay, Tito. First of all, the corporate governance of the bank is quite strict and the decisions that we take are our business decisions. Although we are controlled by the government, having 50% of the shares, we have the other 50% comprised by more than 500,000 shareholders. And the corporate governance of the bank is picked up much more as a corporation. Then I would say that the decisions are taken are our business decisions. And by the way, another thing that is important to remark about the corporate governance of the bank. We have eight Board members. From the eight Board members, we have six Board members that -- sorry, five Board members that they are independent Board members. Then this shows how important is this to give -- to insulate the institution on those aspects that you mentioned.

About the credit growth I would say that, first of all, we had part of this credit growth that is a consequence of the FX movement as I describe it. But when we look at basically the growth that we are observing, we observe it in the SME and the individuals. It is quite consistent on what we have been presenting into the markets. The difference in this quarter was basically the growth for the large corporates. But this we see as -- I don't see an opportunity, but as a situation we saw in the market. In the end, the large corporate, so the companies, the large companies or medium sized companies, they are our customers. The difference is we have been channeling those credits to get come off, because it was more cost effectively for the customers. And for the bank strategy, we move it from a balance sheet business towards a fee business. As the market shut down, certainly, they continue to be our customers.

They have their needs, and we are a relationship bank. We saw an opportunity to fill this gap for those customers. And however, this is important, including to guarantee that we are present in the non-base in the future when they come back to the market. This is consistent with the strategy of the bank of relationships. How we again I know that it's hard to talk about the future. But some of the aspects that we can expect about the dynamics of the credit portfolio; it didn't change the approach to increase the participation of prepay. It's only temporarily that we had this situation. We expect that this will flow back to the capital markets. It's hard to say if this is going to be in the second quarter, third quarter, or fourth quarter. But at some time, this will happen. The characteristics of those transactions are much more short-term.

You can expect more demand coming from the agribusiness. As I said, even though with the shock with the depression, I can say, I can describe this way segment tends to continue to be active. In the end, boards and Brazil needs to be set. And this segment has important goal to preserve food safety -- or food security in this process. And for the SME, I would say that we saw some demand beginning this crisis, but much more demand to extent the transactions in less demand for new money. And we expect for, for instance, for individuals, more demand coming from payrolls. And then, we see some growth for the portfolio, but probably differently from the way we guided when we started the year.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thank you, Daniel. That's helpful.

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

Thank you.

Operator

(Operator Instructions). Our next question comes from Nicholas Riva from Bank of America.

Q - Nicholas Riva

Yes, thanks very much for taking my question Daniel. I have one question. I understand that the congress in Brazil approved a plan for the central bank to purchase domestic corporate bonds. And I wanted to ask you if you would anticipate participating on this program to issue domestic bonds to be bought by the central bank. I guess, their rationals here is due to lower yields and increased liquidity in the secondary market in Brazil. And also, if this changes in any way your outlook to potentially issue U.S. Dollar bonds later this year? And also, any color you can have in terms of the size of this program, when it will be implemented, how long it would last? Any color would be helpful to me.

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

Thank you. Thank you for the question. First of all about behavior of Central Bank. Central Bank was quite fast in using all the measures to bring liquidity for the system. Certainly reducing reserve requirements, adjusting the capital needs for the system and mainly providing liquidity for the system. This is one important aspect. Another thing that I think the business coming in U.S. Europe, but this is happening for the first time in Brazil, the possibility of central bank buying private bonds in this process. This is important also when you have more private funds in the system and certainly when you have some shocks of liquidity in other markets that central bank doesn't have their arms on them. And this to provide the liquidity for the system is quite relevant.

In terms of participation, I would say that no, there is no anticipation at all of that movement that we are observing is basically what we -- as I said, it was based on the demand of the customers. Certainly, these could bring different dynamics, but I think that it's early to say. We probably will need more time to see how this is going to work. To be very frank, I think that for the system is quite important to have this possibility. This facility was used in other parts of the world and showed a very prudential way of managing liquidity in the system.

Q - Nicholas Riva

Thanks very much, Daniel.

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

About the second part sorry, I forgot about the possibility of issuing bonds. Certainly the bank is quite liquid in foreign currency. And by the way, we had some payments, some transactions that was in the market. We have the call that will happen in October this year for one old style Tier 1. Once Brazil refunded those transactions and the funding structure of the bank is quite satisfied, then we have certain capital markets. We have inter-bank markets. We have all the markets that we reached funding, including and just as a coincidence, including in the German markets, for instance, we access some pockets of liquids like shine or things like that because we are in that low market spend. This is quite diversified source of funds. Then the bank has always analyze it, those instrument and how we can launch -- how we can manage at the best price and the best conditions. Then this is how we always look at this. It's hard to say if we were going to do something or not, but we are taking this into consideration.

Q - Nicholas Riva

Okay. So to summarize, you already prefunded the call of the 8.5 curve in October, the $850 million. And at this point, you don't expect to issue in the U.S. dollar market this year?

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

I would say that mainly with dislocation of the curves that we have, it's less likely. But again, this is very live situation. We prefund it, and we don't we have resources to make the payments. But certainly, it's a question of opportunity. Understanding we want to be present in the markets to have our bonds being negotiated, but it's a question of having the funds to use it, having the usage for those funds and certain pricing. And then, we are observing this, but we have nothing decided at this point.

Q - Nicholas Riva

Okay. Thanks very much, Daniel.

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

Thank you.

Operator

Our next question comes from Natalia Corfield from JP Morgan.

Q - Natalia Corfield {BIO 6421991 <GO>}

Hi, thank you for taking my question. I'm going to go back a little bit to your core equity. You have a much better performance than your peers your private peers in this quarter. But I'm wondering how we can think about this ratio going forward in 2020? I've seen that in the presentation, you still kept the NIM CET1 of 11% in January 2022. But for this year specifically, how do you see the evolution of this ratio, considering your loan growth, considering that dividends are capped this year? How can we think about it? And what kind of surprise, negative surprise could we see in terms of mark-to-market or Previ going through the year? Thank you.

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

Thank you, Natalia for a question. So again, it's hard to give a projection. We are navigating four quarters. As I said, the 11% is targeted as we always take into consideration that is including in our corporate documents. For this year, as you said, we had reduction in the payout ratio to what is established in our bylaws. Then this adds more capital retention in this process. The bank is quite conservative in terms of market risk and some mark-to-market, you can expect, but depending on the market conditions, but no shocks.

Something that was one of the detractors in the system was basically the impact of the fiscal hedging. And by the way, we have a much lower, much smaller investment abroad and the impact was lower for us. For the actuarial position, certainly, we are following up this quite closely. And this is hard to give you a projection. But one thing is what -- and this is an important variable is how the curve will behave. To be very frank, it will be a surprise if we see more reduction in the long end of the curve, the long end of the curve we said we had a movement in the curve. It tends to be a little bit higher.

Mainly, when you have more uncertainty. Then in all scenarios that we are running, we're showing comfortable capital base to face our needs and still be on the business. But this is one important aspect to the way we launched capital. It's always a forward-looking approach. We have a very well defined thresholds in our corporate governance. We project our capital on a regular basis in the next three years in different scenarios. And when we see some of our targets being issued, we had time in anticipation for starting -- taking actions to reach those targets.

Good example of this was in the past when we had more leverage, and we had the implementation of Basel III that it was challenging worldwide. And we were able to do it this in a very disciplined pace. Then this is exactly what you can expect on our side.

Q - Natalia Corfield {BIO 6421991 <GO>}

All right. Thank you. And just on the physical hedge that you had a lower impact, can you just explain how exactly that works?

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

Pardon me. Can you say it again?

Q - Natalia Corfield {BIO 6421991 <GO>}

All right. On the fiscal hedge that you have lower impact than your peers and help your capitalization. Can you just remind me how exactly to work?

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

Okay. Because you have a different tax treatment, for instance, the investments you have abroad you have no taxation for the tax changes. However, to hedge this positions, you need to find liabilities. However, those liabilities, you have tax impact. Just roughly, let's assume that I have 100 in my investment and I hedged this position with another position at 100. And I have a change a variation of 10%. It means that mine or our valuation of the currency means that I'm going to have a hit of 10% in my assets and my derivative of my instrument in the liability would have -- would compensate this with 10%. But since you have not synchronous to the taxation, having the liability tax, these 10% convert into 5%, then we're not fully hedged. The way to address this is to build an over hedge. And then to hedge this 100, you need to have 100 and something just for the P&L to compensate this.

This additional tax credit or tax impact goes against capital, because you have a different treatment for -- how can I say? Way to -- for tax credits. The situation of Banco do Brasil, we have roughly BRL20 billion investments abroad. BRL20 billion -- which is BRL20 billion. When we compare to the major players, they have usually 4 times of that. Then we have some impact going in the credentials. But we tend not to having the same expansion because the level of investments we have abroad is lower. By the way, there is some changes being discussed in the conference. We need to observe this changing this taxation. And in doing this, this will bring some the same pace for assets and liabilities. And tends to reduce this effect in the P&L and the overhedging. I know that it was too technical, but what -- am I able to give all the color about these movements?

Q - Natalia Corfield {BIO 6421991 <GO>}

Yes, you did. And thank you very much, Daniel.

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

Thank you for the question.

Operator

This concludes today's question-and-answer session. Mr.Daniel Maria will proceed with his concluding remarks.

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

Thank you all for the attendance and for the questions. We continue to be available for any remaining questions. And thank you for the support. And by the way, keep safe. Thank you.

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.