Q2 2015 Earnings Call

Company Participants

- Bernardo Rothe, Head of Investor Relations

Other Participants

- Anibal Valdes, Analyst
- Carlos Macedo, Analyst
- Marcello Telles, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil Second Quarter of 2015 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the Company presentation. After this, there will be a question and answer session, at that time further instructions will be given. (Operator Instructions) This event is also being broadcasted live via webcast and through Banco do Brasil website at www. bb.com.vr/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 strategy concerning Banco do Brasil, it's associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

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

Bernardo Rothe {BIO 18059993 <GO>}

Good morning. Thank you, everyone for participating in our conference call. I would like to start in Slide number 3, please, where we present our highlights. Our adjusted net income reached R$3 billion in the second quarter of 2015 and 6 billion in the first half of 2015, a 11.5% growth against the first half of 2014. NII grew by 14.2% compared to the first half of 2014 and the fee income grew by 9.1% year-on-year. Our asset management arm, BB DTVM reached more than R$600 million in assets under management.

In Slide 4, we present income statement with reallocations. I would like to highlight again the 14.2% increase in the net interest income, the growth of 9.1% in fee income. Administrative expenses grew by 7.2%, less than inflation in the period and the adjusted net income grew by 11.5%, half against half. Also the net income grew by 60.3% to 8,800 [ph] billion, half against half. I'd like to share with you that the tax rate for this period was 21.2%.

In Slide 5, we show the funding of Banco do Brasil. We'd like to just highlight here the growth in the savings accounts 2.2% against March 2015, in a trend against what is happening in the market that's decreasing the balance in that particular product. Our adjusted net loan portfolio of commercial funding reached 92.5%, its still maintaining a very big position in Banco do Brasil.

In Page 6, we start showing the net interest income and net interest margin. We would like to highlight increase in spreads in the Individuals portfolio from 13.5% to 14%, increase in the Company's portfolio from 5.5% to 5.6% and there is a small decrease in the Agribusiness portfolio to 4.8%.

The net interest income increased, as I mentioned before, 14.2% and loan operations income, we had an increase of 14.2% as well, basically because of an expansion in the loan operations, increasing the average rates in the periods and we had one business day more in this quarter. Funding expenses also grew, same reason the business day, expansion in these -- the balances and the increase in SELIC rates.

Looking at the treasury income line, you can see that's quarter against quarter, if we had a decrease here, but that was impacted by the exposure that we have to Argentinian pesos a now investment in Banco Patagonia, that if we take that out, that impact (inaudible) would add 300 million in the second quarter and that line would grow by 1.2% and the net interest income in the quarter would grow as well.

Moving to Page 7, the loan portfolio in the broad concept grew by 8%. If we take out the FX impacts, it would have grown by 4.7%. We are keeping up 20.8% market share in the quarter. Moving to Page 8, we show the classified loan portfolio by contract period. We can -- we are showing here that 46.7% of our portfolio was contracted after January '14.

In Slide 9, we show the organic individuals loan portfolio, that's still concentrated in lower risk lines of credits, there was more increase of 0.9% from June '14. We had a decrease in the overdraft line, 9.4% against June '14 and 1% against March '15 and in the auto loans line, 13.3% against June '14.

Slide 10, we show that we are growing in lower risk lines as I mentioned before. The direct consumer credit and auto loans grew by 5.7%, but in this portfolio, I would like to highlight that only 7.3% are private sector employees, 82.7% are pensioners or civil servants. On payroll, in the right side, we have the concentration even higher with 96.3% and (inaudible) number one, the market share with 24.6% participation.

On the bottom, on the left side, salary loans we grow in 12 months, 3.7% but quarter against quarter, the growth was 6.5%. The low risk line of credit with a high return, if you compare to payroll loans, for example. On the right side, we show the growth in the mortgage portfolio, 37.8% in 12 months, 39.5% with individuals and 33.1% with companies.

Moving to slide 11, Loans to Companies in the broad concept, we show here growth of 5.4%, concentrated in the investments, trade finance and mortgage as I mentioned before. If you take out the foreign exchange effects from this growth, this would be 3.4% growth. I also would like to highlight our market share in the ACAC[ph] lines of credit, the foreign exchange contracts financed by Banco do Brasil that is 27.6% in this quarter. Still talking about the Loans to Companies, we have on the left side on the top the corporate portfolio by size. As you can see, we grew more in the medium and large companies and government and we had a slight decrease in the SME portfolio. Our SME portfolio, the companies that have up to R$25 million income in an annual basis.

On the right side, we show the participation of our kind of credit [ph] insurance, that's FGO and FAMPE that although the portfolio is decreasing, we grew the participation of that particular type of guarantee to 24.1%, 3.3% against June 2014, participation -- a share in the SME portfolio of 24.7%.

On the left side, we like also to highlight that most of our clients have a long-term relationship with Banco do Brasil, 95% have more than two years of relationship. And in the right side, we show the time of the Company since its foundation. So only 1.3% of our portfolio has been created with less than two years, more than 50% of our portfolio are concentrated in companies that exist for more than 10 years.

In slide 13, we show the Agribusiness portfolio with a growth of 7.1%, but growing 10% in the individual side of the portfolio. And we still have a big participation of Mitigators in our portfolio with a participation of 55.6% are insured.

Moving to page 14, we show the asset quality, average risk increased by 5 basis points from March to June and the coverage ratio increased to 205.2% [ph], the highest coverage ratio in the market much more than what the market is showing as 172.

In Page 15, delinquency ratios is still showing a stability in our NPL ratio more than 90 days overall and a small increase in the NPL more than 90 days in the Company side, concentrated in the SMEs and lower-middle. We have stability in the middle and large companies segment.

Moving to Page 16, we are showing here the NPL formation in the quarter, it's still stable, looking pretty much like what we have experienced in the past with small variations. In Page 17, we have the allowance for loan losses to the loan portfolio, the 12 months index ratio is 3.1%, but if you look at the quarterly basis -- in a quarterly basis, we have the same level as the fourth quarter at 0.8, showing some stability as well. The classified loan portfolio is highly concentrated in AA-C [ph] risks.

In Page 18 we have the fee income, as I mentioned 9.1% growth. Page 19 we have more details and I would like to highlight that 91.1% of the fee income is fee income over services and in that particular slide, the growth was more than 10%. Slide 20, we show the BB DTVM performance with increase in the assets under management of 12.8% and an increase in fees of 20.8%.

Page 21, account fees, we had an increase of 9.2% year-over-year, but the growth was 12% if you consider quarter against quarter. Capital markets with 21.9% growth, Fiduciary service at 12.8% growth and Consortium also a high growth of 41%.

Page 22, we present the results of the BB Seguridade, 18% growth in adjusted net income quarter against quarter last year and a 30% growth if we consider the first half of this year against first half of last year. We are still keeping leadership in several segments of BB Seguridade.

Page 23, we present the results of Banco Votorantim, a 146 million net income in the second quarter and we have on the left lower side, the delinquency of the portfolio moving from 6.5% to 5.1% second quarter 2014 to the second quarter 2015. The Vintage, as you can see, the portfolio that was contracted after June 2010, now only represents 0.2% of the portfolio.

In Page 24, we show our clients and service network channels, we have more than 62 million clients and it's important to mention that the increased participation of the Internet and mobile in the total transactions of the bank reaching 57.2% in June 15. The mobile in terms of million transactions reached almost 900 million, an increase of 222% [ph] from the second quarter 2014 reaching more than 5 million clients registered. And also I would like to highlight that in recent survey, we have the 10th most common app in Brazil -- common app in the world and that's the best one in Brazil, best positioned company in Brazil. And we still are seeing growth in terms of the users in the Internet bank as well reaching 12 million clients registered to use the Internet.

In Page 25, administrative expenses and cost to income ratio, as you can see we're improving that ratio moving from 44.6 in the second quarter 2014 to 42.3 in this quarter. If you compare semester against semester, we've moved from 43.7 to 41.3 with a growth in the admin expenses of 7.2%.

Page 26, we show the BIS ratio where we have a slight increase in the total ratio to 16.18% and also an increase, a slight increase in core capital ratio to 8.71%. The fully implemented ratio would be 15.57%.

Moving to page 27, we show the guidance where we reached the guidance for the adjusted return on equity, also for growth individuals allowance for loan losses at 3.1% and administrative expenses at 7.2%. We surpassed the guidance in net interest income and also in the fee income. Based on the results, we decided to change the guidance in two lines, increasing the net interest income growth to 11% to 15% and also we changed the allowance for loan losses to 3.1% to 3.5% of our total loan portfolio.

With that we finish the presentation and we would like to open up for questions and answers. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Saul Martinez from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi everybody. Thanks for taking my question. I have a question on the provisioning in the classifications on the loans to individuals and I want you to help me understand it a little bit better than what I do currently. So on Table 69 of your MD&A, you give AA, you give the classifications for the loans to individuals, category A loans went from R$34.7 billion to R$47.6 billion, whereas category E loans basically got cut in half, 3.5 to 1.8. And obviously that helps in terms of your reserving and provisioning category affluent also were cut meaningfully as well. I know it has to do with the automation of systems and how under specific circumstances different borrowers are moved around the different risk classification. But these moves seem pretty extreme in terms of magnitude.

So if you can help us understand the mechanics around it and what the thought process is around changing -- being able to move the classifications around and I'll have a follow-up question as well.

A - Bernardo Rothe {BIO 18059993 <GO>}

Good morning, so thanks for the question. As you mentioned already, what happened in the quarter is that the automation of the process of upgrading, as we had done that before for the process of downgrading the rating of clients with some kind of restriction internally and externally that are not linked to delinquency. So it's what we call administrative restrictions.

So what -- first one is, you have to understand that when there is a restriction like the credit bureau in Brazil, called Serasa, if someone's negativate in the credit bureau, we move the client to E, we increase the provision to 30% even if the client is current with their -- its obligation with Banco do Brasil.

That means that a client with AA, A or B, suddenly have 30% increase -- 30% provision over that particular loan. And we start doing that automatically last year. So when the restriction is solved, somehow they don't have anything else in Serasa, for example we could put them back at the level they were before and that was done manually before this quarter and then we implemented this improvement in our process in this quarter and they start to move back to where they were if they are still current with their obligations. They could not have been delinquent during this period. So moving back from Risk E to Risk A or B is a big level of improvement in terms of reduction, in terms of provision. That's why the number is so big, but it's because we provision that much than the reversion is a big number as well. That's what happened in terms of provisions, that's why the number is so big.

Q - Saul Martinez {BIO 5811266 <GO>}

But is it fair to that that's sort of a one-off type benefit you're getting from reversals of provisions with a lot of clients that now going forward now that you have the automated system working, you'll no longer have enhanced the provisioning on an ongoing basis for your consumer book will be higher than what it was in this quarter.

A - Bernardo Rothe {BIO 18059993 <GO>}

We are still going to see it's happening moving forward, more upgrades happening, that's for sure. But you have to consider also that the first half, as you know is seasonally the worst -- the first quarter, sorry, it's seasonally the worst quarter. It's when we have more administrative restrictions coming and that we have more reclassification to risk in our portfolio. So moving forward, we may see that happening again in the second quarter of next year due to this particularity of the Brazilian market.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Secondly, on the funding strategy. Obviously, you had a big shift to LCAs from time deposits in the last year, two years, especially this quarter. How concerned are you that given the fiscal situation in Brazil that the tax benefits associated with this instrument make a way? It's obviously not the primary focus of the market in terms of taxes, but how are you thinking about the strategy to continue to grow your funding, the loan book, the LCAs going forward?

A - Bernardo Rothe {BIO 18059993 <GO>}

Well, if you look at table 97, you can see the cost of each of our funding type of product as a percentage of the SELIC rates. So LCA, LCI, they have a small percentage in our point of view, but we have good products as well that can replace LCAs if we need to. The changes in the LCI has happened already, we don't see at this point anything else coming in that particular way.

Just one thing that I would like to point out based on the cost of funding, you can see that our cost of funding decreased quarter last year against this quarter and increased just 5 bps one quarter to the other more related to the dynamic of the market that we had some decrease in terms of the main deposits. So overall, our cost of funding pretty much stable over time.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, great. Thank you very much

Operator

Our next question comes from Mr. Mario Pierry from Bank of America Merrill Lynch.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi everybody, good morning. Let me ask you two questions as well. The first question is also related to your funding costs, right, you show on your Slide 6 of your presentation. Your funding costs are rising faster than the growth you're seeing in revenues from loan operations. But if we look forward, should we start to see a reversal of this, especially as you show on Slide 8, only 18% of your loan book is originated this year. So should we, going forward -- should we see the revenues from loan operations exceeding the growth in funding costs, because it seems to me like you already felt the impact of the higher SELIC rates on your funding cost but that has not been reflected yet on your loan book.

The second question is related -- we saw here that you increased your exposure to your largest borrower by R$4 billion this quarter, we are assuming this is Petrobras, you now have a 25 billion exposure to the company, this is 3.6% of your loan book. Just wanted to understand the strategy there a little better. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Let me start with the second question. Any client that has a credit limit established with a good risk and we think that's a good transaction, we would do business with them. I cannot comment on anything that you said other than that, but it's part of the strategy to develop good business with good clients, with good rating and that's it.

On the second question, funding cost growing faster, I have to mention to you that the exposure of Banco do Brasil to interest rate, market risk, in general is very low, it's less than 1% of our -- the balance risk is less than 1% of our equity or to be more exact, it's 0.8%.

So we have very low exposure to market risk and where this lower exposure to market risk appears, in the structural hedge that we have and the result of that hedging position comes into credit income line. So loan operations is growing based on the reprising of the portfolio as we've been doing. And the funding expenses, when they grow, as I mentioned, the growth is related to expansion of the funding between present SELIC as well of course, but where we capture the difference to keep -- we have a very small exposure to interest market in the treasury income. So the comparison between loan operation income to funding expenses does not represent an exposure that we have to SELIC rates and that we are not going to have these compensate somewhere else.

So as I mentioned as well in that we have a big portion -- around 5% of our funding to commercial funding is free cash for the bank, we invest that at SELIC rates in the market and that reflects as well in the treasury income. So looking at what we have, as we don't assume any position in the markets to make money in the treasury repositions in the market, you have to look at our results as a whole.

Q - Mario Pierry {BIO 1505554 <GO>}

Just let me follow-up to the second question. What is the limit here? How big can your exposure to your largest borrower be?

A - Bernardo Rothe {BIO 18059993 <GO>}

The limit to -- it's 25% of the equity. That's the regulatory limit.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And if I'm reading this correctly, you are around 20% right now, right or 19.6%?

A - Bernardo Rothe {BIO 18059993 <GO>}

That's correct.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

Operator

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

Q - Marcello Telles

Hi, good everyone. Thanks for your time. I have a couple of questions. The first one on the quality of your loan portfolio. You mentioned in the Portuguese call that part of the -- a good chunk of the increase in renegotiated credits was due to the SME, was led by the SME segment and also total expenses by the individual segment as well. So I was wondering, I mean if you think this could be the beginning of a trend of deterioration in your SME portfolio, I know a lot of people have been expecting the SME portfolio delinquency to start deteriorating, it had not happened for quite some time. But do you think we are on the verge of seeing finally a deterioration on that? And I think you had one Vintage analysis that you showed that we did see a big pick up in delinquency related to the 2013 Vintage, a big reversal of trend. So how to see that going forward? Then I'll go with my second question after this. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you, Marcello. In fact, the SME portfolio, if you look at figure 30 at Page 67of our MD&A, we had the increase in delinquency in these new loans compared to the 2013 linkage. But if you consider that, with the scenario in Brazil 2013 is completely different from what we have in 2015, you can say that the performance is pretty good. In fact, in absolute terms the delinquency that we have in these segments is pretty stable. What we have here is a decrease in terms of the total portfolio.

So what we see in the SMEs, it's a more challenging scenario, it's a more risk portfolio for sure, that in terms of return after risk is a very good segment for the bank, we still work with them. We are working with lower risk clients, we stopped doing risk C transactions last year because we are already expecting a more challenging scenario moving forward. So we're still dealing with them, we are looking at our clients that given the scenario needs to some kind of restructuring of increasing guarantees that we put in the particular transaction that we've entered in.

And so one, we are looking at the client, the situation of the client and addressing the credit suite, the cash flow the clients have. So that's the big portion of it. It doesn't mean that we are seeing a deterioration in the portfolio as a whole moving forward in a significant way.

So we are going to be doing only restructuring when needed and if there is need to do that, we're going to do because the main goal for us is to get -- recover the money that we grant to our clients. So they have to pay us and we work to do that.

Q - Marcello Telles

Thank you. If you allow me to just -- to give my second question. You increased your provisioning, the guidance rate to 3.1% to 3.5%, which depending on where it lands, if it's in the midpoint or at the high end of the range, you'd imply probably a pickup in provisions in the second half of the year, if my math that happens to be right, that would be actually quite meaningful pick up. So my question is in terms of you profitability, that if you could be able to keep the profitability you had in the second quarter or given the pick-up in provisions even with some growth in the second half, do you think that a decline in your ROE is kind of unavoidable? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you, Marcello. In fact if you look at the guidance that we changed, these two are the ones that we needed to change it, any other one, we don't think we need to change. So we are not changing the return on equity expectations for this year (inaudible). So we are taking all the measures and doing all our works to increase the profitability of the bank as our CEO has mentioned before. And just to recall the three main guidelines that we have for this year, increase profitability, increase efficiency and control delinquency. So we are working to deliver what our CEO is requesting from us to deliver.

In terms of what you said, the increase in the guidance, it's more a statistical problem than anything else. As we are moving from a very low provisioning that we made last year to a higher provision environment that we have in the year that we got to a point that with the growth of the portfolio as it is, it would be more accurate to change the guidance as -- for sure, we could not be below the 3.1 in terms of the bottom of the new guidance. So that would be impossible statistically to be below 3.1. We don't see a pick-up in terms of provisioning, because we believe that we have a lot of provision right in the first half.

Q - Marcello Telles

Okay. Thank you.

Operator

Our next question comes from Mr. Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thanks gentlemen. I have a couple of questions as well. First question, could you give us an idea of how the existing credit limits and for your clients are? Have you made any changes in the recent past, particularly credit card and overdraft if there is anything that's changing? If you have reduced or expanded these limits given the environment?

Second question, Auto Loan book, your organic book is contracting, but the acquired book is expanding at a very fast pace, 28%, which goes against most trends that we've seen for all your peers in the industry as a whole. What is the thinking there, what should we think about the Auto book in general, is it something that you are going to continue to expand at this fast pace or should we expect to see it kind of go closer to what the market levels are in the future? Thanks.

A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you, Macedo. Starting with the auto loan book, we just bought -- we just buy the books from Puerto Inchi. So we are buying from ourselves, that's it, nothing else. In terms of the organic auto loans is a matter of demand, as we work only with our clients, we don't go to dealerships and so on, the organic auto loan book depends on demand from our clients. As the demand is not coming, that's why the portfolio is decreasing.

Moving to overdraft and revolving lines of credit, it's a strategy of the bank since -- for a long time to get our clients out of overdraft and revolving lines very fast in fact. So if you let the clients be in the overdraft for more than three months, probably we are not going to recover anything from that client, if the level of interest rates in these two particular products is very high.

So it's the strategy of the bank to move them to more adequate lines of credit. We've been doing that for a long time and that goes from automated SMS messages sent to clients when they get to the overdraft and stay for more than would be advisable. So we do that in a regular basis. So that's how we are keeping the overdraft under control, and even decreasing, if you compare with the previous quarter and the second quarter of last year. The revolving did not decrease but did not increase in the same pace as credit card as a whole. So it's under control and it's part of our -- and that we keep that under management. We keep a very close eye on the performance of that particular line as well.

Q - Carlos Macedo {BIO 15158925 <GO>}

So just to be sure, I mean obviously, you had a significant increase in renegotiation this quarter, were the renegotiations mostly taking place in these kind of products, overdraft and revolving?

A - Bernardo Rothe {BIO 18059993 <GO>}

No, that's not the case. In fact, what we do is not restructure the deal, we just offer instead of keeping the clients in the overdraft, we offer them a salary loan, a payroll loan, things like that.

Q - Carlos Macedo {BIO 15158925 <GO>}

Sorry, has that accelerated recently? How are the trends behaving there? Just for us to get an idea how tight your clients are in terms of their ability to repay their loans?

A - Bernardo Rothe {BIO 18059993 <GO>}

Not accelerating. We've been doing that for quite a while, more than an year for sure, even before 2014, we were already doing that. So it's not accelerating, it's part of strategy, as I mentioned. So we've been doing that for a very long time.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, thank you. And just going back to the first question then I mean, I know you buy loans from Banco Votorantim, but the amount of loans that you buy are up almost 30% year-on-year and the loan book for Banco Votorantim is flat, even when you look at the loan, down really 3% -- 10% year-on-year. Are you -- is the strategy going to continue or you are going to buy basically their entire loan book out? Is this something to do with concern for capital levels of Banco Votorantim, what -- I'm just trying understand the strategy for purchasing these loans.

A - Bernardo Rothe {BIO 18059993 <GO>}

There is no specific reason to do. It's the level that is adequate for us and for Votorantim. So they sell a portion of the book, they're not going to sell 100% of the book and if you keep responsibility over the book, so we buy from time to time based on what we think is the correct amount to buy at the time we are negotiating that.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. All right. Perfect. Thank you.

Operator

Our next question comes from Mr. Victor Galliano from Barclays.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, I had a follow-up. Two questions from me. The first one really about renegotiated loans again. I was wondering if you could give us a bit more color there. I mean we saw that increased 20% quarter-on-quarter. So it's pretty significant. Could you give us any sort of color there about what the main drivers are for that increase, is it consumer, is that semi, is it corporate? That would be very helpful.

And my second question is really to get an indication of what the fully loaded common equity Tier 1 would be? So you give a core capital ratio there of 8.71% for the quarter, which is pretty much in line with the previous quarter, but I don't believe that's fully loaded. Could you give me -- give us an estimate of what -- the number of what the fully loaded common equity Tier 1 would be? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay. I'll start with your last question. What we release to the market is what you have in Page 23 and that the fully loaded for the BIS ratio of Banco do Brasil is 15.57% as we mentioned in the Slide 26, okay? But we don't release the core capital fully loaded.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay.

A - Bernardo Rothe {BIO 18059993 <GO>}

On the first question, the renegotiated loans. I'd just like to point out that what we did in the last two quarters, is still pretty much less than what our peers are doing. We are doing renegotiated loans, our concentrated 65% is from SMEs and lower-middle and 35% comes from individuals. So that's the share of the renegotiated loans that we did.

But if you look at Page 38 of the presentation, you have it in the appendix there, you can see that the total participation of the renegotiated loan portfolio to our classified loan portfolio is only 1.9%, much less than what you see with our peers. And if you look at the delinquency ratio of this particular portfolio, that it's a more risky portfolio for sure. Our delinquency ratio is much less than our peers as well. You can see here that's 12.8% in June 2015 against more than 20% for our peers.

And what that means, that means that we are doing a renegotiation with quality, the intention here is really to recover the capital that we will hand to our clients and we are doing that with the right clients. The clients that -- there is no reason to do there a renegotiation, just we go straight to recover it through judicial measures or whatever we need to do. So our renegotiated loan, as I mentioned, is still has more portion of our portfolio, less than what you've seen in our peers, if we find more delinquency ratio compared to -- smaller compared to our peers.

Q - Victor Galliano {BIO 1517713 <GO>}

So just a quick follow-up on that. So what we see in terms of the stock of renegotiated loans, is that a full picture of the stock on your balance sheet, is that correct?

A - Bernardo Rothe {BIO 18059993 <GO>}

That's correct. Page 38 gives you the full stock of our balance sheet. And in Page 37, we even give you how is the behavior of the balance, giving you the initial balance, what is contracted, the interest received and so on right offs, overdue, the cover ratio that's still the highest in the market, more than 390% of cover ratio for these NPL plus 90 days in the renegotiated portfolio, high coverage for what we have in terms of renegotiated loan portfolio.

Q - Victor Galliano {BIO 1517713 <GO>}

So just to clarify it. So the flow that we see in the second quarter were just 13 billion, is nearly as big as the stock of 13.68. Is that right?

A - Bernardo Rothe {BIO 18059993 <GO>}

No, not correct. The flow as you see in Page 37, we have -- we start with an issue balance of 11 billion. We have 3.689 [ph] billion of flow. We end up after all the other stuff at 13.6 billion, that's the stock, that's the balance at the end of second quarter of 2016 [ph].

Q - Victor Galliano {BIO 1517713 <GO>}

Okay, all right. Okay. Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Just the allowance for loan losses for this particular portfolio is BRL6.8 [ph] billion. 50% of the portfolio is already provided.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Our next question comes from Mr. Anibal Valdes from Barclays.

Q - Anibal Valdes {BIO 17745509 <GO>}

Hi good morning. Hi thank you for the opportunity to ask my questions. I don't know if it's just me, but I lost most of the answer that you gave to Victor because connection has been very poor, sometimes throughout the call. So I'm sorry if I'm repeating the same question but I was left out of the answer when you were answering Victor's question on the stock of renegotiated loans. I just want to make sure I fully understand this and I'm sorry I'm repetitive, but my understanding is that this stock of renegotiated loans by delaying as of second quarter 2015 is R$13.7 billion, that's one thing, right?

Then you also have the stock of renegotiated loans, which you call renovated loans for which my understanding is that you don't disclose the stock for the renegotiated loans, which are called renovated loans. So my question would be what's the stock for the renovated part of the renegotiated loans?

A - Bernardo Rothe {BIO 18059993 <GO>}

Okay, let's start with the renovated loans, this is not a problem at all. This is part of the dynamic of the Brazilian market. Payroll loans, they are contracted to terms like five, six, seven years but the customers in Brazil, usually they pay up through two years as they have margin in the total amount they can borrow, they renovate the payroll loans. So it's part of the dynamic in Brazil, so renovated loans have nothing to do debt quality, in fact the good quality loans that are being renovated by the client. And when they do this renovation, we can even re-price the loan and charge even more from them. So it's a good thing, it's not a bad thing, that's one thing.

Renegotiated loans that are overdue, that relate to problem in the capacity of the borrower to repay it.

So the initial balance of that portfolio in the second quarter of '15 was 11.3 billion. We have, as a flow, 3.689, that's a flow of new renegotiated overdue loans. We end up with a balance of 13.6 of renegotiated loan portfolio. So 13.6 is the balance, the flow is 3.6. You have all these information in Page 37 of the presentation. You can see there the cover ratio for the total portfolio of 390%, the NPL 90 days, the total coverage of the portfolio at 50%, with more than R$6.8 billion in allowance for loan losses for this particular portfolio.

And in page 38, as I mentioned in the previous question, we have, as a percentage of our loan portfolio, only 1.9%, meaning the balance of 13.8 represents 1.9% of our total portfolio, less than what you see in our peers. In their case, that percentage is 3.5%. And our delinquency in the loan portfolio, renegotiated loan portfolio is 12.8% in June '15, much less than our peers that are over 20%.

Q - Anibal Valdes {BIO 17745509 <GO>}

Thank you very much. Yeah, I'm aware of the peer comparison. I think that what gets our attention is that if speed of the renegotiated loans by delay, which -- just to be fair, the flow increased by 89% quarter-over-quarter and increased 281% year-over-year. I mean in the first quarter call, I asked you guys a similar question regarding the speed of growth of renegotiated loans and the answer back then was that you expected that renegotiated loans were expected to grow in line with the loan portfolio.

The loan portfolio is growing at around 8% to 9% year-over-year, but these loans are growing at 281% year-over-year. I'm talking about the flow. So going forward, given that you have increased your guidance for loan loss provision expenses, at least the range, early delinquency rates could deteriorate is the macro outlook for rest of the things further deteriorates for 2017 and 2016? How should we think and how comfortable do you feel about -- not just the absolute number now, but the trend of renegotiated loans and the fact that eventually, in two years from now, these renegotiated loans could really become a problem for the bank. How can you be so comfortable about the speed of growth of renegotiated loans and that these loans eventually will now become a problem in a year, maybe two years from now, if the situation in Brazil continues to deteriorate? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

First, we are going to renegotiate loans when needed. And if there is a need to do that we are going to do it, because that's the best solution for the bank and for the clients. So there is no trend of deterioration moving forward, we've been -- the only thing that we did was to accelerate their renegotiations before the clients get to deterioration moving forward. And as you can look at the early than reconciliation of the bank, they improved quarter against quarter. So we're going to keep our delinquency under control and we are going to use the instruments of renegotiating loans when needed.

Q - Anibal Valdes {BIO 17745509 <GO>}

All right. Thank you very much for your time.

Operator

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

A - Bernardo Rothe {BIO 18059993 <GO>}

I just would like to thank you everyone for participating in our conference call and for the questions that you've put for us. Thank you very much and have a good day, everyone.

Operator

That does concludes 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.