

# Q2 2012 Earnings Call

## Company Participants

- Gustavo Sousa, Head
- Ivan de Souza Monteiro, CFO

## Other Participants

- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Jorg Friedemann, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Philip Finch, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

## Presentation

### Operator

Good morning, everyone. And thank you for waiting. Welcome to Banco do Brasil's Second Quarter 2012 earnings conference call. This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After this there will be a question-and-answer session. At that time further instructions will be given.

(Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Banco do Brasil's website at [www.bb.com.br/ir](http://www.bb.com.br/ir) where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded.

Those following the presentation via the webcast will post the questions in the website. They will be answered in the Q-and-A session or by e-mail. Before proceeding, we may mention that this presentation may include reference and statements, planned synergies and closing estimates, projections of the results. And future strategies for Banco do Brasil, its associated and affiliated companies and subsidiaries.

Those expectations are highly dependent on market conditions on Brazil's economics and banking system performance as well as an international market one. Banco do Brasil is not responsible for bringing up to date any estimate in this presentation.

With us today are Mr. Ivan de Souza Monteiro, CFO. And Mr. Gustavo Sousa, Head of IR. Now I want to turn the conference over to Mr. Gustavo. Mr. Gustavo, you may now begin.

### Gustavo Sousa {BIO 17683157 <GO>}

Thank you very much. Good morning, everyone. Starting the presentation on page 3, we have the highlights of Banco do Brasil's earnings on the Second Quarter. As you can see NII grew at 16.4% over the Second Quarter of 2011.

The loan portfolio in what we call the Broad Concept grew at 20.3% in 12 months. And by broad concepts we mean the loan portfolio under resolution 2682 by the Brazilian Central Bank with the addition of corporate bonds and guarantees.

We also see the delinquency ratio in Banco do Brasil at 2.1%, still the lowest in the Brazilian banking industry and an improvement in our cost-income ratio.

Moving to page four of this presentation, other highlights of Banco do Brasil's earnings, we can see the expansion of NII as I had previously mentioned, the expansion in fee income of 19.8%, the item previ at a lower amount. And Banco do Brasil still maintaining a sizable earnings and ROE.

I also highlight the growth in admin expenses. We'll touch on this in the coming slides to mention how we'll bring this item into our guidance. And I would highlight here the adjusted net income of Banco do Brasil of BRL2.986 billion, a 10.4% increase over the last quarter.

Moving to page five of the presentation, we show you the one-off items, a total effect of BRL22 million related to economic plans of BRL184 million and a reversion of additional allowances for loan losses.

Our net income was BRL3.008 billion and the adjusted net income at BRL2.986 billion.

On page six of the presentation, we see the growth in Sources and Uses of Banco do Brasil. The Deposits still are the most relevant source for Banco do Brasil with a 71.7% share in our total sources. And a growth in 12 months of 17.9%. I also highlight here what we are naming Commercial Papers. But we are referring to specific funding items in Brazil called (Letra Senha Ascera) LCAs Letras de Credito do Agronegocio.

These items grew at a pace of 181% over the past 12 months. And naturally Banco do Brasil invests those sources in the loan portfolio that presented a growth in this Concept year of 19.9%.

Moving to page 7, we see Banco do Brasil's foreign borrowings reaching \$37.9 billion. It is a record amount for Banco do Brasil and this item has -- with significant contributions from our bond issuance abroad.

Over the Second Quarter of this year we issued \$750 million in a tier 2 subordinated 10-year security. And also other issuances in our (CD) program.

On page eight of this presentation, a view of Banco do Brasil's NII, the graph of the NIM shows that Banco do Brasil's global NIM on this graph on the left is stable at 5.5% and the risk-adjusted NIM has a pick-up to 3.8%.

The net interest margin by segment, this is the NIM (inaudible) spread calculations that we do in different credit portfolios, also shows a stable trend with a number at 9.2% of the spread for the total credit operation of Banco do Brasil.

On the table below we show the break-down of Banco do Brasil's NII where I highlight the growth in revenues from loan operations. And a growth in funding expenses, much lower than the growth that we had in the funding item.

Moving to the slide nine of this presentation, we have a break-down of Banco do Brasil's loan portfolio. The -- we reached BRL508 billion at the end of June, a 20.3% growth. And I would highlight here that the agri book is now 18.8% of Banco do Brasil's total book.

Moving to page 10 of the presentation, we show Banco do Brasil's total individual loan book. We draw this yellow rectangle around some items here. They represent credit items with a lower risk and they comprise nearly 80% of Banco do Brasil's loans to individuals. We're statistically referring to salary loans, payroll loans, auto finance. And mortgage.

On the next page, on slide 11, we show you the loan portfolio in an organic concept, loans that were originated inside of the Banco do Brasil branch network. We see also an expansion of the items with lower risk such as payroll credit growing at a pace of 20.6%, salary loans here expressed as backed by direct deposits, they grew at 16.8%.

Car financing grew at 35.1% year-on-year and 45.4% quarter-on-quarter. And the significant growth that we saw in our mortgage portfolio for a total growth of our organic portfolio with individuals of 20.7% year-on-year.

Moving to page 12, we show you some lines that comprise Banco do Brasil's BOMPRATODOS program, a strategy that was announced on the Second Quarter. As you can see that we see growth in most of the items related to BOMPRATODOS such as payroll loans for retirees, salary loans, the BB Crediario, a product that is available at big retailers in Brazil. And auto finance.

Specifically talking about auto financing on Banco do Brasil's organic strategy, a strategy that is done by Banco do Brasil's branch network, Banco do Brasil is very confident that this strategy represents a growth with solid quality because we're doing operations with clients that we know very well.

One of these metrics shows us that 76.4% of the clients that did auto loans with Banco do Brasil on the Second Quarter had at least five years of credit history with Banco do Brasil.

Moving to page 14, we see a break-down of our companies loans portfolio and I highlight here the participation of working capital lines. They are the most relevant item with a 53.5% share of Banco do Brasil's total portfolio with companies.

On page 15, we show you the -- a break-down of the growth in loans to company. Loans to micro and small enterprises grew at 25.8% while loans to medium and large-sized companies grew at 20.8%. I highlight on this graph on the right that loans to micro and small-enterprises rely more and more on the usage of a guaranteed fund called FGO.

On page 16, we also show you some items related to BOMPRATODOS and how they grew over the period. We show you the growth in working capital lines, investment line. We also show you the risk levels in the loans in the portfolio for micro and small-enterprises and the growth in the percentage usage of the FGO funds.

On page 17, we show you a review of Banco do Brasil's Agribusiness loan book. Banco do Brasil is the absolute leader on this category with a 63.8% market share. This book totaled 95.7% and it is Banco do Brasil's segment with the best delinquency ratio at 0.5%.

On page 18, we start to talk about loan quality at Banco do Brasil. Banco do Brasil's loans per risk level are still at a level much better than the Brazilian banking industry as we see on slide 18.

On slide 19, we show you the NPLs past 90 days, where Banco do Brasil consolidated on its consolidated numbers that show a ratio of 2.15%. If we were to take the consolidation of Banco Votorantim out of Banco do Brasil's numbers we would show an improvement at 1.77%. And both metrics are much better than what we see in the industry.

On the graph on the right, we show you Banco do Brasil -- Banco Votorantim NPL ratios. The NPL past 90 days already shows deceleration while the early indicators, the NPLs between 15 and 90 days already show a decrease.

On page 20, we see Banco do Brasil's credit quality in different segments, loans to individuals, companies. And agribusiness. And we can see stability or improvements in -- across the different sectors of Banco do Brasil.

On page 21, we specifically show Banco Votorantim's loan portfolio. Just to give you one of the metrics here, the loans past due over 90 days after four months of when the loan was granted also shows a significant improvement at 0.6% on the loans that were granted in December 2011.

Moving to page 22, we see the monthly origination of auto loans at Banco Votorantim and how we have a specific vintage between June 2010 and September 2011. We have talked about this with the market in the past.

This is the period when we saw the increase in delinquencies of Banco Votorantim. We took serious measures to deal with this. And now as you can see on the blue line the early delinquency indicators, the NPLs past 30 days are already back at historical level.

Moving to page 23, we show you a view of Banco do Brasil's credit provision expenses. We on the first -- on the Second Quarter we have BRL3.6 billion in credit provision expenses, inside of our guidance of between BRL3.6 billion and BRL3.8 billion.

I would just highlight here that even though it says 1H '12, it's actually 2nd Q '12. We will correct this on our website. And when we break this number down into credit provisions of Banco do Brasil and credit provisions of Banco Votorantim, we see that Banco Votorantim had an improvement of 9.4% versus the First Quarter of 2012.

Moving to page 24, we have the coverage ratio of Banco do Brasil. We are at 206%. And if we were to do this calculation without Banco Votorantim, we are at 238%, again both metrics considerably above what we see on the Brazilian banking industry and in our peers.

On page 25, we have the growth in admin expenses. They grew 18% year-on-year. But I would skip to page 26 to do a calculation that showed that most of this growth is driven by the consolidation of recent investments that we have made, such as Patagonia, Mapfre. And Banco Postal.

If we were to do an adjusted calculation this growth would be at 12.3%. We are comfortable that Banco do Brasil's admin expenses growth will be within the guidance for the year 2012, which is of a growth between 8% and 12%.

Moving to page 27, we have Banco do Brasil's fee income still being driven by the traditional items such as credit and debit cards, account fees, asset management fees. And loan fees. We are also investing heavily in other items such as insurance and capital market fees.

On page 28, we see Banco do Brasil's cost-to-income ratio. And the relative improvement that we had on the Second Quarter in the comparison with the First Quarter.

On page 29, we show you Banco do Brasil's BIS ratio. We reached 14.6%. This is a proforma number, because on the Second Quarter, we did several Tier II issuances that were already approved by the Brazilian Central Bank. But not in time to be included in our accounting statements that were released. The numbers in our accounting statement is at 14.22% and the proforma number, again, including instruments that were already approved by the Central Bank is at 14.6%.

Finally, on page 30 we show you a view of Banco do Brasil's guidance for 2012. On the first column, we have what was the previous guidance, on the second column the performance on the first half. And on the third column the reviewed guidance.

So on the ROE item, we reviewed the guidance to a range of between 17% and 20% and we have an actual performance of 19.9% on the first half. On the NII growth item, we have a performance of a growth of 14.1%. Our guidance is between -- was between 11% and 15%. And we are adjusting this guidance to between 10% and 14%. We are adjusting these two items because of the movements on the basic interest rates in Brazil.

On the total deposit items, we grew at 17.9% within our guidance with a domestic loan portfolio. On the total number, we grew within our guidance.

On the individuals, we are a little below our guidance. But we will reach the guidance until the end of this year. On the loans to companies, we are within the guidance. On the loans to agribusiness, we have been consistently performing above the guidance which is why we are reviewing this guidance item as well.

On the allowance for loan losses, we are at 3.2%, within our guidance of the 3.1% and 3.5%. On fee income, we are above the guidance at 21.3%. On admin expenses, as we saw in the previous slides, we are above the guidance. But we will bring this number to our guidance range.

And on the tax rate we are a little above the guidance. And it's likely that we'll bring it to the low end of the guidance for the fiscal year 2012.

Thank you very much. We'll now open for the Q-and-A session.

## Questions And Answers

### Operator

(Operator Instructions) Marcelo Telles, Credit Suisse.

#### Q - Marcelo Telles {BIO 3560829 <GO>}

I have a follow-up question on my margin question in the Portuguese call. I mean, given that you granted significant discounts on credit cards and overdraft loans rates I think that's starting in the beginning of July, I mean, do you think -- and combined of course with the fact that you probably have some gains related to the renegotiation of loans in the Second Quarter, do you think that we should -- can you expect, let's say, a bigger margin drop in the quarter?

And my second question is regarding Votorantim. There was a (capital) action that you and the other shareholders did in the Bank. Are you happy with the current capital position of Votorantim. And do you anticipate future capital actions? Thank you.

#### A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Marcelo. Starting with the margin question, on the slide eight of this presentation you have a view of Banco do Brasil's NIM and NIM by segments. This is the best information that we have for you.

The only projection that we can give you is the one that is comprised in our guidance. As you saw, we reviewed the guidance for NII growth. This is the best information that I can give you related to margin.

And related to Banco Votorantim, both shareholders are following up on Banco Votorantim's capital structure very closely. And at this point they see no need to plan any other action.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Thank you. Just a follow-up on the first question, is it possible to give more detail to say what the -- what was the amount of credits that were -- actually renegotiated credits that were, let's say, performing that were renegotiated in the quarter?

I just want to try to estimate in some way what's sort of the impact of those credits was when I bring them to present value and try to estimate the potential gain that you had in refinancing these credits going forward. But -- and I'm talking about just the -- out of the BRL11 billion that you renegotiated in the quarter, how much of that was related to these performing loans? Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Marcelo, we don't have these numbers here for you of the amount that was -- of normal operations that were renegotiated and that generated that gain as you mention, right? We'll go after this information and try to include it in our presentations and reports.

And the reason why we don't have it here is the calculation is not straightforward. There's one calculation that is very objective which is the actual revenue amount that derives from loans that were renegotiated in a normal status.

However, we would have to break-down this early payment of loans into what is the normal flow and what would be an extraordinary flow during a period of interest rate reduction. We don't have this at this point. We'll do our best to provide these numbers.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Appreciate it. Thank you.

**Operator**

Saul Martinez, JPMorgan.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Couple of questions as well. First on the renegotiated credits and I think Marcelo asked a follow-up to an earlier call in the Portuguese conference call. But there's obviously a lot of question marks about the increase in the volume as per footnote 10-K on renegotiated credits. They were up from BRL6 billion in 1Q to BRL11 billion in 2Q.

And if you can just talk a little bit to us about the extent to which -- and obviously there are concerns that this renegotiation may be masking underlying asset quality deterioration, can you talk a little bit more about the extent to which the renegotiations were driven by lower interest rate in individuals looking to improve the terms of their credit and to what extent it may be masking credit quality deteriorations consumers may be feeling strained. And hence increasing the pace of renegotiation. So just more of a conceptual question. But if you can talk to that, that would be helpful.

Secondly on your ROE guidance. It's pretty broad range, 17% to 20%. By my calculations which are a little different than yours the ROE was 18.9% in the first half. The low-end of the range kind of implies that the second half will be much more difficult, that ROEs would be in the mid-teen range, which given obviously spread pressures and lower rates, that's one thing. But you also have potentially improving results of Votorantim, good credit quality metrics and better volumes.

Are you being -- how likely is a scenario where you'll be at the lower end of the range, because on the surface at least given your results in this quarter and even considering the lower interest rate environment it seems awfully conservative. So just kind of curious whether you think that's a realistic scenario and what's really behind that very broad range you gave for ROE guidance for the full year?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Saul, thank you for the question. For the first topic I can tell you there is a table in the MD&A that shows the information about the renegotiations related to past due loans. That's the only source and that is the only reason for this number is the past due loans that are renegotiated. That is going down q by q. For the second part, Gustavo will address it.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

On your question related to ROE, yes, we understand it is a broad range. We are also working to -- I'm afraid -- I'll start by saying that I'm afraid I won't have an objective answer for you, Saul.

But it is a broad number. We're working naturally to keep this number on the top-end. But as we explained it on the call in Portuguese the scenario that was in our guidance, the basic interest rates and other items, they were prepared in November last year.

As we work with lower basic interest rates and the competitive landscape on the second half, we are seeing that it is prudent to adjust this guidance item. However, it's still hard to say where our real -- actual number will land. It's very hard for us to point that out right now.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. A follow-up on the first question. My question is more on the flow of renegotiated credits and the balance of renegotiated credits that were non-performing. As per footnote 10-K it was over BRL11 billion in the quarter.

It was BRL6 billion in the First Quarter. It's a big increase. Can you talk about whether market participants should be concerned that that reflects -- that's masking some underlying credit quality deterioration, or can you talk -- or is that really individuals seeking better terms because you have been lowering rates aggressively on some of your loans?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

You are right in the end of your question. We are already talking about the payroll -- refinanced payroll loans because the interest rates is going down. That's the only reason.

And I'd like to show the table that I mentioned in the first question -- what's the name?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Yes. Table 77 on page 61. Saul, thank you for your question. So renegotiation, because of the credit quality, please use the information on table 77, page 61. On the pace of renegotiation, clients seeking better terms, we will work on providing you a quarterly flow, as also suggested by Marcelo Telles, in order not to have one number interfering with the other and causing a possible mix-up.

We'll try to make explanatory note to 10-K. We'll try to provide it to you on a quarterly view and breaking it down into loans with a normal status and loans that were delinquent, okay?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Because it's difficult to compare as we disclose the information. So (inaudible) that we have. We have a table in the (inaudible) and there is a flow. We will disclose the flow, all the flows.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. That would be helpful. Thanks a lot.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Thanks very much.

## Operator

Daniel Abut, Citi.

**Q - Daniel Abut** {BIO 1505546 <GO>}

On the revision of your ROE guidance to 17%, 20%, you mentioned in slide four that a key component of why the ROE was affected in the first half of the year was the previ gain with only BRL390 million per quarter, BRL781 million for the cap. What are you assuming for the second half of the year in terms of previ gains embedded in this new ROE guidance that you have given for the year as a whole? That's question number one.

And question number two is related to capital. You explained that proforma to this -- so what you mean is that each one that are part of Tier II, you are at 14.6%. So it's been increasing for the last couple of quarters.

So you are comfortable with the current rules of the game. But you have done an exercise not so long ago anticipated (inaudible) in which you demonstrated that you -- for the whole you wouldn't need to issue capital until 2014 at the earliest.

How comfortable are you now with that exercise that you did considering that since then things may have changed in terms of your expected asset growth which probably is a bit faster than it was at the time that you did that exercise, that you had to inject capital at Votorantim and you have now a better understanding of how the timetable for Basel III will apply, it's still a fair assumption that no capital raises until 2014 or that could potentially be revised?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

It's still a fair statement. The projection that you mentioned that we released in early March will likely be updated and released again very soon.

We are very comfortable with that statement and the items that affected as you mention, the asset growth, it was within our guidance. So it is what we had projected at first.

And the capital injection at Banco Votorantim, granted that this wasn't in our projections. But it's a small number when compared with the big picture of capital as equity for Brazilian banks as a whole.

So on the capital issue you'll likely see an updated version of that statement very soon. But you'll see that we're comfortable with what we have said in the past. (Multiple Speakers)

**Q - Daniel Abut** {BIO 1505546 <GO>}

But you were working with an assumption of 15.3% risk-weighted asset growth and load of this is coming now at 20% base. So is the 15.3% growth rate for risk-weighted assets still a good assumption?

**A - Gustavo Sousa** {BIO 17683157 <GO>}



Daniel, I'm afraid that I'll have to seek this number for you because the number that I have in front of me for credit growth is still the guidance. I'll seek the risk-weighted credit growth --- asset growth for you, okay?

**Q - Daniel Abut** {BIO 1505546 <GO>}

And the first question on the previ gains that are for the second half embedded in your new ROE guidance?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

BRL95 million per month. We had BRL130 million per month on the first half. For the second half, BRL95 million per month, that's the projection that we have made when closing the statement for this half.

**Q - Daniel Abut** {BIO 1505546 <GO>}

And it is too early to say that --- that will be a good proceed to use for 2013 as well?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Yes. It has nothing to do with 2013 because this --- as you know every half we stop and we look again at the actuarial assets, the actuarial liabilities. And we re-do the projections. So this is not an indicator of any type of trend.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Thank you, Gustavo.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you.

**Operator**

Mario Pierry, Deutsche Bank.

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

Let me ask you two questions as well. The first one is, it's kind of a follow-up to Daniel's question on your own capital, it seems to us that you are a lot more comfortable with your own capital ratio than the market is.

And the indication of this is that you have made this capital infusion in Votorantim. You announced a very big buy-back program. You're growing your loan book well in excess of the industry.

So do you expect the Brazilian Central Bank to make any changes to the regulations of Basel III? We all know that they announced the preliminary guidelines for the introduction of Basel III at the beginning of the year. But when they make a final announcement, do you expect the guidelines to be the same or do you expect any changes in the guideline?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

We expect the same. Our projections are based upon this, our best knowledge about that.

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

I know that the banks -- everybody have been talking about maybe how to treat the deferred tax credits. Have the banks made any progress on this?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

There are some discussions on the (Central Bank) about this. But there is no (inaudible) factor that I could tell you now.

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

Okay. My second question then is with regards to your net interest margin and you've reduced your net interest income growth. So let me ask you a two-part question here. The first one is related to the big increase in names in the individuals portfolio and as you explain those related to some renegotiations.

Should we expect the NIM in the individual portfolio to already move back to First Quarter levels already in the Third Quarter and how much of your lower net interest income growth guidance is related to a lower interest rate environment in Brazil and how much of it is related to you charging lower spreads, especially related to the BOMPRATODOS program?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

I'll start with second part of your question. We can't break that down. We don't have a metric that would decompose that into lower rates in the banking industry and lower rates in our strategy. I'm afraid I don't have that number for you.

Regarding NIM, yes, you're right in your explanation of the pick-up that we on the Second Quarter. It's likely that we'll have some flow of renegotiations, of clients seeking better terms on the Third Quarter as well. But it's very hard to project this number.

So I'm afraid that the best information that I can give you on NIM and on NII is our new guidance for NII. I know it's not a lot, Mario. But that's the best information I have.

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

All right. Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you.

**Operator**

Regina Sanchez, Itau BBA.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

My question is regarding this prepayment of loans to refinance at lower rates. I saw that on page 13 of the MD&A table number 8 you show the annualized spreads for individual transactions that went up from 15.3% in the First Quarter of 2012 to 16.5%. And you also mention in this page that it was the impact of this prepayment that actually increases this spread.

Is it fair to make this calculation that maybe this is around a 100 basis points increase over the average portfolio of individual loans is a good proxy of how much was the impact in net interest income in the Second Quarter? I did this calculation and I reached something between BRL300 million and BRL400 million.

Or do you think that if this impact had not occurred we would see actually even a slight decline on the average spread in the Second Quarter of this year? Then I have a second question. Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Regina, in this calculation here, this is a managerial calculation that we do. They're based on the consideration the actual rates being charged from clients and also the funding cost of controlling department calculates the opportunity cost and also charges different credit products, the opportunity cost per item.

In a way what you're saying is correct. If we didn't have this effect of this immediate gain that we have once a client renegotiates the loan and the rates are favoring the clients, we would likely see a decrease on the spread. However, we're not taking under consideration the decrease that we had on the funding cost as well. So it's very hard to give you a number.

You're right on the dynamics. But there is another fact that needs to be taken under consideration which is the funding cost and unfortunately I don't have all these variables here to calculate that for you.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Okay, no, thanks. Then on my second question, I apologize that I've come back to that point because I have seen many investors with this (inaudible) and for me it was clear that on table 77, page 61 of the MD&A that the renegotiations of non-performing loans actually declined year-over-year and declined in the quarter.

But then if you could confirm that actually if it was not a decline and it was following the same running rates of renegotiations of non-performing loans?

Actually, you could have posted a decline in NPL ratio in the quarter instead of being flat. I mean, overall I want you to confirm that even refinancing at lower rates at least marginally should lead to better asset quality.

So can we expect asset quality trend to improve in the coming quarters considering also that the problematic loans at Banco Votorantim will be written-off in coming quarters? Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Regina, can you repeat the first part of the question about the impact of renegotiation on the (inaudible)? I'm afraid I didn't get that.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Sorry, I repeat. It's that because we saw that actually the renegotiations of non-performing loans declined quarter-over-quarter, if it had been flat for instance or even as a percentage of the total loans, I was saying if you renegotiated more non-performing loans. And they become performing loans, actually you could have even posted an improvement in NPL ratio instead of showing a flat figure which was the case in the Second Quarter.

Then, I also want to know the trend going forward for NPL ratios considering that probably the problematic loans at Banco Votorantim are now being written-off from the balance sheet.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Yes, I got it now Regina, thank you. I'll have to run the calculation for you. What you're saying make sense. But I have to pull up these numbers and do the calculation for you, okay? I'll do that and come back to you.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Okay. Thanks a lot.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

And on the second part, the view from our credit department is that delinquency rates are likely to remain stable. It's --- we are at levels that are already so low that even though we would very much appreciate to see improvement, it's very hard to improve from such low levels

But what you're saying is also true. We are expecting improvements, specifically from Banco Votorantim. Naturally they will affect our numbers. But we prefer to be cautious on this projection and forecast stable delinquency rates.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Okay. But then in terms of provision for loan losses expenses then we can see an improvement as Ivan mentioned in the Portuguese conference call, especially at Banco Votorantim.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Yes. We confirmed it, Regina. We'll see improvement quarter-by-quarter. And as I mentioned to you the important decrease especially in the Fourth Quarter.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Okay. Thanks a lot guys.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Regina, just going back to that absolute number credit revision expenses guidance that we gave for the Second Quarter we projected a number between BRL3.6 billion and BRL3.8 billion. We were at BRL3.677 billion.

And for the third and Fourth Quarters we are forecasting a number lower than that. The range is lower than the previous range, which is between BRL3.5 billion and BRL3.7 billion. So yes, we are forecasting a slight improvement.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Okay. Thank you.

**Operator**

Carlos Macedo, Goldman Sachs.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

I have actually one question in two parts, it's related to expenses. I understand that if you strip away these non-recurring items or at least these additional items from acquisitions that you factor in, you're at 12% year-on-year growth. But your guidance is for overall expenses.

And if you look at that the 12% to 18% -- the 8% to 12% level that you put in, to reach that 12% level means you're going to have grow your expenses in the second half of the year only 4% over the first. Banco do Brasil has only done that once in the last 10 years.

I just want to understand exactly if we were to expect a much weaker seasonality in the second half of the year or if there are other efficiency improvements that you're working on that will help you reach that guidance given that the second half of the year tends to be very seasonal and higher in expenses.

The second question or the second part of this question is more of a longer term question. Yesterday, when your CEO was talking to the press he mentioned that he believes that spreads will go down to around 4%. And I'm not sure if that's the official outlook for the Bank. But it does -- it is lower than what it is now.

Is there anything the Bank is doing on the expense side to offset those lower spreads? Both of your large competitors in Brazil, Bradesco and Itau have launched significant expense control programs and used that as a basis for one of the ways they're going to support their profitability going forward.

Is Banco do Brasil engaging something similar? Is that something we could expect to see or are you going to try to match or overcome the lower spreads with volumes?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you. Thank you for the question. I think the answer sort of answers both questions. We are not announcing a cost control or efficiency gains program because we have an ongoing one. But what we did recently is that we reinvented and we have so -- we have a serious cost control initiative for the second half.

This plan was presented to Banco do Brasil's Board very recently. And we are counting on it. We are counting on this cost control plan to achieve the guidance and also to extract gains from efficiency, right? So in a way to offset spread reduction with cost control as well.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Do you have any specific metrics that you're targeting from an efficiency standpoint or efficiency ratio standpoint or expenses-to-assets or something like that that you can share?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

No. We don't. The specific guidance I think for this one is the growth in admin expenses.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. And is -- if you can give us -- the other banks are talking about growing admin expenses inflation for next year. Is that something that we should expect Banco do Brasil do as well or will it come at a higher level?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

We are not disclosing 2013 numbers yet.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

But --

**Q - Carlos Macedo** {BIO 15158925 <GO>}

But is inflation a reasonable number or should we expect something much higher?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

The inflation is a reasonable number for this metrics.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay, perfect. Thank you, Ivan. Thank you, Gustavo.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you very much for the question.

## Operator

Victor Galliano, HSBC.

**Q - Victor Galliano** {BIO 1517713 <GO>}

Just my questions have been largely answered. But just a follow-up and maybe stay with the Votorantim credit quality, what we saw is an over 50% increase in charge-offs quarter-on-quarter; do you think in Q2 now we're kind of reaching a peak here or is there something that could continue to rise in terms of charge-offs into Q3? The sense that I'm getting from your comments is that real relief will not come until Q4.

And on that basis what sort of capital burn can we expect in Q3? Are we looking at losses again in the range of around BRL500 million per quarter or would you expect that number to come down in Q3?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

The provision charge we will reduce in the third and Fourth Quarter. And even for 2013 it will be a important reduction, this item, in Votorantim as we mentioned before. And talking about the second part Gustavo will address.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

You're likely to see as you call a capital burn similar to what you saw on the first half in magnitude. But improving. So a BRL500 million per quarter number. But improving on the Third Quarter. And also improving on the Fourth Quarter is a reasonable number.

**Q - Victor Galliano** {BIO 1517713 <GO>}

Okay. So that -- would that -- just to follow-up on that, if you have BRL500 million and BRL500 million you're getting your -- you're probably going to get your Tier I ratio down into the 9%, 9.5% range. Is that a number that you would still be comfortable with for capital for Votorantim looking into 2013?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

In the projections that we have we're very comfortable with Banco Votorantim's capital adequacy until the end of this year and 2013 as well. But if any other measures are necessary, we'll take them, just like we did recently. However, we're not forgetting any other extraordinary measures.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

And --

**Q - Victor Galliano** {BIO 1517713 <GO>}

I know you don't guide on Votorantim loan growth. But for 2013, what should we expect, a loan growth in-line with inflation, a little bit ahead?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

A little bit ahead, a little bit ahead. And in the --

**Q - Victor Galliano** {BIO 1517713 <GO>}

Okay.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

-- shareholder agreement, we have a specific thought that the shareholders will provide all the support that the Bank needs. And to keep the BIS ratio in the level that the regulators consider the best one.

**Q - Victor Galliano** {BIO 1517713 <GO>}

Okay. All right. Thank you.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

You're welcome.

**Operator**

Philip Finch, UBS.

**Q - Philip Finch** {BIO 3252809 <GO>}

My question really relates back to the interest income guidance that you've announced and lowered. And really two parts of this. One is, what are the key drivers for this lower guidance going forward? And secondly, what are your interest rate assumptions or expectations for this year and next year? Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Can you repeat the first part of the question? I'm afraid the call quality is not perfect.

**Q - Philip Finch** {BIO 3252809 <GO>}

Okay. The first part was what are the drivers for your lowered net interest income guidance for the second-half or for the whole of this year?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you. The main driver for the reduction in NII growth is the reduction on the basic interest rates on the Brazilian economy. And I believe you asked the question about what's our projections for the Selic rates for the end of this year?

**Q - Philip Finch** {BIO 3252809 <GO>}

That's right. And next year, please.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Well the latest projection that we have is that 7.5% for the end of 2012. And also for 7.5% at the end of 2013.

**Q - Philip Finch** {BIO 3252809 <GO>}

That's great. Thank you very much.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

You're welcome.

**Operator**

FINAL

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(Operator Instructions) Jorg Friedemann, Merrill Lynch.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

And sorry for coming back on this point. I know that you I know addressed part of it in the Brazilian conference call. But it is a (inaudible) point to me on the equalization revenues that you renegotiated with treasury ministry this year, I know that that (rate) is running at record levels. And I know the director of agribusiness explained to us in the Brazilian call that the basis of the negotiation was concluded. And it considers the policy rates coming down.

Having said that and looking to the number that you posted in the last quarter of approximately BRL800 million, would it be reasonable to expect at least a gradual decline of the figure on top of lower Selic rates as well?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

As our agribusiness director mentions, the parameters of the equalization negotiations were in-line with what we had on the last period. So it's -- it would be fair to expect something similar in terms of equalization volumes as we had in the previous period. And related to the specifics of these negotiations, we're not actually disclosing the numbers.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

Okay. So -- but I know it would be, let's say, similar in absolute numbers which is more than BRL2 billion?

**A - Gustavo Sousa** {BIO 17683157 <GO>}

If the disbursement in risk -- if I may call it equalizable, right, in loans that would qualify for equalization it's the same.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

Okay. Thank you.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Thank you, Jorg.

**Operator**

This concludes today's question-and-answer session. I would like to invite Mr. Gustavo Sousa to proceed with his closing statement. Please go ahead sir.

**A - Gustavo Sousa** {BIO 17683157 <GO>}

Thank you very much for your participation. And please follow up with any questions or comments in our IR website or calling the Investor Relations department. Thank you.

**Operator**

That does conclude Banco do Brasil's conference call for today. As a reminder, the material used in this conference call is available on Banco do Brasil Investor Relation's website. Thank you very much for your participation. And have a good day.



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