

## Y 2018 Earnings Call

### Company Participants

- Daniel Alves Maria, Head of Investor Relations

### Other Participants

- Alain Progin Nicolau, Analyst
- Nicolas Alejandro Riva, Analyst
- Thiago Bovolenta Batista, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning everyone and thank you for waiting. Welcome to Banco do Brasil Fourth Quarter 2018 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 conference call is also being broadcast live via webcast through Banco do Brasil website at [www.bb.com.br/ir](http://www.bb.com.br/ir), where the presentation is also available. The replay of the conference call will be available through the phone number +55 (11) 2188-0400 until February 22nd, 2019, in English and Portuguese. To access the replay, please ask the operator to listen to BB's conference call. Identification will be required. And participants may view the slides in any order they wish.

Before proceeding, let me mention that this presentation may include references and statements, planned synergies, estimates, projections and forward-looking strategies concerning Banco do Brasil, its associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

The call will be hosted by Mr. Daniel Maria, Head of Investor Relations. Mr. Daniel Maria, you may now begin.

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

Well, good morning, everyone. Let me just start with this conference noticing that our CFO, Mr. Carlos Hamilton was expected to attend the conference, but unfortunately, he couldn't come due to medical reasons. We hope that he gets better soon. And we are

going to have other opportunities to discuss this. Here I am with Marvio Freitas, our Controller, and we are going to conduct the conference call.

I will start with -- in page four with some earnings highlights. The adjusted net income reached BRL3.8 billion in the 4Q '18, an increase of 13% in relation to the 3Q '18 and 20.6% over the same period last year. In 2018, the adjusted net income reached BRL13.5 billion, representing an increase of 22.2% over 2017. Fee income reached BRL27.5 billion in 2018, growing 5.8% comparing to 2017. The admin expenses grew below inflation with 0.6% increase in 2018, reaching BRL32 billion and showing a solid cost control expense of Banco do Brasil management. We have been showing a continuous improvement in the credit quality. The allowance for loan losses reached BRL14.2 billion in 2018, representing a reduction of 29.2% over 2017. The NPL over 90 days reached 2.53%, the sixth quarter of consecutive reduction.

On page five, we bring the net income breakdown. Fee income covered 86% of the administrative expenses, representing the highest level since 2014. The 4Q '18 ROE was 16.3%.

On the next page, page six, we bring the earnings breakdown. NII decreased by 5.8% in 2018 comparing year-on-year, mainly due to the contraction of the very small and small companies portfolio over the year as we have been discussing. In the quarter, we had an increase in revenues from low operations driven by the growth in the individuals portfolio mainly with the consumer finance, which increased 24% in the quarter. The increasing funding expenses in the quarter is partially explained by the rise of expenses of the time deposits at Banco Patagonia, caused by the rise of the interest rate in Argentina and also by the growth in the balance of saving deposits. On the other hand, the treasury repeated the good performance of the previous quarter, partially explained by the rise of the interest rate in Argentina, as I said before, and also due to the management of the securities portfolio.

In 2019, NII is back on track as one of the drivers for the net income. We expect an increase based on the growth of the average balance of the credit portfolio driven by the better prospect of the economic environment combined with the mix change of the portfolio with more profitable lines gaining relevance in the mix. This 5.8% growth in fee income above inflation and the solid cost control with admin expenses drove below inflation contributed for the improvement in the net income and in the cost-to-income ratio that reached 38.5%. The allowance for loan losses expenses decreased 29.2% in 2018 as a result of the improvement in the quality of the loans, especially in the companies portfolio.

On the next page, slide seven, we bring the loan portfolio on the expanded view. That increased 1% in the quarter and 1.8% in 12 months. The NPL ratio above 90 days decreased by 29 basis points, reaching 2.53%, the lowest ratio since first Q '16 and below the industry. The NPL formation is below the previous quarters and reached 0.52%. Even when we normalize the 3Q '18, that was impacted by a credit renegotiation. The coverage ratio increased to 211%. The cost of risk decreased in the fifth quarter in a row reaching 3.2% in the 4Q '18. For 2019, we expect a number around 3%.

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On the next page, we present the loans to individuals that increased 3.2% quarter-on-quarter and 7.6% year-on-year, with the diversification of the mix driven by 14% increase in the credit cards and 55% in personal loans in 12 months. The NPL ratio over 90 days decreased in all business lines and reached 3.08%, a decrease of 19 basis points. The NPL formation has presented a downward trend over the previous quarters and reached 0.74% on the fourth quarter of '18. The coverage ratio increased to 194% and the credit provision expenses were BRL2.1 billion in the quarter.

On page nine, we bring the loans to companies on the expanded view. The portfolio grew by 0.7% in the quarter. The small and very small companies portfolio increased 1.2% in the quarter, initiating a new growth cycle. The NPL ratio above 90 days for the company's portfolio is decreasing steadily and reached 3.17%. There is still room for further decrease on the following quarters in the more gradual way driven by the improvement in the very small and small companies' new vintages. The NPL formation is also below the average over the last quarters, reaching 0.37%. As I mentioned previously, the 3Q '18 was impacted by renegotiation that led to a very low ratio and even when we normalize this, we show that the NPL formation for the fourth quarter is not positive. The coverage ratio was 229% and the credit provision expenses were BRL1.9 billion in the quarter.

On slide 10, we have the agribusiness portfolio that grew by 0.2% quarter-on-quarter and 3.7% year-on-year. The rural loans, represented by the blue bar in this graph, grew by 1.6%, while the loans to agroindustries decreased 10.1% in the quarter. This reduction is explained by greater availability of other funding sources, such as capital markets for this segment of customers. The NPL ratio decreased by 9 basis points and reached 1.53% due to the improvement in the dairy and beef segment. For 2019, we have a more constructive view for the delinquency in this portfolio. The NPL formation was below the previous quarters, reaching 0.45%. Coverage ratio increased to 194% and the credit provisions expenses were BRL0.7 billion.

On page 11, we bring the NIM, that increased by 4 basis points in relation to the previous quarter, reaching 3.98%. The NIM, considering the recovery, also increased and reached 4.5%. This increase is explained by the higher level of loans in relation to the earning assets and also due to the reduction in liquid assets. The trend for 2019 is a slight elevation in the NIM driven by a gradual increase of the credit portfolio. Once the loan portfolio tends to gain more relevance into the earning assets, additionally, NIM tends to present the effects of changes in the mix that we have been implementing in the portfolio.

On the next slide, we bring the spread by portfolio. The spread for the credit portfolio remained stable at 7.6%. The spread for the individuals grew by 19 basis points due to an improvement in the mix with increase in the consumer finance portfolio. The spread for companies reached 4.75%. The 21 basis points reduction in the spreads for companies when we compare to the previous years can be explained by a decrease in the CDI's base rate for -- and some of the lines of credit, they are referenced in CDI and the spread is linked to that movement. However, we can expect a gradual growth in the spread throughout the year due to the mix change with more transactions being made with very small and small companies. The spread for agribusiness reached 4.6% impacted by the mix, although the average balance for the portfolio remained stable.

On the next slide, we presented the BIS ratio. The CET1 reached 10% in December '18. We have already surpassed the previous goal of 9.5% of CET1 by -- for January '19. We reinforce our target to reach at least 11% CET1 by January '22. In the last three years, we were able to generate organically on average 100 basis points in CET1 through retained earnings. Besides that, the deductions from the implementation of Basel III rules are already concluded, no longer impacting capital.

On slide 14, we bring the changes in the CET1 comparing to December to September. CET1 increased by 34 basis points, reaching 10%, as I said. This is mainly due to the net profit in the quarter, the restructuring in our partnership with MAPFRE and the mark-to-market of the security portfolio. These positive effects were partially offset by the increase in the tax credits, the reassessment of benefit plans and increase of the RWA.

On the next page, slide 15, we show the 2018 guidance. We reached all the items with better performance in cost control in the individuals portfolio, which were above the guidance. This increase in individuals was driven by the improvements in the mix of the portfolio that certainly will contribute to the growth of NII in 2019.

On slide 16, we bring the guidance for 2019. The adjusted net income for this year is between BRL14.5 billion to BRL17.5 billion, reinforcing our commitment to keep our profitability consistently growing. NII increasing between 3% to 7%. We have changed the metric for the loan portfolio guidance. From now on, the estimates that we have for the companies portfolio as well for the guidance for the total portfolio does not include operations with the government. This change is mainly because those transactions with governments we are more sensitive to exchange rates, bringing fluctuations in the portfolio. Having said that, individuals portfolio should grow from 7% to 10%, continuing to observe a more favorable mix in the retail lines. Companies portfolio from 0% to 3%, driven by the reduction in the participation of the large corporates that should be serviced by capital markets that, by the way, we are structured to better attend these group of companies to attend that and with the growth in the middle market and the very small and small companies in the portfolio.

Rural loans have a range between 3% to 6%. Provisions expenses are guided to a range between BRL11.5 billion to BRL14.5 billion, indicating a trend between stabilization and decrease when compared to 2018. Fee income should grow above inflation from 5% to 8% and administrative expenses should grow between 2% and 5%, with efforts to keep in line with inflation. All this combined with our goal to pursue a better experience for the customers through digital transformation and specialization in services.

This concludes the presentation. I thank you for the attention. We can move to the Q&A session.

## Questions And Answers

### Operator

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

**Q - Alain Progin Nicolau {BIO 17913545 <GO>}**

Hi guys, good morning. I think the only missing topic from the Portuguese conference call was the tax rate. So I wanted to ask you guys, if you can clarify a little better what happened in the fourth quarter? I think the tax rate was a little bit higher than expected. And if you can provide a soft guidance for 2019 for the tax rate as well. Thank you.

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

Okay, thank you, Alain. Alain, let's just start with 2018. We have two effects in the tax rate. The first aspect, you know that's usually our participations abroad -- actually we have abroad, we think this -- we do the adjustment in the fourth quarter and this usually happens all the years. We have that adjustment that brings a little bit further the tax rate due to these effects. Additional to this, we have the CXL [ph] that we were paying taxes considering 20% and accruing the taxes at 15%. And since we have -- not continuing with the effects, the CXL at those levels, we repriced it and this brought an effect to the tax rate in the fourth quarter. For next year, we model considering a CXL of 15% for the full year. Then for this year, for 2019, then considering that you can assume an effective tax rate from 23% to 27% in this range.

**Q - Alain Progin Nicolau {BIO 17913545 <GO>}**

Okay. Thank you.

**Operator**

Our next question comes from Mr. Nicolas Riva from Bank of America.

**Q - Nicolas Alejandro Riva {BIO 16875766 <GO>}**

Yeah. Thanks very much for letting me ask questions. My first question is on the 8.5 ATIs that you can call next year. There is a high coupon reset on those bonds. So my question is if your idea would be to call those bonds next year, in that case to issue new ATIs? And then the second question, there's some prevalence in Bloomberg feeling that you could be considering the re-IPO of Banco Patagonia in Argentina. If you can refresh us what are your views in terms of which assets you will be considering to sell? Either the stake in Banco Patagonia or a minority stake in the asset management business or Votorantim, what are your views on which assets would be non-core for you? Thanks.

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

Okay, thank you, Nicolas. Let's start with the 8.5. This 8.5 is Basel III compliant instrument - sorry, Basel II compliant instrument. Then the co-option happens next year in 2020. The likelihood is very high that it will be called since you lose the current benefit of it.

And your next question is related to if we are going to issue something else? Yeah. We have more capital that we -- more Tier 1 capital that we need, but we are always taking a

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look and considering the opportunities for that. And about Banco Patagonia more specifically and divestments, what is clear is that we are going to divest non-core assets. And Nova Energia is the non-core asset. We've tried to do this in 2017, probably more windows will be open, but we have time. We want to take the best opportunities for that. But Patagonia, our intention is to do the re-IPO. We are always taking a look on the opportunities and checking, which are the options we have, but the biggest driver for this is adding value. What we can do that adds value and we are not in a hurry to do whatever we need or whatever we want. And we can wait, choose the best windows in the market to do it.

**Q - Nicolas Alejandro Riva** {BIO 16875766 <GO>}

Okay. Thank you very much.

**Operator**

(Operator Instructions) Our next question comes from Thiago Batista from Itau BBA.

**Q - Thiago Bovolenta Batista** {BIO 15398695 <GO>}

Hi everyone. Thank you for taking my question. I have just one question on your loan portfolio. You mentioned a couple of times the change in mix that you expect for this year. You now have about 37% of the individuals portfolio in payroll loans. Can you give us an idea of what would be the ideal mix of this individuals portfolio? I imagine payroll loans should decrease its share in order to gain margins. Thank you.

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

Thank you, Thiago. For payroll loans, our intention is to continue to maintain the market share we have for this product. It's around 21%. Then we're going to continue to grow in payroll loan, but the difference is we are growing in non-payroll loan. And the issue is growing faster non-payroll loans compared to payroll loans. And we have space for that. We don't give a guidance specifically about the optimum portfolio, but we have room certainly for growing that.

**Q - Thiago Bovolenta Batista** {BIO 15398695 <GO>}

All right. Thank you.

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

Thank you.

**Operator**

(Operator Instructions) Our next question comes from (inaudible) Itau.

**Q - Unidentified Participant**

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Hi, good morning. Thank you for taking my questions. Can you provide any guidance for - in terms of the minimum Core Equity Tier 1 of 11% up to -- in 2022. Could you provide any guidance for the Tier 1 and Tier 2? And if it's possible also in an overall basis, which is the capitalization ratio that the bank is targeting? Thank you.

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

Diego [ph], thank you. Thank you for your question. I would say that the optimum CET1s that we see, we know this -- we announced the 11% and we are repeating this for a while, but I can add something else. The optimum capitalization we see for CET1 is in the region of 12%. And saying that, the optimum Tier 1 we see is 150 -- in this region, 150 basis points above the CET1. You will see that we have more than this, but again, we have space and time to accommodate. Thank you.

**Q - Unidentified Participant**

Sorry, did you mention 150 basis point above? The connection was a little bit bad.

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

Okay. I said 150 basis points of Tier 1 above the CET1. It means if -- let me rephrase. If the optimum CET1 is 12%, the optimum Tier 1 is 12% plus 100 basis points, so that is 13.5 basis points minimum.

**Q - Unidentified Participant**

Profit. Thank you.

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

Okay?

**Q - Unidentified Participant**

Yeah. Okay.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. Mr. Daniel Maria to proceed with his closing statements. Please go ahead, sir.

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

Well, thank you everyone for the questions and for attending the call. We are going to be available for all remaining questions and all issues that you want to discuss with us. Thanks a lot and have a nice day and a very good weekend.

**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.

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