

# Y 2021 Earnings Call

## Company Participants

- Daniel Maria, Head of Investor Relations
- Fausto de Andrade Ribeiro, Chief Executive Officer
- Jose Ricardo Fagonde Forni, Chief Financial Management and Investor Relations Officer

## Other Participants

- Carlos Gomez-Lopez
- Daer Labarta
- Henrique Navarro
- Jason Mollin
- Pedro Leduc

## Presentation

### Operator

Good morning, ladies and gentlemen. Welcome to Banco do Brasil Fourth Quarter 2021 Earnings Conference Call. The conference call is being recorded and broadcast live via webcast through Banco do Brasil website at [www.bb.com.br/ir](http://www.bb.com.br/ir). The replay of the conference call will be available through the phone number, 5511-3193-1012 until March 15, 2022. With us today we have Fausto de Ribeiro, CEO; Ricardo Forni, CFO; Daniel Maria, Finance and Investor Relations Officer; and Janaina Storti, Head of Investor Relations. First, Mr.Fausto de Ribeiro will make the opening remarks followed by Mr.Ricardo Forni considerations. After that, we will open for Q&A session. Mr.Fausto de Ribeiro, you may now begin.

### Fausto de Andrade Ribeiro {BIO 22225741 <GO>}

Good morning, everyone. It's a pleasure to be with you to talk about our results in 2021 and our perspectives for 2022. Last April, I started as the CEO of Banco do Brazil and established 10 structuring initiatives in line with our strategic planning. Our results were driven by these initiatives that we summarized into three foundations profitability, proximity, and digital impacts. This strategy, put us on the right path to deliver record results quarter-by-quarter in 2021, our adjusted net income, grew 51.4% in one year, reaching BRL21 billion. This result comes mainly from a robust generation of business both in credit and services from the administrative expenses control through the implementation of a series of efficiency measures and from the reduction of 40.2% in provision expenses, inline with the risk profile of our portfolio. And for this year, we will continue delivering outstanding results as our guidance shows.

Credit is the most important component of our results and was another record this quarter, reaching almost BRL875 billion, an increase of 17.8% in one year growth in our portfolios. Our NPL above 90 days and on this year at 1.75% below the banking industry average, while the coverage ratio remain above 300%. At the end of the last year, we went through renegotiation campaigns that benefited more than 285,000 customers involving a total renegotiated amount of BRL4.8 billion.

For this year, we see the loan portfolio growing between 8% and 12% with a better mix -- and increase in NII above the portfolio. We are leaders in several markets and we are improving our performance on that too. For example, our agribusiness portfolio reached a record balance of

BRL248 billion. In -- loans we grew by 34.3% and we keep innovating, we launched another stage of Circuito de Negocios Agro there will be three trailers adopted to operate as mobile branch visiting more than 600 series and benefiting almost 500,000 producers.

Our payroll loans reached BRL106.8 billion an annual growth of 14.2% which give us 20.8% of market share. Another important segment we lead is the business with SMEs. In 2021, BRL7.4 billion were disbursed benefiting 349,000 companies. We are committed to support customer international operations, providing specialized advisory in foreign trade. As a result, we reached a balance of BRL17.6 billion in export exchange contracts.

At Banco do Brasil, the customer is served throughout the country, with the convenience of our physical presence, and the security of our digital platform. In this last year, we expanded our presence in Brazilian cities, reaching 96.8% in December. This was possible because we advanced migration of our services structures to lighter and more efficient models, such as banking correspondence. As we invest in digital channels and lighter services structures, we reduce transactional costs, bringing more efficiencies. This is a permanent movement that will keep evolving this year.

We are increasingly investing in services specialization. Last year, we started a movement that allowed us to have 7 million individual customers served by a manager and we are expanding this model to other segments. With that, we improve customers experience and create more business opportunities. We have more than more than 7,000 employees dedicated has to SMEs. We also expanded as personalized relationship with rural producers, large companies and the public entities. When we are close to our customers, we provide a complete and resolute services experience, which results in higher level of satisfaction.

We ended 2021 with an annual increase of 8.5 points in NPS. With the customer centered mindset, we are investing to improve our (Inaudible) employees skills for an excellent services and also for the digital transformation. Recently, we were recognized for the ninth consecutive time as top employer and international certifications that demonstrate our care for people. In 2021 Banco do Brazil held the biggest public contest in the history of Brazil with 1.6 million applications which ensures we will hire the best talents renew our workforce.

Sustainability is present in our strategy management and business for over 30 years. Our sustainable business loan portfolio reached BRL291.4 billion in 2021 it represents about a third of our entire portfolio and is also the largest portfolio with this characteristics in Brazil. It also counts on a third-party opinion. I'd like to highlight the issue of our first social bond in January in an amount of \$500 million. It's important to highlight that as a result of our actions, we were once again recognized as the most sustainable bank in the world in the global 100 ranking by Corporate Knights.

In 2021, we started the first steps on the new business models and solutions that are important drivers to our digital transformation. We launched the Loja BB, our marketplace in our mobile app, which was a success in selling products. We also structured and initiated investment in startups. We took a big step towards modernizing our IT architecture, advancing the use of public and private cloud as a software building platform. Moving forward, we've accelerated and escalated those models. And also we will bring us new solution. To start, we relaunch forward innovation and technology labs in different segments to explore this and develop ideas that generate new business, improving customer experience and bringing more efficiency.

Our mobile app is a major hub for financial and non-financial solutions. We expanded our operation as a platform with the launch of our marketplace affiliates program at Loja BB in the app. The first brand was Amazon Brazil and we will bring new partners soon. With that, we will cover more customer needs and reach our data lake on their behaviors and tastes and will generate more revenues for the bank. Since December 2020, we sold more than 1.5 million gift cards through our app bringing more recurrency on this usage especially by the young audience.

Also note worthy is the Broto agribusiness digital platform, our first initiative as a digital ecosystem. It continues to expand strongly having since its launch more than BRL1.3 billion in business originated. In 2022, we intend to advance in the strategy of bank as a platform with new initiatives. We hold a strategic program folks on investing in initiative startups, it has a budget of BRL200 million, and we already invested in 29 startups, throughout 2021. I'd like to highlight our partnership with the agritech startup FieldPRO with a national device that collects information on climate, harvest, and soil.

With that, the device warns the best moment to, sow, spray and crop increasing the productivity of the men in the field. Connected to all trends BB is on to attract and serve the young public which is hyper digital in six agile simple solutions at their fingertips. In 2021, we enforced its position as a great partner for young people surpassing the mark of 1 million university customers and expansion of around 70%. Another gateway for the young audience is through games. BB started supporting the electronic game segment in 2018. And since then, has been sponsoring eSports events. And now also, Banco do Brasil is in the Metaverse with real-world actions where the players can open accounts and receive benefits for their character and can also invest in different funds.

With everything I have presented to you so far, I'm sure we are in the best moment of our company. We selected the best employees, increased business with a better mix, we prepared the bank to advance in new digital models and we improved customer satisfactions with a complete and omni-channel platform.

In 2022, we will follow our customer-centered strategy committed to offering the best experience. We were advancing our digital strategy with a greater performance in digital ecosystems. We will continue our commitment to bring efficiencies optimizing our capillarity with the expansion of lighter models while maintaining our presence in the country. Sustainability will continue to guide our practice and decisions allowing us to create value and positive social environmental impacts for all stakeholders. Finally, I reinforce my commitment to deliver increasingly and sustainable results.

Now, I hand over the floor to our CFO, Mr. Ricardo Forni who'll detail the main numbers of our results.

### **Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}**

Good morning, everyone. It's a pleasure to be with you for another earnings conference call. As mentioned by our CEO, we have the pleasure of announcing another record in profits. Our adjusted net income, grew by 51.4% in 2021, and in the year at BRL21 billion in the high end of the guidance.

This result was supported by the strong increase in the loan portfolio, which reached BRL875 billion with growth in all segments. Net interest income and fee income grew 4.9% and 2.2% respectively. Administrative expenses remained under strict control, with an increase of 1.4% below the inflation for the period. NPL over 90 days, came at 1.75% below the financial systems average. As a result we ended the year with cost to income ratio of 35.6% and a common equity Tier 1 of 11.9%.

Moving on to the next slide. We show the adjusted net income that reached BRL5.9 billion in the fourth quarter of 2021 growth of more than 15% compared to the previous quarter reaching a return on equity of 16.6% in the quarter.

In Slide 17. The loan portfolio Expanded View reached BRL875 billion in December '21 an increase of 7.4% compared to September, '21 and 17.8% in a year with growth in all segments as mentioned. The individuals portfolio grew by 4.5% compared to September, '21 highlight for the positive performance of credit cards and consumer finance with an increase of 20.4% and 6.4%, respectively. The behavior of non-payroll lines reflects the strategy of changing mix to lines with a better risk adjusted return.

In the company's portfolio, we saw a 2% growth in SMEs. It's important to note that in the third quarter, we had disbursements of more than BRL8 billion in Pronampe lines. At the same time, the corporate loan portfolio increased by 13.4%, mainly driven by anticipated demand from companies throughout December '21. Highlight for the 32% growth in private securities and 30.7% in receivables. The agribusiness portfolio grew by 9.9% compared to September '21 with emphasis on loans with rural producers and agribusiness securities.

On Slide 18, we see the schedule for the resumption of payment for the operations of the forbearance portfolio. Payments are being made according to schedule as shown by the reduction in both the balance of the portfolio and the balance under the grace period. This portfolio is comprised by transactions whose payment schedule were subject to some sort of extension within the scope of measures taken in the financial system to face the effects of the pandemic in 2020.

The NPL over 90 days of this portfolio remains totally under control at 2.05%. Looking at the portfolio quality, the NPL over 90 days decreased as compared to September, reaching 1.75% in December below the financial system despite the leverage of the individuals portfolio towards riskier lines. The portfolio coverage ratio ended the quarter at 325%. The new NPL on the portfolio, reached 0.63% and the coverage of the new NPL reached 111.9%. Here we show the evolution of provision expenses, in the expanded view which ended the quarter at BRL3.8 billion a 3.4% reduction compared to the third quarter. In the year, provision expenses ended at BRL13 billion a decrease of 40.2% compared to 2020 when we made BRL8.1 billion in pre-emptive provisions. The cost of credit ended the fourth quarter '21 at 2.5%.

On the next slide, we break down the net interest income that grew 4.9% in 2021 totaling BRL59.3 billion. This is explained by the increasing loans operations income, which were influenced by the growth of the portfolio and also the positive performance of the treasury.

In the quarterly comparison. NII reduced 5.4% where the main impact came from the increasing funding expense due to the higher selling rate, a movement that was already expected. It's important to mention that we estimate fund expense to have a different behavior from that observed in 2021 given the less volatile selling rate throughout the year. At the same time income from loan operations and treasury will continue to perform positively contributing to a healthy NII growth. The net interest margin reached 3.5% mainly reflecting 5.4% reduction in NII in addition to a slight increase in the average balance of earning assets of 1.3%. Managerial spreads remained stable in the quarter with agribusiness portfolio showing a slight positive oscillation.

In the next slide, fee income totaled BRL7.8 billion in the quarter, growth of 5.2% in the quarterly comparison. In the year, fee income reached BRL29.3 billion, an increase of 2.2% when compared to 2020. Above our guidance, mainly influenced by the commercial performance in the asset management insurance and consortium, which more than offset the reduction in checking account fees. Administrative expense remained within the range of 2021 guidance reinforcing our commitment to cost control. In the fourth quarter '21 administrative expenses totaled BRL8.5 billion an increase of 7.6% over the previous quarter.

This increase was driven by the 11.7% growth in other administrative expenses. Mainly with outsourced services and surveillance security and transportation service. We are seriously higher at the end of the year and by the 5.2% increase in personnel expenses due to the salary increase of bank employees. The cost-to-income ratio ended the year at 35.6%.

On Slide 23, we bring the Common Equity Tier 1 which ended December at 11.94%. The reduction is most explained by the increase of 89 basis points in risk-weighted assets inline with the performance of the loan portfolio.

On Slide 24, we presented the 2021 performance against the guidance. In the retail portfolio, the performance was driven by consumer finance, credit card, payroll loans and SMEs. In wholesale,

the performance was influenced by the anticipation of the demand for credit from companies with emphasis on private securities. The rural portfolio, growth was driven by greater demand for the sector and by BB's leading role and specialization in serving the entire agribusiness chain. Fee income increased above guidance influenced by good commercial performance of insurance, consortium and asset management throughout the year. NII and administrative expense performed as expected, while provision expenses came in the low end of the range. All these movements resulted in adjusted net income at the high end of the guidance.

On Slide 25, we present the guidance for 2022. In this new cycle, we bring the credit portfolio guidance divided into individuals companies and agribusiness. In our opinion, this vision not only provide a better link with the current information in our materials, but also allow a more direct and intuitive reading of the segments performances. We estimate loan portfolio growth between 8% and 12% of which 10% to 14% for individuals, 3% to 7% for companies and 10% to 14% for agribusiness. The NII is expected to grow between 11% and 15%, fee income is expected to grow between 4% to 8% and administrative expense between 4% and 8% as well.

We foresee that the credit provisions in the expanded view should remain in the range between BRL13 billion and BRL16 billion. Thereby, we expect to reach between BRL23 billion and BRL26 billion of adjusted net income in 2022. With that, I conclude the presentation of Banco do Brasil's fourth quarter 2021. We can now go to the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) And our first question comes from Henrique Navarro, Santander.

### Q - Henrique Navarro {BIO 16188960 <GO>}

Hi. Good morning, everyone. Well, first of all, congratulations for great results. My question is on the guidance for loan growth and provision. Let's say that when we are in a normalized situation, provisions normally grow in line with the growth you expect for your loan book. And this is exactly what we can find in the guidance. I mean, if we take a look at the middle of the guidance range, then we would be talking about roughly 10% year-over-year growth for the loan book and for the provision expenses. But I mean I don't believe we are in a normalized situation, because 2022 is going to be challenging. The entire market continues to change the credit mix towards this [ph]clear lending categories. We are not yet back to the pre-COVID-19 levels of NPL and et cetera. So I would like to hear your thoughts, why -- by taking a look at the guidance, you consider that we are in a normalized situation in terms of building credit. That's it. Thank you.

### A - Fausto de Andrade Ribeiro {BIO 22225741 <GO>}

Thanks, Henrique, for your question. Let me try to answer that. In terms of the portfolio, I believe that what you're talking is that we have been from the situation, from the pandemic. We have all these grace period and the, let's say, the schemes, that are Pronampe and these preemptive programs. Now we are, let's say, running off all this portfolio. And what we see in our portfolio is that the forbearance portfolio is performing really well, say, well above what was our initial expectations. That's why we have been performing in terms of this -- the NPLs are (Technical Difficulty) low right now.

We have been putting more -- let's say, increasing the portfolio with these lines that are more, let's say, risk adjusted. They -- we are looking for more risk to -- in search for more return. And the change in the portfolio is coming. And now we are like in the middle of the cycle of this, what

would be, let's say, the credit portfolio from, let's say, the pandemic period for the new portfolio, let's say, clean of these effects.

So looking forward for 2022, we see that the, let's say, the runoff of this portfolio from the pandemic is behaving well, and we are producing a more risk-adjusted portfolio. We see that the NPLs will grow or increase in a slower rate than, let's say, the growth of the portfolio. And that's what we are, say, projecting on our guidance is this dynamic that is (Technical Difficulty) it's okay and positive for the net interest income. And we see, let's say, a well-behaved provisions coming across.

I don't know if this answer totally your question. Please, if you want more clarification.

**A - Jose Ricardo Fagonde Forni** {BIO 20394486 <GO>}

Let me add something on that. Something that I really believe that you have to consider that the characteristics of our portfolio. We have large positions in two assets. The first one is Credito Consignado. That means that we have a low risk behind this, and a very good behavior in terms of NPL. And the other one is Agronegocio. In terms of NPL, we have very low risk too. 0.57 in terms of NPL. It's a very good behavior in terms of risk.

As you know, we have a large position in Agronegocio and Credito Consignado. More than Credito Consignado, we have more than BRL1 billion -- sorry, BRL100 billion. In Agronegocio, we have almost BRL250 billion. This is the reason that we have to take this picture to analyze the characteristics of our portfolio.

**Q - Henrique Navarro** {BIO 16188960 <GO>}

That was very clear. Thank you.

**Operator**

Our next question comes from Pedro Leduc, Itau BBA.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Hello, everybody. Thank you for taking the question. Congrats on the quarter. Two for our end. First, on the agriculture, our business loans. We read from a distance now Brazil might be having some harvest problems. On the other hand, other pieces are doing well. So if you can give us your insights in that regard. And how you expect -- and if you expect NPLs to move up on this line this year? And I also wanted to touch a little bit on -- that the managerial credit spreads for agriculture seems to have stabilized, if you believe it will be a positive contributor to the NII expansion in 2022 as well. Thank you.

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

Pedro, Daniel Maria speaking. Thank you for your question. Let me start with the agribusiness portfolio and the quality of credits. You're right, we have some weather events that happened last year, and we saw this year as well. But we don't see major impact for the portfolio. The main reason are for the mitigations that we have in the portfolio. Almost a great part of this portfolio is guaranteed -- actually has insurance is insured. And this guarantees a good performance for the portfolio.

There is another aspect as well. When you see the distribution of agribusiness in Brazil, the major impact is in the South region, yes? And we have, for instance, the Midwest and other regions that productivity is coming quite well. Then this is basically the reason why we do not see impact in the portfolio -- in the credit risk of the portfolio. And the perspectives for the business continues to be very positive.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Very good, Daniel. Thank you. And a second question, unrelated, but equally important. In respect to your guidance for admin expenses to grow between 4% to 8% this year, you've achieved something very nice in 2021, growing just 1%. But for 2022, 4% to 8%, if we consider the underlying organic inflation that you're having on salaries, occupancies. This will probably require some efficiency efforts just to stay within this range. So in that regard, in this guidance, do you assume that you'll be successful in, let's say, the voluntary layoff programs or other sorts of cost cutting? Or would that be upside to this guidance figure? Thank you.

**A - Fausto de Andrade Ribeiro** {BIO 22225741 <GO>}

Thanks, Pedro, for your question. I think that what we see here in administrative expense is that we are continuing to -- with our, let's say, austerity policy, cost control and the efficiency agenda. This is an agenda that, let's say, Banco do Brasil is not -- we're not only performing well on this on 2021. So we have been on a good track record in terms of cost control. And this year, we have, say -- the inflation scenario is a bit more complicated. We have the salary increase from September 2021, that will have the full impact in this year. So you are right.

Let's say, the challenges are higher, but we will keep the agenda. And this agenda is, say, in many areas of the bank, we are optimizing office space. We are -- according to the client needs, we are making our network, let's say, lighter in terms of costs and, say, space usage. We have been, let's say, doing initiatives in terms of -- another initiative in terms of the efficiency that is performing, let's say, that are delivering results this year and forward. So these are structural agenda that have been constructed over years. And during 2022, we will keep our commitment on this.

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

And Pedro, just to remind that all those initiatives, yes, we started all the initiatives by the beginning -- mid beginning of this year, and we're implementing this. And the benefits will be collected along this -- they were collected this year and certainly for next year. And this is one important driver for the cost growth for 2022.

**Q - Pedro Leduc** {BIO 16665775 <GO>}

Very good, Daniel, Fausto. Thank you so much.

**Operator**

Our next question comes from Tito Labarta, Goldman Sachs.

**Q - Daer Labarta**

Hi. Good morning, and good afternoon everyone. Thanks for taking my questions. Two questions. First on net interest income guidance. Just it implies some margin expansion with loans growing 8% to 12%, and net interest income growing 11% to 15%. But if you can help us think about that, some of your peers are guiding for much stronger growth above 20%, and it could be a function of mix and -- different loan mix. But one, you have -- tend to have good funding, right? We already saw a big increase in your funding expenses in 2021. And now that interest rates much closer to the peak than they were a year ago. How much is the impact on funding expenses now behind you? Do you expect any more pressure on that side?

And then thinking about your asset mix, one, your ability to reprice. Like what's the timing on repricing of your loan portfolio? Where is it tougher? I imagine maybe (inaudible) agribusiness maybe tougher to reprice. But if you can help us think about the timing to reprice, potential benefits just from higher rates that haven't been captured at this point. And how you think about that net interest income growth? And then I have a second question after that. Thank you.

**A - Jose Ricardo Fagonde Forni** {BIO 20394486 <GO>}

Okay. Tito, thanks for your question. I believe that, let's say, we are looking forward in this year for a net interest income that is more favorable than we have the scenario last year. Last year, we have the pressure on costs from the rise in SELIC. And we have the lag between the start of this, let's say, new rates and new funding costs with the repricing of the portfolio. This repricing was, let's say, we accelerate this during the last quarter, was initiated on the third quarter -- last quarter. And now we have a much more -- I'd say, our -- the credit portfolio in terms of the pricing now is aligned with rates. The cycle is ending in the near future. So, we have been -- we are aware of this. So, we don't expect in this year the dynamic that we had last year in terms of the reduction of the, let's say, the liability side in terms of the margin.

On the other way around, we see this year much more positive on having net interest income from the liability side, because we have now, for example, the funding for this savings account. It's relatively cheaper than last year. And also in terms of, let's say, the liability mix, we are foreseeing that we will be able to make the, say, the cost cheaper than we had in last year. So this is a good contribution to the net interest income on top of the improvement, let's say, in the mix looking for the best lines in terms of the credit risk adjusted return.

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

And just to highlight one aspect that Ricardo mentioned about the liabilities. When you look at the structured positions we have in ALM, we have fixed assets against floating liabilities, and those floating liabilities are basically saving deposits. Saving deposits in Brazil, they are a percentage of the SELIC rate capped by 6% plus another index that is not linked to the interest rate. It means when the interest rate, the SELIC, is above 8.5%, the cost is capped at 6% plus TR.

And what happened? In the fourth quarter was by November, I think that it reached this threshold. For that reason, you don't -- you didn't see entirely this impact in the fourth quarter. But we expect that this will be important mainly for 2022. This is one of the drivers in addition to the other aspects that Ricardo said.

**Q - Daer Labarta**

Great. Thank you for that. That's helpful. And just in terms of the repricing, how long does it take to reprice? In other words, is there more upside after 2022 to continue to increase your margins as you reprice the portfolio?

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

Okay. Those fixed assets, they are about 6% maturing up -- contractually maturing up to one year, yes? And we have the longer term that is basically payroll. But payroll, you have an optionality that is exercised quite often. It means that this process of repricing that we were not able to fully collect it last year, yes, we expect that this will happen in this year, yes? Then the repricing is one important driver as well, combined with the cost of funding, combined with the mix, yes, and to the adjustment of prices for the new transactions as well.

**Q - Daer Labarta**

Okay. So you should be able to reprice most of your loan portfolio this year is you're saying?

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

Yes. Relevant part of (inaudible) to come in this year.

**Q - Daer Labarta**

Great. Thanks, Daniel. And then a second question separately on competitive environment and your digital initiatives. If you can kind of comment on that. And thinking -- comparing to some of your peers, like they have separate brands for their digital banks, which you haven't really done.



But how do you think you're positioned to compete in a more digital environment, both to other large incumbent banks that have those initiatives as well as other fintechs that are growing pretty rapidly? How do you see that as a risk, perhaps an opportunity for you? If you can comment or maybe even give any KPIs you may have on that front.

**A - Jose Ricardo Fagonde Forni** {BIO 20394486 <GO>}

Thanks for your question. I think that -- let's say, the competitive environment is, let's say, is we have these new digital banks coming in. We have -- and working together, let's say, with the incumbents. We are working with our digital agenda. We are adding more, let's say, services and offers to our clients in terms of this client centrality. And I believe that there is a lot of competition for the client, but we already have a big client base, but we are looking forward in terms of the open banking as an opportunity for us.

And I believe that the competitive landscape will reward who we were in the principality of the client. And we are, let's say, preparing ourselves to be competitive in, say, having the principality of the clients. So we are a full service bank. So, we're not like a cheap easy account, but we have full banking products and other, let's say, other platforms. And we are adding our services. We are working in all these arenas to compete. So that's why we are positive in terms of the -- that this is an opportunity for us.

We are working hard internally to move forward our organization in terms of this digital transformation. We have been in a sound position, because we have, let's say, one of the best applications in the market. So -- and we have working -- we have been working to improve that and add services and to be present in different platforms as well. So, this is something that we are doing -- the whole company on this agenda. And I believe that in the presentation of our CEO, we have been, let's say, highlighting some of these initiatives.

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

And Tito, just to add some aspects. Important issues for competing in this arena certainly is to have access to data, yes. We have a huge data lake, and we have been using this in our models for a long time. And what is the benefit of this? We can make offers more assertive. We can understand better behaviors. We can change the segmentation based on behavior and not only to income. We have about or more than 22 million people that uses our app on a regular basis, yes? This is another issue that is important differently from business that are trying to attract people to the platform.

We have a platform with a quite sizable participation. And we are bringing new services to this. For instance, the -- some partners like amazon.com.br that we brought since the last results that we mentioned this. We are bringing other partners to this, the gift cards that we have, and we are selling our platform. Then this shows a little bit how we are positioning to that game, yes?

**A - Jose Ricardo Fagonde Forni** {BIO 20394486 <GO>}

Yes. I just want to add that I believe that you are seeing the first movements in terms of the speed of that we can have from -- moving from an account-centered relationship to a client-centered relationship. So now we are prepared to work with clients that are not account holders of Banco do Brasil. And this will make all the difference in terms of competing in this landscape.

**Q - Daer Labarta**

Great. That's very helpful.

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

And Tito, if I may, just to step back to one point of your last question that I forgot to mention. A positive contribution to NII is treasury, yes? Just as a reference, previously, we used to have an

average contribution of treasury in the region of BRL3 billion to BRL3.5 billion per quarter. The last quarter, you saw -- in the third quarter, you saw BRL5.2 billion. This quarter, the fourth quarter, BRL4.5 billion, yes? And we expect for 2022 a contribution between BRL4 billion to BRL4.5 billion, then above the levels that you used to see in the previous years. I think that this is one important drivers for NII as well, okay?

**Q - Daer Labarta**

Great. Thank you, Daniel. And just to be clear, that treasury is included in the guidance that you're giving on your NII, correct?

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

Yes. Yes, it is.

**Q - Daer Labarta**

Okay. Perfect. Perfect. And then if I may, just one quick follow-up on the digital, right? You mentioned the 22 million people using your app. And you mentioned also growing up the non-account holders. Have you been able to attract new clients from that perspective? Any color you have? Like how many non-account holders you have been able to attract, just thinking about being able to get new clients from a digital perspective that you were unable to reach before?

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

Tito, Certainly, we have -- just as an example, for the youngest students and so on, university students, we had a program that we had -- we saw a growth of 1 million customers bringing this initiative, yes? And Fausto mentioned in his presentation, all the efforts that we are doing to approach the new generations mainly coming to the places they are, for instance, supporting gaming, supporting initiatives that attracts the attention of this public. Then this growth in the digital are for the customers that are inside the bank, but it's one important aspect is to bring new people to the bank.

And one important attribute to the customers is to have a marketplace inside our app. And this is exactly what we are doing, bringing new solutions to those customers and providing products and services through our app.

**Q - Daer Labarta**

Great. Thank you very much.

**Operator**

Our next question comes from Jason Mollin, Scotiabank.

**Q - Jason Mollin** {BIO 1888181 <GO>}

(Foreign Language) My first question is, if you can talk about the impact of the employee pension plan on both shareholders' equity in the period. The adjustment was quite large, and on the P&L where there also was an important impact. If you can also talk about how we should think about the evolution of this going forward.

My second question is related to the taxes. The effective tax rate was about 20% in the quarter on my calculation compared to about 28% in the third quarter. What tax rate is included in the guidance? And what do you think about expected tax changes or an increase in taxes for banks and financial companies going forward, particularly in this year or next, 2023? Thank you very much.

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

Hi, Jason. Thank you for the question. Let me start with PREVI, yes? Our pension plan -- usually, there is part of the pension plan that goes in favor against capital, and the other part that goes against or in favor of the results, yes? We had a positive contribution coming from Previ along this third quarter, yes? But when you exclude those events, yes, we continue to show structural positive performance of the portfolio.

Just to give you a number, Previ had a positive contribution in the region of BRL700 million per quarter, yes, in the third quarter and fourth quarter. For the first and second quarter next year, looking at the actuarial calculation, yes, we tend to have something around BRL500 million, BRL540 million per quarter, yes? Then we tend to have a reduction of this participation due to the actuarial mark-to-market, but this is still positive, yes?

Just as a reference, when you compare to the first quarter of last year was in the region of BRL250 million -- BRL230 million, BRL250 million per quarter, yes. Then you see a positive contribution, as I said, but the results didn't come from this, yes?

When we look at the capital more specifically, we had part of the capital that was about 8 basis points that came from the actuarial position. It is not related to PREVI, this is related to the obligations that we have in the health plan. It's a different story, yes? Did I answer your question?

**Q - Jason Mollin** {BIO 1888181 <GO>}

Yes. I mean, I understand -- I mean, I know it's hard to forecast this. It's very rough. But I'm just trying to get a sense of going forward is how should we think about the impact on this on book value and earnings? Is this range -- I mean we talked about what it's been in the past, but I guess it's just market movements. But is there any way to talk about what you think is expected for this year at least?

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

Yes. Actually, there is -- there are two approach for this. Number one, we bring a sensitivity analysis in one of the notes of our balance sheet, which are the major variables that you need to keep an eye. The composition of assets and certainly the price of (inaudible) is one important driver for this. The discount rates for the liabilities and what we are seeing in the curve tends to reduce the net present value of the liabilities that is positive, yes?

We have also the actuarial table that tends to be more stable, yes, and certainly, the salary increases that is more under control. Then you can see in the notes of the balance sheet, this sensitivity analysis to do a certain analysis, yes?

The second aspect is twice a year on a semiannual basis, we make an evaluation -- or actually not we make, but an actuarial. There's an evaluation of the assets and liabilities. And based on this, we have a sense on what's going to be the impact for the next quarter -- for the next semester. And this is basically what we are foreseeing for the next semester is something between BRL500 million to -- BRL500 million to BRL540 million per quarter. I think that's about it, yes? That relatively to the second semester 2021, that was BRL700 million means a reduction but a mild reduction in the contribution.

Before moving to tax rate, did I cover all the points?

**Q - Jason Mollin** {BIO 1888181 <GO>}

Yes. Thank you very much.

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

And coming to tax rates, yes, we expect something between 18% to 23%. Yes, certainly, there are so many variables on this, yes? For that reason, we consider this range. When you look at the tax rate for this year was behaved inside this range, yes, it's almost what we expect for next year in the different scenarios.

**A - Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}**

Yes, but we will keep a close eye on the tax reform discussions in the Congress that might affect this, say, the tax rate. The final tax rate must be affected by any change over there. So last year, we had a discussion, but there is no conclusion in terms of a decision about that. So it's still in the agenda, but we are keeping a close eye on that.

**Q - Jason Mollin {BIO 1888181 <GO>}**

Okay. Thank you.

**Operator**

Our next question comes from Carlos Gomez, HSBC.

**Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}**

Hello. Good morning. And hi, everybody. Congratulations on the results, they were really good. So three minor points I wanted to ask about. The first one is about your fee income. For the year, it grew only 2%. And the reason is that there was a very short decline in the current accounts line that was 18%. Obviously, you are under more pressure from new competitors. Are we done in terms of reducing your income from account packages? Or this is a pressure that should continue for the next couple of years? Where does it stabilize?

And also in fee income, we see a relatively small contribution from capital markets. We know that you have a new joint venture with an international bank. When do you expect to get any results on that?

And the second refers to your loan growth, which is good in all aspects, but I was a bit surprised about the bigger growth in mortgages. We wonder if that is a strategy that you have and you are more defined. And finally, if you can give us any update on the BRL8.1 billion instrument that may (inaudible) to the government. Thank you.

**A - Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}**

Thanks, Carlos, for your question. I think that -- talking about the fee income, I believe that we have, let's say, at the end of the year a good result in terms of the whole fee income. We are over our guidance that was initially the top range 1.5. We ended 2.2. During the year, we had, let's say, a hard time on this. But the

fees from consortium, from funds, and from credit was -- let's say, they were very good from insurance as well.

And in terms of the account fees, this is something that -- let's say, this is a structural change in the market that the PIX accelerate the change from, let's say, transactional fees to service fees. So, we are changing the profile of our fee -- fees origination, let's say. And we are working to open, let's say, new streams of fees. We have the marketplace. We have so many initiatives that are going on, that are, let's say, looking for, say, replacement of a natural, let's say, decrease in account fees. This is also being followed by the regulator in terms of suitability that is affecting all the players in the market.

But for this year onwards, I believe that we will have, let's say, a more stable behavior in terms of the origination of not only account fees, but the other fees. So that's why we are looking forward for this year for a range for the guidance. 4% to 8%, that is more positive than we had last year, and we believe that we can achieve that through these initiatives. And all the service that we are providing our services that are, say, capable of collecting fees.

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

And just to add before moving to the next point. In 2021, the partnership, UBS BB participated in 194 transactions, yes? Then it's quite active, yes? Only in the fourth quarter of this year, we had 57 fixed income transactions and three ECM transactions -- equity transactions. Then the partnership is showing good results and are quite -- and most importantly, supporting our corporate customers in solutions in capital markets.

**A - Jose Ricardo Fagonde Forni** {BIO 20394486 <GO>}

So the next one is about the loan growth, right?

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

About the loan growth, more specifically -- sorry. About loan growth, and more specifically mortgages, just to remind that the structure here in Brazil, usually saving deposits are to support mortgages or to support agribusiness. In our case, saving deposits support 90% of saving deposits supports agricultural loans, yes. For that reason, we have these characteristics. For the 10% that goes to mortgages, we have a quite good position for this. But we are passing also through a change in the mix of this portfolio. Just reminding that we used to have a high participation of low-income mortgages, yes? And what we are seeing currently is more disbursements in the medium income or high income mortgages.

Yes, exactly for that reason, we see a shift in the portfolio. Even though we are growing when we see the aggregate portfolio, it seems stable, yes. It's more related to, again, to the characteristics of our portfolio.

And moving to the BRL8 billion CET1. By the way, we issue a note to the market, because we ended to -- in a negotiation for this. We are going to repay this BRL8 billion in annual installments of BRL1 billion starting this year -- I beg your pardon, BRL1 billion per year.

**Q - Carlos Gomez-Lopez** {BIO 18107094 <GO>}

Okay. So you will pay BRL1 billion per year. Is there a date for that? And will there be any change in the interest? I believe it was 5% that you paid on the paper.

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

Yes. It tends to be 15 basis points per year. It's approximately in terms of basis points, yes. But this will be the schedule that we agreed with the controlling shareholder to repay.

**Q - Carlos Gomez-Lopez** {BIO 18107094 <GO>}

Thank you very much.

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

Thank you.

**Operator**

This concludes today's question-and-answer session. Mr.Fausto Ribeiro will proceed with his closing statements. Please go ahead, sir.

**A - Fausto de Andrade Ribeiro** {BIO 22225741 <GO>}

Okay. First of all, thanks, everybody, for participated in this conversation with us. And just to catch up this meeting or to give you guys a final message from the administration. I'd like to say that we are working very hard to enhance our performance in terms of net interest margin. We are also prepared for digital transformations, and we're working very hard on this issue. And we are really committed to keep administrative expenses under control and committed to present at the end of 2022 a sustainable result. The guidance that we have presented to you guys will be a -- really a challenger. But I'm sure that we are going to achieve these targets.

Thank you, everybody. See you next time. Bye-bye.

## 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.

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