

Y 2017 Earnings Call

Company Participants

- Bernardo Rothe, Chief Financial Officer
- Daniel Alves Maria, Head of Investor Relations
- Paulo Rogerio Caffarelli, President, Chief Executive Officer

Other Participants

- Carlos Gomez-Lopez, Analyst
- Felipe Ikari, Analyst
- Jorg Friedemann, Analyst
- Tito LaBarta, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil Third Quarter of 2017 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. (Operator Instructions) This conference call is also being broadcasted live via webcast through Banco do Brasil website at www.bb.com.br/ir where the presentation is also available. The replay of the conference call will be available through the phone number +55 (11) 21880400 in English and Portuguese. To access the replay, you must ask the operator to listen to BB's conference call. Your identification will be recorded.

Participants may view the slides in the order they wish. Before proceeding, let me mention that this presentation may include references and statements, plan, 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 the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

With us today we have Mr. Paulo Rogerio Caffarelli, CEO; Mr. Bernardo Rothe, CFO; and Mr. Dannel Maria, Head of Investor Relations. Mr. Caffarelli, you may now begin.

Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Good morning to all. Thank you so much to take part of this meeting with us today. For me it's a pleasure to be here. What we are presenting today is the consolidation of our

effort to provide Banco Do Brasil, with the strength and dynamism required to operate in a highly competitive and disruptive market.

Banco do Brasil needed to adopt to be competitive and it did not relent. Therefore by announcing the 2017 results, 54% higher than in 2016 and the best adjusted net income since 2012. I cannot do this without acknowledging the work of almost 100,000 employees that I am proud to take -- to be part of.

Moving from our profitability of 8.8% in 2016, to 11.3% in 2017 requires conviction and perseverance. Conviction that we have everything we need to occupy our space in the market, live up to our customer expectations and to -- and do our best to guarantee increasing returns to our shareholders.

Perseverance to overcome obstacles and turn challenges into opportunities. This was the basis of our work in 2017 and will continue to guide us through 2018. I need to tell you that 2018 for us will be even better than was 2017. I do believe and I repeat that Banco do Brasil size must be adequate to its ability to then generate results. Only through this way, we have been able to fulfill our purpose of taking care of what matters to our customers, employees, shareholders and to our Brazilian society.

All that was made in 2017 by combining, first of all, increasing gross credit disbursements, for example, 81% in the individuals portfolio, 31% in companies and 11% in agri business. Continuous improvement in our asset quality, the delinquency ratio, which had 3.74% in the last quarter of 2017, confirming the trend of improvement that we have been disclosing to you. Let me remember you that in the second quarter, the delinquency was 4.11%. The first is reduction of 20% in provision expenses. 3.1% decrease in the administrative expenses, 9% increase in fee income. Cost to income ratio improvement moving from 39.7 in 2016 to 38.1 in 2017.

With that said, we are not only reinforcing our commitment to achieve 9.4% in common equity Tier 1, all in 2019 likely required by Basel III as I also announce that we will get at least 11% in CET1 in 2022. But I can even look further to reach 12. This is our challenging work, but it depends on our credit portfolio.

I believe in the pass we are leading the relationship model we pursue with our customers are like modernity, convenience and innovation. We are investing heavily in the specialization and customer segmentation. We began the year by announcing the expansion of nearly 1,300 relationship managers in our branches, who are focused on segments such as individuals, very small and small company and also agribusiness.

In the first half of 2018, we will open 85 new Exclusivo offices and Estilo branches. We finished the year with 4.6 million high-income clients, of which 2.54 million are already in digital models. This means more business since the customers served by this model are more likely to consume products and services. We can realize that the improvement of the return is between 22% and 44% in this situation.

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We've also opened another five very small and small companies specialized offices and 46 in previous branches reaching a total of 168 units until December. We want to offer our customers an experience that goes beyond the banking relationship to which we were used to. We are investing in segmented specialization and alternative channels to bring innovation and convenience to our clients.

Yesterday for example, we made available to a group of selected clients, access to something completely new. We have built with Facebook and (inaudible) IBM, a solution that we will allow our customers to do banking transactions safely on Facebook by using artificial intelligence. The idea is to introduce the banking solutions in a space where the customer is used to navigate. In terms of macro, we expect the economy to keep on the recovery path started in 2017 and the GDP is expected to grow by 2.8% this year in Brazil.

Consumption will again be the protagonist in this economy recovery as well agriculture. We will also count on positive contribution of investments, which are expected to grow after four consecutive years of decreases. I believe that despite of some uncertainty in the external scenario, liquidity and low risk aversion will help the flow of resources to emerging economies. And looking at Brazil with inflation and balanced monetary policy, it will certainly benefit from these resources. We have big infrastructure projects that will probably attract foreign capital.

2018 for us at Banco do Brasil will be marked by investments, capital market transactions and the continued improvement in our relationship with our customers. I do believe that the name of the game will be in 2018 in Brazil is -- are sorry, capital market and companies. We do believe in this because nowadays, we are seeing a movement from the corporate finance to project finance, movement from corporate finance to capital market structure as a debt or even the equity operations.

With all that in mind, I'd like to reinforce to you my commitment to the guidelines that are driving our management and which I have been emphasizing since I became the CEO. Take care of what matters to our shareholders, clients and employees, keep working to improve profitability, efficiency improvement, capital and credit management, quality of the services provided to clients, digital transformation, and customer experience. Another thing that I'd like to reinforce to you is our shares in May 2016 when we started this project was at that time 15.49. Yesterday, we closed our revision 42.4.

Nowadays, Banco do Brasil's value is around BRL118 billion. As I told yesterday to the news, to the press, we are happy with this result, but we are not satisfied with this results. We believe -- we do believe that you can reach much better results in the future. And another thing that we'd like to reinforce to you is relating to our expenses, because our guidance was from one to four, but we tend to work hard as you did this in 2017 and try to (inaudible). I'd like to thank you for this moment with you and thank you for to the shareholders from Banco do Brasil. Thank you so much. I will pass to Daniel Maria. Thank you.

Daniel Alves Maria {BIO 17030121 <GO>}

Thank you all for attending our fourth quarter '17 results -- financial results conference call.

I'd like to start the presentation slide four. On the right hand side, we point out of the strategic foundations that our CEO just pointed out. On the left, we have the highlights for the 2017 results. 2017 adjusted net income grew 54.2% over 2016, driven by the 9% growth in fee income, the strict cost control that resulted in a reduction of 3.1% in administrative expenses. The improvement in credit quality, which results in a decrease of 25.5% in credit provision expenses. As a result, with these cost to income ratio reached 38.1%, the lowest level in Banco do Brasil's history.

The common equity tier 1 growth is 10.5%, the highest level ever reached by the bank, since implementation of Basel III rules in Brazil.

On slide 5, we bring details of the net income. The 11 billion in adjusted net income shown in 2017 represents a 54.2% growth over 2016. We also would like to highlight the 82.5% growth in the fourth quarter of 2017, when compared to the same quarter of 2016. As a consequence, the return on equity was 13.6%. Under the commonly used metrics by the market analysts, the return on equity was 12.3%.

On slide 6, we drill the net income down. On the graph at the bottom of the page, we present that the NII for 2017 reached BRL57.9 billion.

The net financial margin, which comes after the deduction of BRL25.3 billion of allowance for loan losses expenses reached BRL32.6 billion, the highest value in recent years. The fee income reached almost 26 billion, overcoming the ALL expenses, what occurred for the first time since 2016. Administrative expenses were 31.8 billion, and lastly the resulting adjusted net income of 11 billion.

On slide 7, we bring the track record of some market ratios of Banco do Brasil. We've also added to the series the average estimates by analysts for 2018 and 2019 to those metrics. Adjusted earnings per share increased from BRL2.57 in 2016 to BRL3.97 in 2017. The dividend yields in the fourth quarter of '17 was 3.64%. The price/earnings ratio reached 8.05 and the price book value ratio was 0.9 in the fourth quarter.

On slide 8, we advance the commercial funding, commercial funding grew 1.3% in the quarter reaching R\$579.6 billion. We highlight the 5.6 growth -- 5.6% growth in December '17 over December '16 of the saving deposits. I point out the stability of the adjusted net loan portfolio to commercial funding ratio, which corroborates that commercial funding has been primarily supporting the loan portfolio.

On slide 9, we have the expanded view of the loan portfolio compared to the previous quarters. In the last quarter, the loan portfolio grew slightly reaching BRL681 billion. In an annual comparison, we had a decrease of 3.8%. It is important to note a change in the mix over the quarters. Agribusiness loans in relatively participation in the total portfolio moving from 25.4% in December '16 to 26.7 in December '17.

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Loans to individuals accounted for more significant share of the total portfolio, reaching 27.5% in December '17. And on the other hand, the company's portfolio has been reducing, it went from 41.7% in December '16 to 39.3% in December '17.

On slide 10, we present an illusion of the gross loan disbursement compared to the first quarter of '16 that represents the base of 100. This chart demonstrates the loan origination behavior in Banco do Brasil. We see the disbursements growing in the last quarters. We highlight the disbursement of loans to individuals, which grew 81% in comparison through 2016. The disbursement of loans to agri business presented a growth of 11%. Loans to company presented a 31% increase in disbursements. Although the disbursements to companies grew, they were not sufficient to offset the amortization and write offs in the portfolio in the period. What led this portfolio to a lower balance in December '17.

On page 11, we evidence that individuals loan portfolio is comprised mainly of lines with the better adjusted risk return. The four credit products shown in this slide represented 76.4% of our organic individuals portfolio. We highlight the payroll portfolio, which grew 7.4% in 2017 with a market share of 21.7%. In 2017, Banco do Brasil disbursed, BRL38.9 billion in payroll loans, the highest level since 2014. The balance of the mortgage portfolio was stable in the year, with a market share for individuals of 7.9%. The salary loan, as well as the auto loan portfolios has decreased in the last 12 months.

We demonstrate on slide 12 a decrease of 9.3% in 12 months in the company's portfolio in the expanded view reaching BRL267.4 billion. And credit portfolio to a very small and small companies went down 31.5% in the year while the portfolio of medium sized companies, corporate and government reduced to 2.5 in the same period.

On slide 13, we have the credit portfolio throughout the business. The Agri portfolio grew 1.2% year-on-year. The agricultural loan rose 6.1% in 12 months offsetting the decline in the credit to the agroindustrial. Disbursements for the 12/17, 12/18 harvest plan reached 41.4 billion, an increase of 12.5% compared to 2016/2017 harvest plan. For the 2018/2019 harvest, we have already made available BRL12.5 billion to pre-working capital for input purchase, 15.7% more than the total disburse for this purpose in the previous crop.

Going to slide 14, we present the quality of the portfolio. The behavior of the delinquency ratio over 90 days has been showing a downward trend in the last quarters. The peak of the delinquency occurred in the second quarter '17, and after two consecutive reductions, we ended the period with an indicators of 3.74%, which includes the specific case in the company's portfolio. Excluding this case, our NPL 90 days would be 3.32%.

On slide 15, we have the breakdown of the delinquency by segment. The company's portfolio has shown consistent improvements and in December with NPL of 6.27%. Individuals had a reduction of 13 basis points compared to September 17, reaching 3.36% while the agribusiness was 1.67%. The observed delinquency in the agri portfolio can be explained by weather events observed in some parts of the country associated with the price events that reduces the margin for some producers. These impacted some channels such as the livestock.

On slide 16, we show the provisions and coverage ratios. The coverage raise -- the coverage increased and reached 154.9% at the end of December, '17 with a total provision of BRL36.7 billion.

At the bottom of the page, we present the provision expenses that in the fourth quarter '17 was BRL5.6 billion, the lowest level for the quarter since the second quarter 2015. This reflects the better quality of the loan origination.

On slide 17, we present Banco do Brasil's average risk compared to the industry. It's reached 5.8% at the end of the December, while the industry was at 6.6%, 91.5% of our loans are rated in the range of -- from AA to C.

On slide 18, we bring the NPL formation. The nominal value reached BRL5.6 billion and the indicator on the loan portfolio attained 0.9 reinforcing the medium-term trend of lower levels of NPL formation. Although some volatility remains, what explains the number compared to the third quarter '17.

On slide 19, we present the NPL formation by segment. We had a nominal formation of 1.5 billion in the individual portfolio that is lower than the last quarters. For agribusiness, was 0.9 billion and 3.13 billion in companies, which is lower than what we have been reporting in recent quarters. Those figures show a trend of improvement in the quality of the portfolio.

On slide 20, we list the restructured overdue credits. New renegotiated transactions in the fourth quarter reached BRL3.1 billion. I would like to highlight the amortization of this portfolio, which achieved the highest volume in the history, BRL1.5 billion. Important to highlight also is that this amount does not include accrued interest.

Furthermore, NPL over 90 days for the portfolio show the third consecutive drop as a consequence of the coverage, which in 49.2%, the highest value since second quarter '15. At the bottom of the slide, we have the NPL formation of the renegotiated loan portfolio, which reached R1.76 billion in nominal value and the ratio was up 6.81% over the portfolio.

On slide 21, the NII without recovery reached R52.7 billion, a decrease of 3.8% over 2016. As a reference, the average portfolio fell 7.5% in the 2017 showing the effects of margin optimization.

On slide 22, we have the spread analysis. NIM growth in this quarter reaching 4.83%. One of the reasons that explain the increase of NIM was due to higher relative participation of the loan portfolio in the earning assets associated to a higher level of recovery.

Additionally, the yield performance of financial expenses brought positive impacts in the quarter. The behavior of NIM is highly related to the loan portfolio growth, the reduction of NPL over 60 days and changes in the mix of the portfolio. We believe that those drivers will help to improve the NII and NIM readily during the second half of 2018 and more intensively in 2019.

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And taking the spread by portfolio, the individuals portfolio presented stability with 16.29% in relation to 16.23%, 32% in the previous quarter. These spread of the agro portfolio increased 4.79% while -- and the spread of the company's portfolio dropped to 4.96%, mainly impacted by the reduction in the exposure to very small and small segments which presents data of relative returns.

On slide 23, we show the fee income, we highlight the 11.7% growth in checking account fees. The increase can be explained by changes in the service of those accounts allowing the bank to capture cross selling balances. The asset management fees rose 26.5% in 12 months. Moreover, credit fees grew 12.5%. We also would like to point out the 33.3% growth in the 12 months of fee with consortium.

On the slide 24, we show the administrative expense and cost to income ratio. We can see the improvement of our cost to income ratio dropping from 39.7% to 38.1% reaching the best value in the bank's history as I mentioned previously. The institutional reorganization that we began at the end of 2016 and we -- and throughout 2017, has had a positive impact on the expenses. We ended 2017 with 99,161 employees, a total of 4,770 branches and 2,033 points of service.

On slide 25, we present the progression of Banco do Brasil's BIS ratio in the last quarters. At the end of 2017, BB recorded a total capitalization of 19.6% the highest level since the implementation of Basel III in Brazil. The Common Equity Tier 1 was 10.48%, also the highest level. This capitalization level shows the effectiveness of the bank's action to deliver the minimal capital ratio of 9.5% in January, 2019 as committed to the markets.

I also take the opportunity to reinforce the new targets that our CEO just mentioned. To reach at least 11% of CET1 in January '22. This target is included in the bank's capital plan and the declaration of the appetite and risk tolerance.

On slide 26, we simulate the capitalization of the bank with Basel III fully loaded. Anticipating the impacts of capital -- on capital resulted in rules that will be -- will still be implemented in the future, we reached a pro forma total BIS ratio of 19.32% against 19.64% observed in December '17. The pro

forma CET1 ratio is 10.17. This exercise demonstrates that we are comfortable that we will be above 9.5% of CET1 capital in January 2019 as commented previously.

On page 27, we bring observed values compared to the 2017 guidances. We have achieved all the guidances for 2017. The allowance for loan losses expenses and administrative expenses were better than projected. The other word within the guide -- the range.

On slide 28, we have the guidance 2018. Adjusted net income for this year is between 11.5 billion and 14 billion, NII net of recovery minus 5 to 0. The organic domestic loan portfolio expanded view with the growth in the range 1 to 4. With individuals portfolio growing from 4 to 7 as well as the agribusiness portfolio.

Company portfolio with a range between minus 3 and 0, ALL expenses net of recovery we expect to be in the range of 16 to 19. Fee income growing below inflation -- fee income growing above inflation from 4% to 7%. And finally, administrative expenses below inflation, we estimate an increase between 1% to 4% in 2018.

Now we can move to Q&A. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Tito LaBarta from Deutsche Bank.

Q - Tito LaBarta {BIO 20837559 <GO>}

Hi, good morning and thanks for the call. Thanks Mr. Caffarelli also for being on the call, good to hear you. A couple of questions if you don't mind. I guess, first on your outlook for provisions. Since I understand it's after recoveries and recoveries were about 5.2 billion in 2017 and 4.6 billion in 2016, how do you think that's going to evolve this year as that will impact the guidance a bit? So I just want to understand your outlook for recoveries. Also kind of on the back of acquisitions, your net interest margin in the quarter went up partially because of the pick up in recoveries but you also had better funding costs, with interest rates still coming down. Do you think you can maybe see continued improvements in funding costs and maybe there could be some upside on the guidance that you're giving for net interest income. Just want to get a little better understanding on that? Thank you.

A - Bernardo Rothe {BIO 18059993 <GO>}

Hi, Tito. This is Silva Rothe speaking, thank you for your question. First, about the recoveries, if you recall what we mentioned in the previous quarter when we release the results of the previous quarter recoveries went down in relation to the second quarter. And I mentioned that we have a seasonality in recoveries in Banco Brazil. Usually second quarter and fourth quarter we have higher recoveries than the first and the third quarter. But they are increasing year-over-year. We should expect the same trends next year. So we should have more recoveries in '18 than what we had in '17. But the first quarter probably is going to be lower than the fourth quarter of '17 and that is going to increase again in the second quarter, go down a little bit in third quarter and go up again in the fourth quarter.

Fourth quarter is the strongest quarter for recoveries every year in Banco do Brasil.

And just to remind you, we have nowadays much more to recover than the past even though what we have in terms of losses throughout the recession. So there is more to work with -- to increase recoveries and that trend should continue next year, this year and next years as well. So that's what you should expect. Again first quarter, lower than the fourth quarter, but the full year of '18 higher than '17.

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In terms of NII, as I mentioned that we are going to have a lower recovery in the first quarter, expect a lower recovery in the first quarter. We have a negative impact in NIMs in the first quarter coming from that. We are still working through the changing mix to avoid impacts from decreasing interest rates and so one mostly in the companies portfolio where the relationship between Selic and the interest that we charge our clients is much higher. So we're still working through the mix to improve that relation to avoid big changes in the spread by segments over time.

But the trend is that we may have another cut in Selic rates, that's a possibility that some players in the market are considering for March. But the focus report already considers that Selic rates are going to be stable throughout 2018. So we should have some kind of stabilization in terms of cost of funding, but at the same time we should have a stabilization in terms of interest rates that we are charging our clients and any change in the future is going to come through increasing competition. That should happen some point in the near future, but we are still not seeing that happening at this point in time? Okay.

Q - Tito LaBarta {BIO 20837559 <GO>}

Thanks, Bernardo. That's very clear and very helpful.

Operator

Our next question comes from Felipe Ikari from Itau BBA.

Q - Felipe Ikari

Hi, good morning. Congratulations on the results and thank you for taking my question. I have one question regarding the 11% common equity Tier 1 target for 2022. In your assumption, do you expect any sale of non-core assets to achieve this target? And could you share with us the assumption of loan growth and the new target? Or at least it is -- it's considered as a growth in line with the existing or not? Thank you.

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Okay, Felipe. Thank you for your question. Well, our capital plan and the risk assessment statement, all the documents -- the formal documents of Banco do Brasil does not include any sale of assets when we build our targets and when we plan, what we have to do to reach the targets that we have. So no sale of core or non-core assets is considered in our plans and our budgets and so on, right? So we are going to grow through retention of profits and managing the growth or RWAs, growing lines of credibility if that consumes less capital. Basically that's what we're going to keep doing, that's what we've been doing for the last three years, and that's what we're going to keep doing moving forward. The second question is on. Sorry, can you repeat the second question?

Q - Felipe Ikari

Yeah, sure. And could you share with us the assumption of loan growth and the new targets. Or at least if you were considering that Banco do Brasil is going to grow inline with the system or not?

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A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Okay. Well, for this year you have the guidance already in place, right? That's -- it's all our guidance are a little bit below what should have been the credit growth for the whole system. Why we have these lower growth in the system, because we're going to grow in the lines of credit that we released are the right one to grow, and we still have a big portion of our portfolio of transactions with long duration and lower profitability than our goals. And we don't want to grow that part of the portfolio, so we are going to grow where we are going to make more money, and we are not going to grow where profitability is lower than our targets. That's why we have a guidance that indicates a growth below what potentially the system is going to deliver this year. For the following years, we don't have a guidance yet, but we should be close to the system. We don't see Banco do Brasil growing faster than the system in the next years. We see this process are changing the mix of our portfolio, continuing in the next years -- the years ahead of us, okay? So but can be close to the system, but potentially in some parts of the portfolio growing faster than the system. For our business would be example, we should grow in line with the system, because we have already a big market share, so there is no need to increase market share. So we should grow in line with the system and I think that they are no so interested for us right now, we can grow below the system. So that's overall what we are expect for the following years, okay?

Q - Felipe Ikari

Okay, that's very clear. Thank you.

Operator

(Operator Instructions) Our next question comes from Jorge Freedman from Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you for the opportunity. I'd like to ask a couple of questions. The first one with regards to your guidance for 2018, I confess that I had a bit higher hopes in terms of the fee income growth. It is a bit more shy than compared to the other private peers that already published their guidances. So just wondering where you see these evolving especially taking into consideration that as you showed in slide number 23, you have had a significant momentum in the checking account fees and in the asset management fees. So where do you think is the weakest parts of the lines that compose overall fees that make you a bit more conservative than peers that already published the guidance for fees. And my second question is related to Previ, Previ was running at a best (inaudible) and it's turned for a surplus this quarter I know more than 8.7 billion surplus. So just wondering if on top of that, what do you see for contributions. At some point do you think contributions could stop and how much could you save? And whether you see a gradually Previ reducing the exposure that they have in terms of equities in Brazil, which is still substantial part of the total assets? Thank you very much.

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Okay, thank you for the question. In terms of fee income, we grew the fee income business by a lot last year, right? So -- and but as I don't think it's going to grow at the

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same pace. We can say that we should see more pressure coming from asset management fees given that the interest rates went down. So that is a natural trend in the industry to shift from high asset management fees that type of funds to lower ones. So we are not expecting to grow that much in asset management fees that's in this year. Then our other lines in the fee income business that should have a -- not so good as what we had last year. So that's why we came to this guidance that has more than inflation, so it's good, but not as good as what we had last year. So -- and the difference is not that big, right? The top of the guidance is 7%, we delivered 9%. So we are not that far. But we still have things to do and we are going to keep working through these process of bringing serving better clients and with that have been using our products and service and generating more fee and business for Banco do Brasil.

In terms of Previ, as you said, Previ now has a surplus in our balance sheet and it's going to generate an income on a quarterly basis in these two first quarters should be a 116,000. So, that's going to impact positively the balance sheet in this first half of 2018. For the second half, we have to wait until the first half to see what's the surplus or debt in the end to have a new indication what's the potential positive or negative impact.

About the how, we see contributions to Previ, we're going to keep contribute -- using the the funds that we have in Previ that you can see, all the details in chapter 8 of the MD&A. So we're still using that. So there is no impact on the cash impact for Banco do Brasil, although it's G&A expense. And if you look at the table 1.39, the contributions that we are doing to plan one are lower than what we make just by interest plus inflation over that particular balance that we have to receive from Previ.

Exposure to equity, very -- it is on the news. Previ has been verbal about what we were going to do. The plan is a mature plan, there is no --

most of the people that -- in that plan are already retired. So they have a plan to shift from equity to fix income, to shift from concentrations and some of their exposures to -- diversified exposure even in equity, so that's what they have there already. But the long-term plan, it's not a short-term plan. So over time, you should see that exposure to us is decreasing. And again, you know it's a mature to plan and that's the right thing to do to be able to keep paying the pension they have to pay over time.

Q - Jorg Friedemann {BIO 15405752 <GO>}

That's perfect. Thank you very much.

Operator

Our next question comes from Carlos Gomez from HSBC.

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

Hello, and thank you for taking another question. I would to like to get an explanation about the tax rate and the previous year it was as low as 19%, you say it's around 31% we understand and your guidance is between, I think it's 30% and 32% for the coming years.

How should we model this especially after the tax rate comes down hopefully at the end of this year? Thank you.

A - Paulo Rogerio Caffarelli {BIO 7429811 <GO>}

Gomez, thank you for the question. The tax rate for '18 should be a little bit higher than '17, we have changes in our balance sheet that indicates that should happen. But we are keeping our soft guidance for '18 at the same range that we had for last year. And the soft guidance --

what's that soft guidance is? You take the earnings before tax is the debt from the (inaudible) income and then you apply 30% to 35%. That's what you should have by the end of the year. That's what we have these year closer to the 30% level then the 35, we should be a little bit higher than that from -- in '18, but we are keeping this soft guidance that we had before. In relation to the future, how the tax rates are going to behave next year it's something very hard to tell you. We have to wait until September to know we are going to have -- the reduction in 2018 or if is grown work is going to keep the social contribution at the the level it is right now. So you know its very hard to review indication what's going to happen. We have basically two scenarios with the automatically the tax rate and the social contribution rates is going to reduce in beginning of 2019, but if congress decides to keep it, they have to make a decision approving congress and they can keep or they can do whatever they want in fact. But for the -- social contribution rate to be kept at 20%, we need to have a decision congress to do that. That's what I can tell you about 2019, we are working with both scenarios, I can tell you that any reduction in taxes is always good. So it would be great for the -- for Banco do Brasil as a whole if the tax rate goes down. But we have prepared to leave with these high levels of tax rate that we have already, okay?

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

Thank you very much.

Operator

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

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

I thank you all for the presence in the conference call and for further questions we will -- we are available for discuss. Thank you very much, have a nice day.

Operator

This concludes 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 Relations website. Thank you very much for your participation and have a nice day. You may now disconnect.

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