

Q1 2021 Earnings Call

Company Participants

- Carlos Renato Bonetti, Chief Risk Management and Internal Controls Officer
- Daniel Maria, Head, Investor Relations
- Fausto de Andrade Ribeiro, Chief Executive Officer
- Jose Ricardo Fagonde Forni, Chief Financial And Investor Relations Officer CFO

Other Participants

- Analyst
- Carlos Gomez-Lopez
- Domingos Falavina
- Jorg Friedemann
- Mario Pierry

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Banco do Brasil first quarter 2021 earnings conference call. This event is being conducted in Portuguese with simultaneous translation into English and is being recorded and broadcast live via webcast to Banco do Brasil's website at www.bb.com.br/ir, where the presentation is also available. All participants will be in listen-only mode, and right after the presentation, we would initiate the Q&A session when further instructions will be provided. (Operator Instructions)

With us today are Mr.Fausto Ribeiro, CEO; Mr.Ricardo Forni, CFO, Financial VP and IRO; and Mr.Carlos Santos, -- Head of Investor Relations of Banco do Brasil; and Daniel Maria, Head of Investor Relations.

Mr.Fausto Ribeiro, you may proceed.

Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Ladies and gentlemen, good morning. Good morning to those who are in South hemisphere, those in Europe, good afternoon. I am Fausto Ribeiro, I am the CEO for Banco do Brasil and it's a great pleasure for me to be with you this morning. In fact, this is our first meeting and I hope this is the first of many, and right from the start, I would like to acknowledge the work that we do and it's very important that we take precise information to all of our stakeholders. I would also like to take this opportunity to thank our employees

for the brilliant work they did this first quarter, which allowed us to reach record numbers, historical numbers, considering all of the past history of the bank.

Well, I have a set of slides before I give the floor to Ricardo Forni, our CFO. These are interest slides evenly because they can give you some information about the main pillars of this management. So let me start very briefly speaking about our earnings highlights.

In Slide 1 -- sorry, Slide 2, here, we have adjusted net income of BRL4.9 billion, which accounts for a growth of 44.7% when you compare the first quarter of 2020. This result was mainly boosted by lower ALL and growth in the financial margins.

I said that in our previous meeting, the year has started with a rebound of the economy, however, the landscape for the next coming quarters still bring some uncertainties and that's why we are optimistic, but at the same time, bit more cautious. In terms of the guidance -- the existing guidance, we are keeping the current guidance. We also see the possibility of by the end of the year to be on the higher side.

Our loan portfolio was BRL758.3 billion and this is growth of 4.5% when we compared to the same period of 2020 in March. Our ALL expanded view is BRL2.5 billion, which is a reduction of 54.2% when we compare to the first quarter of 2020. In terms of the dynamics of revenues expenses, NII grew 4% and our admin expenses were down by 0.4%.

So now, I would like to show you some more slides where I'll talk about the main pillars of this management.

Now, moving to the Slide 3. For those of you who are following us, we'll start with the pillars of our corporate strategy. So, what is my takeaway message? There is a very sound governance process that is very well-consolidated at Banco do Brasil. This is a process that has been forged through many years and the main pillar lies in the design and the approval of a corporate strategy for Banco do Brasil. We conduct annual reviews, but it covers a period that goes from 2021 to 2025 and that takes into account all of the outlook, clients, the financial side processes, and people.

So, what is the message I would like to convey to you today? Well, the bank has a corporate strategy that has been designed based on its corporate scope and it's important to say that our role as Executives, those of us who came on board more recently, our task is to execute this strategy. Any changes in our corporate strategy has to go through all of these strategic and governance committees of the bank. In fact, we are just continuing to pursue or to follow this existing profit that will allow us to read some very interesting results in the near future.

Well, upon my arrival, I talked to the employees of Banco do Brasil, not only I had introduced myself, I introduced my family, I talked a little bit about my background, and I also listed 10 structuring initiatives and all of these initiatives are based on the pre-existing corporate strategy and I believe that these initiatives can help those expedite some changes within the bank, which will allow us to reach a series of strategic objectives that

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have been set forth. I am not going to mention each one of them, because you have them listed on the slide. But in the next few slides, I will show you, in three different groups, how we are -- what would be the main message that we wanted to convey to you today.

So the first group or the first one is profitability. Here the main message I want you to get is that, I renewed our commitment with our search for efficiency and also the fact that we wanted to present sustainable results. We already have a expense reduction plan in progress that anticipates a recurring savings of BRL3 billion a year, which, by 2025, could reach BRL10 billion of accumulated savings. So this is a commitment that has been renewed and we will pursue it.

In terms of looking for a profitability similar to our peers and at times even higher than our peers, we have to strengthen our most profitable business lives, expanding and monetizing the customer base. The expansion of the customer base is crucial. There is no other way. We have to make progress in this regard. We will also reinforce our protagonist in some lines and segments where today we are and we have been market leaders and I'm referring to agribusiness. We have to make advances in agribusiness. We have to also include some digital initiatives to agribusiness, SMEs, individuals, and foreign trade. These are some segments where we think we have to expand.

We also need, and we think it's an important, to constantly analyze the possibilities of building strategic alliances and partnerships, because this can help us maximize our results. We have to keep an eye on that all the time and see ways of engaging in other partnerships and this will help us to leverage better results. And finally, we have to focus on our core business to maximize capital efficiency. Maybe behind that, we have to continuity of our divestment policy, so obviously, focusing in the non-core businesses or things that do not have great synergies with our business.

Now, moving to next slide, Slide 5. Another group of actions which are equally important when compared to the previous one is that, I mean, if I want to leave a legacy to this company, what I would really like to do is to expedite digital transformation, so that we can in fact be really digital. This is a message that I've been constantly talking about in the company, because it is important that we expedite this transformation. This is something that the market is calling for and it's important that we are totally digital. We have been trailing this path for quite some time, but if we can accelerate the necessary transformation, this can certainly help us.

And as part of this process of expediting the digital transformation, we listed a series of actions that will encourage our clients to look for alternatives to access the bank in a more convenient way, so we are trying to promote a digital inclusion. This is one of our commitments. Also, we have to reengage our own staff and our own employees, that's also very important. We have to promote a change in the internal culture, bringing about the necessary skills that will allow us to evolve quicker through this new culture. It's important at the Brasil Bank that we have to train and qualify our people, so that they can acquire the skills that maybe they do not have yet, because certainly, this can help us expedite the process.

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Well, data intelligence, it's important that we anticipate the needs of our clients trying to focus on information and data, so data can be transformed into good information. We have an information repository which is very vast and we have to connect that with the internet and other consumer means. We have to be able to use this data and turn them into a valuable information to generate more business.

In terms of business connection, open banking brings an amazing window of opportunity. That also reflects an innovation, because with innovation, we can look for other alternative sources of income to our business. In addition to that, we will be able to analyze some strategic partnerships with startups to expand our presence in other platforms where we are not yet present, while certainly, the way to reach this goal was to develop all of our APIs. Besides -- with that, we'll be able to make good connections.

Now, platform expansion. We want to automate processes. There is always room for further improvements and better efficiencies and this is one of the path that we will pursue. We also want to modernized our IT structure to be more competitive and ready to do what is important. So these are my main messages and the main points that I want you to focus. We do expedite our digital transformation to be indeed totally digital.

Now, moving to Slide number 6. As important as the other previous slides, I call this part, proximity. We have to be very close to our stakeholders and I am saying that it's important that we'll be close to our clients, so that they can make their own decisions in terms of what channel they want to use to communicate with us. One bank for each client. If they want, they will have the bank in the palm of their hands, they will have all of the necessary channels to establish a connection to talk to their account manager. In fact, it's important that we promote an integrated management of the distribution network, a more omni-channel based view to be able to offer a very integrated use to our client. Also, it's important to appropriate -- to have the appropriate returns to our shareholders. We have to look for growing efficiencies and to be compatible with our peers.

We want to compete on equal footing with all of our peers, and often times, we want to be ahead of the curve. We also want to maintain an adequate level of corporate governance, and as I mentioned before, this is something that has been part of the bank's strategy for quite sometime and we are a reference market even in Brasilia with so many public agencies, other organizations that do their benchmark with us. Therefore, I would like to say that, we want to continue to keep a very high level of corporate governance and we value people very well.

And here I'm talking about telling the traction and retention. I said previously that we have to have all the necessary skills to be able to anticipate trends. We will invest a lot in training, we will also make some investment to train and qualify our leading young -- and we also want to keep our commitment to sustainability. These actions are important for us to fulfill our social role, and at the same time, to be accountable to society in general.

An example of that is that, May is the month that we call the Sustainability Month and we pick the theme with renewable energy. During this month, we are offering bring our clients some unique credit lines with better rates or the acquisition of solar panels, et

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cetera, allowing them to invest in clean energy. With that, we will be paying our contribution to society and the planet.

My last slide, and then I'll give the floor to Ricardo, this is the bank we want. This is our view for the future. So if I could tell you what is the legacy I want to lead, what bank I want to have in the future, I want to have -- I want to be the client's main bank, ensuring the best experience possible that he can choose or she can choose the best way to communicate with the bank, we want to provide a unique experience, high quality, high availability, and that the client can promote the bank to other clients.

In terms of our presence, whether the physical presence or digital, we want to be anytime, anywhere. This is very important to us. Also, we want to be a solutions hub. We have a platform that provides products, services, and benefit. So somehow we want to help our clients to have access to all of our products and services, so as to maximize return. And in general also, sustainability is very important. We have to conciliate economic results, environment preservation, and development of society.

Today, we are considered to be the bank with the most sustainable portfolio in Brazil. We received several awards. Our portfolio has more than BRL200 million in sustainable credits, and more recently, we received an award and this is first head news, we just received an award on global finance as one of the most sustainable companies, one of the most companies in terms of processes, and this is something that we will announce to everyone in the market.

So with that, I will turn the floor over to our CFO, Ricardo Forni, who will talk about the financial results. And after the end, I will be available to answer all of your questions. Thank you very much.

Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}

Thank you, Fausto, and first of all, good morning, everyone. My name Ricardo Forni. I am VP for Financial Relations and Investor Relations. I would like to thank you very much for joining us today and the opportunity to present to you this very robust result. This is an all-time record for the bank.

So I'll start with Slide 9, where we talk about our adjusted net income that posted growth of 44.7% over the first quarter of '20 and 33% over Q4 of '20, reaching BRL4.9 billion in the quarter. This net income was mostly impacted by lower ALL in the period, the growth of our loan portfolio, and a very robust control of expenses. So our ROE went from 12.4% in the first quarter of last year to 15.1%, which is 158 basis points increase for ROE.

Moving to a Slide 10, I will talk about NII. NII was up 4% vis-a-vis the first quarter 2020, and 2.8% in a quarter. This annual growth is mainly explained by the reduction in financial expenses, 26.7% reduction in commercial funding and minus 17.6% and institutional funding. When compared to the fourth quarter of 2020, the margin growth was influenced by higher loan financial expenses, benefited by a more profitable mix of assets and lower funding costs. Banco do Brasil continues to pursue higher revenues from loan

operations for NII by increasing the loan portfolio and looking for a more profitable asset mix. NIM remain stable, ending the period at 3.7% due to higher volume of net assets.

Moving to Slide 11. Our loan portfolio -- our expanded loan portfolio grew 4.5% year-on-year and 2.2% when compared to December 2020, totaling BRL758.3 billion with emphasis on the performance of the retail lines and agribusiness. The individuals portfolio was up 7.1% year-on-year and 2% when compared to December of last year, with emphasis on payroll loans.

Another line that presented significant growth was personal loans, resulting from the strategy to change the mix to more profitable lines. The agribusiness portfolio grew 6.4% year-on-year and 3.6% in the quarter, reaching BRL198.5 billion and getting closer to the all-time record for agribusiness.

SME segment was up 26.1% year-on-year, influenced by disbursements in the total MP[ph], working capital for the preservation of companies, and BSE lines. This occurred especially in the previous quarters and the evolution from December to March is lower of 1.4%, but in government, it was down by 1.2% year-on-year.

Moving to the next the next slide on ESG. Here, we talk about our sustainable business portfolio that boasted BRL261.3 billion in the quarter, considering the 10% sustainability commitments that we announced in February and aiming in helping our clients to transition to more sustainable practices, we launched the BB renewable energy loan for individuals, a 100% digital. Also, through BB DTVM, we offered two ESG funds with total net worth of BRL4.1 billion. Furthermore, as starting this year, we are mitigating all of our GHG emissions to ensure that all energy consumed in our facilities comes from a clean and renewable source with the acquisition of I-RESCs. Also, we have received several awards as you can see in the slide.

On the slide, this is the agribusiness portfolio. As we said before, growing 6.4% in a comparison of year-on-year. In March '21, we reached a disbursement of BRL76.1 billion. In the 2021 harvest plan, with an increase of 14.7% vis-a-vis the previous year.

I would like to draw your attention to our broto platform. This is an end-to-end marketplace that brings maximum economic efficient to producers with increase in the number of accesses and we've loosen the segment intensify sales and financial rules to realize over BRL347 million since its inception on this platform. We had 549 products, machinery implemented financial products, materializing our vision about the future of the bank as a hub for banking and non-banking solutions for our clients with convenience, practicality, and safety, and security.

On Slide 14, we can see the forbearance portfolio flow. We can see that the flow of exit has already started and before bearing fruit with a good evolution. In December '20, 50% of operations were in grays. In March '21, the percentage is 23%, amounting to BRL26.3 billion, of which, BRL14 billion are government operations that have most of them as treasury guarantee, and therefore, revenue mix in that 90 -- in December portfolio is under control, closing market 0.86%, closely over origination of this portfolio.

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Here we have -- to you show that net of the government portfolio, the portfolio would amount to BRL90 billion, net of the government part of the portfolio, and as it has a guarantee of the union, the risk profile is very low and we have this exercise here that you can see on Slide 15 and the total of BRL90 billion of 0.1% is still in grade in the third and the BRL7.1 billion literally at the second quarter of '21. With the reduction of the total balance in active operations in the forbearance portfolio, we would have 1.09% for the calculation of delinquency. And it's very important to show you this breakdown, removing the parts of the government, which is very low-risk.

So expanded ALL, on Slide 16, show you the expenses with provisions, closing the period with the BRL2.4 billion, a 54.2% reduction year-on-year and 50.8% quarter-on-quarter reduction. Behavioral expense -- by the reduction of the credit risks ALL, because the last - during the last year, the bank made early provisions eventually in order to buffer the future impacts of the pandemic on portfolio and also we have here the credit recovery performance the highest in the series in the first quarter and the cost of credit flows at 3%.

Delinquency. As you can see, delinquency is rigorously under control. We have the indicators of the quality of the portfolio over 90 days past year, with a slight increase quarter-on-quarter, reaching 2.8 in March '21 and between 15 and 90 days -- from 1.5% in December to 1.9% in March. The coverage ratio closed the quarter at a very high level, 328.2%. Information about the new NPL formation 0.66% and coverage of the new NPL reached 73.6%.

Fee income and administrative expenses are those large. Fee income amounted to BRL6.9 billion in the quarter, a 2.7% reduction year-on-year, impacted mainly by the reduction in the checking account line. It is important to remember that Banco do Brasil has been seeking to diversify its revenues intensifying the use of analytics to have a better knowledge of the client and their preferences and serving them in a more convenient fashion. Administrative expenses are the rigorous control with a reduction of 0.4% year-on-year, amounted to BRL7.7 billion. Cost control already reflects the efficiency measures announced, such as the layoff of employees by means of the voluntary severance plan and the savings generated by the compensation plan and the pro forma program among other aspects. Cost to income ratio accumulated in 12 months close at 36.9%.

In relation to integration of service we have on Slide 19, the profile of our service network which was adjusted in the period, aligned to the strategy of optimizing our channel platform, safety, labor efficiency -- more efficiency in labor structure, we see a reduction in the number of traditional branches, a slight increase in digital specialized branches, the equation of 16 leave offices, and showing important adjustments in the constructor of the bank, migrating towards more efficient structure and without reducing the coverage of services to the community and we've also increased the specialization with the opening of leave offices and specialized agro branches that allowed us to increase 1.4 million clients, totaling 7 million with specialized service. 800 investment professionals are dedicated to investors, and it is important to see that, client with specialized services tend to show higher satisfaction levels and the higher return to the institution. I would like to talk about the number of employees, because we already see the impact of the reduction of 91,673, and in March, 87,876, most of those have that -- enrolled with the plans have already left

the company, but there are still quite a number to go when they will be leaving the company.

And digital in practice. We have relevant figures about the acceleration of digital transformation of the Banco do Brasil. We understand that the migration trend toward digital is here to stay and we have been offering end-to-end solutions and innovative solutions to almost 21 million active clients in our digital channels, and I would like to mention the coupons available in our app, where the client has vouchers for discounts and promotions for reaching 14 million accesses in the first quarter of '21, when we sold over 315,000 gift cards. We also have programs for the utilization of fund with the relationship of the bank that can be used for product and services of the bank and also possibility to pay account in a cashback program for clients according to what they choose.

In the first quarter of '21, 360,000 clients paid accounts or bills with the use of this functionality in a total of BRL18 million orders by means of the app of Banco do Brasil or internet banking. Deals with clients by means of the app have been increasing significantly and digital platforms, internet and mobile, accounted for 45% of disbursements in personal loan, 12% in payroll deducted loans, 42% in auto loans, and 20% in mortgage, and over 90% of digital access through digital platform in March, and Banco do Brasil app is the one with the best evaluation among all the banks in the Apple Store and the Google Store as well. All these figures show that we are on the right track for a vision of the future, positioning the bank closer and closer to clients with innovative solutions, bringing convenience with security. In relation to capital, we see a robust evolution of capital. As you can see, 19.56%, common equity indicator 12.89% and this places us as one of the banks of the highest capitalization in the Brazilian market, with very big capacity to grow.

In relation to projects as we bring you our guidance here, we are maintaining our guidance. Adjusted net income, 16 to 19 billion, the result of the first quarter was BRL4.9 billion. Net interest income 2.5% to 6.5%, we've reached 4%. Loan portfolio from 8% to 12%, we were slightly below in the first quarter with 5.8%. Retail businesses from 9% to 13%, we've reached 11.6%. Wholesale, a reduction of 7.3%, and afterwards, we can go into that in detail. Agro, 7% to 11%, 11.2%. Fee income, minus 1.5 to 1.5 positive, we had a reduction of 2.7%. Administrative expenses, minus 1.5 to plus 1.5, a reduction of 0.4% with rigorous control. Expanded ALL, we had a provision of BRL2.5 billion. Overall, in terms of our net income, we see a skew of being at the higher area of the guidance. But, we can go into details during the Q&A.

With that, I conclude my presentation and now we can go to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. Now we are going to start our Q&A session. (Operator Instructions)
Our first question comes from Mario Pierry from Bank of America. You may proceed.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning everybody. It's a great pleasure to be with you for the first time and congratulations for the results obtained in the quarter. Fausto, I loved to hear you talk about the commitment on the part of the Bank in terms of keeping the strategy that was announced in mid-February mainly in terms of improvement in your efficiency at cost -- added cost to income ratio and the market loved pattern. You mentioned that you expected to bring the profitability of the Bank to the level of the peers. When you talk about profitability, are you referring to the ROE because your peers have from 18% to 20% ROE. So is this your goal and how long will it take for you to get there?

And the second question, when you talked about the focus on core business and investment -- and the investment policy, I would like to -- for you to expand on that, asset management and acquiring are in your core business and what is your strategy for these two segments. Thank you very much.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Thank you, Mario. It's a great pleasure to talk to you. Okay, I will start with the last one about the core business and then we will come to the ROE. As far as I understand, you are asking about our DTVM, our brokerage house. And this is a core business as it is for any other company or any other bank. And we know that this area is going through many changes and we have already made some notices to the market and mainly because of some news published in newspapers and we have been studying this, what are the alternatives so that we may drive the business and maximize return to our shareholders.

And one of the initiatives is to find strategic partners that might work with us and that might help us maximize our returns. Nevertheless, what I can tell you is the following. We still have no definition or mature definition about that and that we could announce to you right now, but we continue to study this and evaluating this, evaluating the best way to drive our business and to expand our operations in the assets area.

With relation to (inaudible), you talked about acquiring[ph] and (inaudible) is also considered as a core business for us in terms of acquiring. Referring to this asset, we have a strong partner and we are doing by means of corporate governance with (inaudible) so that company may transform digitally so that we may change our business model in order to bring more results, more positive results for both companies. So, it is also core, (inaudible) is core as far as we are concerned.

With the regarding the return expectations and mission that I received from the ministry of the economy and the President was to lead this bank seeking profitability at levels compared to our peers with the loss of efficiency and that we could give a top service quality -- top quality service to our population. And a timeline for that, I cannot tell you anything about that. The ideal thing would be to get there as fast as possible. And of course, we still have some homework to do. And as I said before during my presentation,

we have many actions that have to be put in place in terms of our PPOP and the more we can accelerate the process and speed up the process so that we may reach the level of our peers, that would be great. This could help us a lot. So I hope I have been able to answer your questions.

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you very much. And a very good luck to you in your new position.

Operator

Our next question is from Mr.Jorg Friedemann from Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you very much for taking my question. Can you hear me well?

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Yes, very well.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you. I've to thank you for your message and I really endorse the words of my colleagues. On the analysis side, we see how Banco do Brasil is negotiating in view of all of these very strong operating results without a lot of interference. So if possible, I would like you to reconcile some parts of your speech with what we see through the headlines and you said, the main message is to give continuity to what was there before and we see that with very good eyes. But at the same time, there have been several changes since you took over, I mean four VPs were changed and maybe there are more changes to come.

In regards to governance, when the Chairman of the Board, the previous Chairman of the Board, he criticized the governance of the Bank. Now, there has been an important change in the composition of the Board with Ieda there. So if you could convey a message to the market or maybe reinforcing the message of how you see all of these changes, whether the strategic year will change because with so many changes at the Board level and also on the Executive level, I would like you just to put in context your legacy or what else could happen in terms of changes in the Bank. I mean, some things are changing even though the backbone remains the same. So let's go with that and then I'll come with my second question. Thank you.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Jorg, if I understand your name correctly; okay, there were many comments. Let me try to answer each one of them. First of all, changes in the VP positions. Well, my point of view is that as part of a natural succession process in a company, it is very common and very usual to have some changes. So I think that all of the changes that we are promoting are absolutely normal. We are certainly looking for people in-house from career professionals inside Banco do Brasil with a lot of experience. All of the names have more than 25 years

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of experience in the Bank, and they have -- they are highly competent and if I should give you a message, if I could probably give you some light of what is happening here is that we are looking for very committed professionals and with enormous capability to be in the positions where they are.

And I think that it's very normal for somebody new to make changes. Now in terms of what you said about the fact that some Board members complained when they left, what I've been saying is that my approval process as the CEO of the Bank goes through two spheres, one inside Banco do Brasil and one outside the Bank. In terms of the outside sphere, I'm referring to appointments from the ministry of economics, which is ratified by the President of the country through a decree. So they, first of all, we have to send the names to our internal committee that has to evaluate series of prerequisites and they have to look at things related to legislation first, the Law 303 and all of the other issues that are part of our internal bylaws. And that is then ratified by other instances. So the process follow its normal path. And that's how I was appointed. The same thing happened to all of the previous CEOs of the Bank. All of them have to go through this process.

In terms of particular opinion of one or another Board member, I would rather not comment because it's from opinion they were talking about a process that exists in the Bank for very long time. So anything that can help the banking prove its business is something that should be analyzed.

In terms of Ieda, I think you mentioned her name. She's an excellent professional. We are constantly looking for diverse opinions in the Board member. She comes from the Ministry of Treasury. She has extensive experience. She's been through different Boards. She has an interesting experience. Therefore, I believe that she will pay a very good contribution to Banco do Brasil when it comes to analyzing further deals. So I think I answered most part of your questions. Did I leave anything out, Jorg?

Q - Jorg Friedemann {BIO 15405752 <GO>}

No, once again I think that we support the Bank and I think it's important that you have a very firm message when you conciliate all the changes with this line of continuity. You explained it quite well. Thank you very much for your presentation and I wish you the best.

Now I have another question but it's more operational. I think you're doing an excellent job in terms of controlling expenses, which is the core part. And you said that yourself and you said that the middle of the guidance is low. But I also realize that non-core expenses, that part of non-core expenses, is slightly above what we expected for the second consecutive quarter. You had more than 1.5 billion of expenses with legal fees and also in this quarter, we noticed BRL1 billion related to payroll. So, we want to understand how that works and I also want to get your view on the legal risks and whether the guidance is still maintained.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

All right. I will turn the floor to the our VP of Risk Management. He will help me with that answer.

A - Carlos Renato Bonetti {BIO 20356938 <GO>}

Okay. I'll start by talking about the legal risk and then I'll turn the floor to Forni to add more things to that answer. In terms of legal risk, the Bank has some strategies that aims at improving those trajectory of these legal expenses and some factors impacted the volumes, you saw for the first quarter. The first one has to do with the pandemic. Last year we saw mainly in the second and third quarter some of the actions were stagnated because the courts were shut down and that's why all of the lawsuits were postponed to the fourth quarter of the year and this had an impact on the first quarter of '21.

And because of that, either the volume of payments or provisions had to be expedited a bit. Another important aspect is a strategy that we have adopted related to agreement. This is a changing paradigm for us because the Bank used to approach a strategy of appealing to the left or the left court, and now we are adopting a mixed strategy whereby we are favoring agreement right on the initial stages. This has a positive effect in the long run because it reduces long-term expenses and things are more predictable. But there is another effect which is the acceleration of expenses in the short-run, meaning that the amount of payment is larger in a shorter period of time. This is what happened in this first quarter and this is a strategy that is now in place for the year. It does not apply only to the first quarter. So these two effects can explain the amounts posted in the first quarter.

And this should also be noticed in different levels throughout the year. We are trying to project that expenses, and you said BRL4 billion, we are looking at a number closer to BRL6.5 billion rather than BRL4 billion when it comes to accelerating agreements and unleashing processes or lawsuits in the court.

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

I would just like to add -- Jorg, this is Ricardo Forni, the CFO. I would like to add something in relation to expenses or other operating expenses. Here we had an impairment related to the business funds. We try to identify in non-financial assets that shows signs of depreciation because of their value in use. They could probably indicate some reductions in the recoverable value of the asset. With the recent economic impact, there is an indication that there should be an impact about some payroll agreements considering the good accounting practices. That's why we did the impairment and we did the accounting write off.

Now we recognize BRL459 million of losses because of that. And we believe, and just to clarify, when it comes to the evaluation about the recurrency or non recurrency of this evaluation, what we think is that in terms of the impairment, this recurring evaluation, this was a business event. And we are -- or we posted that. And with that our future projection in regards to these (inaudible) really reflect what remains in our accounting books.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Perfect. I just wanted to understand whether we could still see something more along the road, there is something more to come.

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

We do not expect anything else down the road. We are running that evaluation. This is a current evaluation. We would do that in the next (Technical Difficulty) no future expectation about that.

Operator

Our next question is from (multiple speakers).

Q - Analyst

Good morning and thank you for the question. You have already talked about the NPL90. We had a higher volume than private banks. Do you have any other data that you could share with us?

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

(inaudible) the provisions were lower in the NPL formation --

Operator

The interpreter apologizes, but the sound is very, very bad.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Okay, Bonetti is going to answer, but I would like to make a short remark about, over 75% of the operations extended are paying back normally. This is excellent as a sign regarding the forbearance portfolio and 90 days past due is at the control and the level is better than we expected, around 1%. And Bonetti, please?

A - Carlos Renato Bonetti {BIO 20356938 <GO>}

(inaudible) are talking about the forbearance portfolio, you remember that we closed the fourth quarter with BRL130 billion that I would like to remind you that this portfolio has some different characteristics vis-a-vis our peers. We have a irrelevant participation with the government in this portfolio. 20% of this is credit with the government and with a government guarantee, we have a major part, 25% of that is payroll deducted loan. And normally, government (inaudible). And because of that, the quality is very good. About 93% of the customers didn't have any history of delays in the 12 previous months, the months preceding the pandemic. So, it's a very good performance and the time of relationship is quite long, 17 years on average with these customers and we have a percentage of guarantee that is very big, 65% on average.

And in the period of the fourth quarter, we said that it would get into amortization as of the first quarter, that is to say the portfolio, we had the reduction of 12.5% in the balance of this from BRL130 billion to BRL113.8 billion, so it shows part of what we were already

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seeing in terms of quality and expectation of repayment, that is to say people paying us back again and this is being done with a very low delinquency ratio.

If you take the short-term delinquency, we are talking about 2.5% and if you talk about 90 days past due, it is lower than 1%. We have a percentage that is BRL126 million we will be returning in the second half -- but second quarter (Technical Difficulty) 26, half of that is credit with government accounts. So the portfolio has a quality, looking ahead, very good and which leads us to believe that if everything remains the same in terms of the pace of the economy, the performance will be quite good in this portfolio and that has a coverage of provisions, that is quite high as well.

Talking about the level of provisions, what you saw in terms of flow and provision is reflecting the behavior of our portfolio, very low delinquency 1.95 and it is a fact that we expect an increase of delinquency up to the end of the year or by the end of the year. This is something that we are projecting. Nevertheless, our projection is a base scenario -- basically scenario, it is better than we estimated at the end of last year. And because of that, we believe that provision or they need for new provisions should follow a normal behavior and in line with a volume of disbursement that we will be making by the end of the year. We believe that disbursements will accelerate. So this year and provisions will reflect the acceleration of these outlays.

But talking about the inventory of our portfolios, this is very much under control and the additional provisions that we built last year support the growth estimate for delinquency for this year.

A - Daniel Maria {BIO 17030121 <GO>}

This is Daniel Maria. I would like to remind you the dynamics of the balance sheet as we have been talking to you. 2020 basically, as Bonetti said, the (inaudible) creating this buffer because there are 48% coverage and for 2021, consuming part of this coverage and reducing provisions and gradually increasing delinquency. The fact that you have the coverage of the NFL at percentages lower than 100% is the dynamics of this movement. And it is in line, as Bonetti said, with what we expected in this regard.

Q - Analyst

Very clear. Thank you.

Operator

(inaudible) from Itau BBA.

Q - Analyst

Good morning, everybody. Thank you very much for the presentation. Thank you for the question. You made two opening remarks about the guidance. It seems that we are going toward the upper part of the guidance and I would like to talk about the performance, very low AOL[ph], it seems to be the biggest contribution, however, in the other items, NII, it started well, 4%. But when you look (Technical Difficulty) part of funding and credit

from clients, it doesn't go -- it didn't go so much and fee income, it seems to be at the upper part and it's not really seasonality, I believe.

And lastly about the legal risks, do you contemplate this when you talk about going to the upper part of the range. Once again, congratulations for the presentation.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Okay, Forni will start to talk about the components of the guidance and then I will come back.

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

Thank you, Pedro for your question. In relation to the guidance and the adjusted net income, this is the aggregator of all the other effects that are going on in the different variables. We started very well in the first quarter and if we continue with these lines, as we expect, the economic scenario -- well, we are bullish about the economic scenario, however, there are uncertainties evolve. So, when we talk about the income, we believe that we are going to the upper part of the guidance and looking ahead I believe that later on we might review the guidance when we are more sure about some important variables.

Regarding the MSE, we are in the middle of the guidance. We had an important evolution, I would say a change in the mix of the portfolio that has been happening and has been reflecting already. We were already capturing that over time and the strategy for the year is very much centered on seeking and being more competitive in line with attractive returns, changing our mix over time. And we have been doing this and we have been very successful in their strategy.

From the viewpoint of the loan portfolio, we are slightly lower than the guidance and there are some components there. In retail businesses, for instance, we are within the range. We have been working in lines of payroll deducted very successfully, also with good operations and even exceeded the line of credit card coming from non account holders. And it took some time to scale, but we already see results and we have been seeking this growth that together with the strategy of lines with a higher return, this becomes a very interesting component in the mix for the growth of the portfolio. In the wholesale or companies, these are specific cases. Well, let me see how -- Daniel, can you help me here, please?

A - Daniel Maria {BIO 17030121 <GO>}

This has a base effect. I would like to remind you that in the first quarter of last year, there was a higher demand. And this increased the base for the first quarter and then it started going down. As we are comparing year-on-year, we have this effect, and also the migration toward the capital market. I would like to remind you that some companies went to the market with debt and equity. And when we look at this range of companies with over BRL200 million in revenue, when I look at the large ones, over BRL800 million, they are dropping because of this dynamic in the capital markets and this is being offset

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by the large middle, the companies that have revenues up to BRL300 million. It's a little bit capital market and a little bit of the comparison base as well.

{C: Jose Ricardo Fagonde Forni: Chief Financial And Investor Relations Officer (CFO): Just continue here, in relation to agribusiness, we have been reaching the guidance and the (inaudible). We saw a performance that was lower in individuals tariffs, but we are optimistic because we are using analytics and many other tools and we are seeking to be more assertive in our sales by means of using data and we still believe that we will be reaching the guidance and we are working very strongly in this direction and we believe that we will be able to get into the range.

In administrative expenses, we have been reaching the guidance by means of a rigorous efficiency program. That is already bearing fruit and we know that there are some risks involved because of inflation. Inflation has been coming higher than estimated. And also payroll expenses and other contracts as well, they suffer this kind of impact. So, our efficiency program with reduction of expenses is what we will give us the right condition to reach the guidance.

And in credit risk, based on everything that has already been said about delinquency, our net provision is much lower than estimated in the guidance and as Bonetti said, we have to see the evolution of the portfolio in the second and the third quarters because many of our uncertainties will be solved. And what you have in terms of forbearance will be maturing to a certain extent in the second and the third quarters. And we are very bullish about the origination of the portfolio that was built for the future. So it is one indicator that has a lower bias. And as uncertainty disappear, we might have some change in the guidance should this be necessary and just to complete (inaudible), the legal risk is already inbuilt in this new estimate, in this projection that we talked about our net income. okay? Thank you very much.

Q - Analyst

Okay. Thank you very much. A follow-up about the NII 4% year, it's quite satisfactory. The mix has been improving as you mentioned yourself and if we break down, the -- what helped you were lower funding expenses. So could you help us about the funding expenses over the year, should they go up because there was a help from abroad at a PDM that really brought this down. So what about the next remainder of the year?

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

May I make a remark, the funding cost, I would like to remind you that we paid the perpetual at the end of the fourth quarter. The redemption was almost BRL1 billion and also in the first quarter there was another subordinated loan, about BRL800 million, that was paid. So you reduce your expenses in foreign currency together with that. What we foresee as a dynamic from now on, less contribution from the cost of funding, some contributions that could come from some renegotiations, but less contributions compared to what we saw in 2020 and much more based on the increase in the number, the portfolio and the mix in the -- portfolio mix.

Q - Analyst

Thank you very much.

Operator

Our next question is from Mr.Domingos Falavina from JP Morgan. You may proceed sir.

Q - Domingos Falavina {BIO 16313407 <GO>}

Thank you and good morning. Fausto, first of all, I would like to thank you. Thank you for your remarks and the first quarter because I know that you haven't been there for a very long time. Well, sometimes we are at the mercy of the news and it's hard for us to understand the promotion of some of the executives. So, probably better than trying to guess what the newspapers are trying to say, it's better also to talk to the people involved. In Itau, there was a new CEO, he worked with (inaudible) in the investment bank. He was then the CFO of the bank. Then there's Lobato[ph] who also went to -- he worked for other banks. I mean, and your name (Technical Difficulty) for us.

I think we also look at some people that could potentially be promoted and we didn't see your name in that list. So when they asked us about names, how can you explain why you are in this position? And my second question, it's very good to see that the Bank is focusing on profitability and ROE. And we see three leverages here, three pillars; growth, volume, price cost and leverage. So do you think that this ROE will grow in the Bank?

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

So, let's talk about Fausto. Fausto Ribeiro presided over a company from the conglomerate of Banco do Brasil, maybe a consortium. It's a company that in terms of results that the Bank generate BRL707 billion in net income, and then also they pay an important contribution to our results. 33 years in Banco do Brasil, I also worked in several areas of the Bank and I can mentioned the area of internal controls. I spent 10 years in that position and I was kidding, I said that sometimes this is my PhD in internal controls because I led the Bank to comply with Sarbanes-Oxley legislation. I was also chosen to represent the Bank in the transaction committee of the Patagonia Bank.

And in Argentina, you know that the Argentinian Central Bank take some time to approve the acquisition or any acquisition and that's why we had to have a separate team, a separate team from the management of the bank. We were three people in charge, so then I was called to be the Director of the Bank in that geography and I was in charge of doing larger operations with large corporate and when I returned to Brazil, I was in charge of the Postal Bank that served low-income clients. I also worked in the channel area the bank. But just to be clear, 33 years in the Bank, vast experience with the Bank and the Bank has in numerous qualified professionals.

As you mentioned yourself, many people leave Banco do Brasil and they occupy high positions in private companies like Santander and in other companies in the market. In terms of my arrival in this position, it started with the ministry of economics and then the President of the country and then I had to be approved by other internal instances, in

terms of what was mentioned at the time, people said, the press said that I didn't go through the evaluation methodology. I did go through the Korn Ferry methodology and I was on the 9th quadrant. If you understand about that methodology, that indicates the individual that is ready to take that position.

So, in terms of Fausto, this is what I had to tell you. So, I feel that I am highly qualified. I have a longest experience with the Bank and I believe that those that are promoted from inside, they are much better prepared because they are very familiar with the way the Bank works and they can also work to promote the acceleration of the Bank and all of the pillars that I mentioned during my presentation, and that will help us to reach our results much quicker. So in this regard, I do respect any other dissenting opinion, but I mean, this is what I have to say. And in terms of our next question, I will give the floor to our CFO. Well, I'm not saying that there were dissenting opinions. This is just the version that are received. There is no dissenting opinion at all.

Q - Domingos Falavina {BIO 16313407 <GO>}

Yes, I did understand. I'm referring to journalists that those journalists that talked about this topic.

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

Hi Domingos, here is Ricardo Forni, the CFO of the Bank. Now, speaking about the future growth of profitability and what are our leverages. So firstly, Banco do Brasil has always been and will always be leveraging loan. So we are growing our loan portfolio, loan portfolio with good origination and good quality. But at the same time we are also looking at the portfolio mix. This is a strategy that has been put forward for a long time. We are executing it well and as Fausto was saying, it is not just one management that will execute that strategy. This has been a strategy that has been in place for quite sometime. So this search for a better portfolio mix is something that is already bearing results.

So we will continue to pursue that strategy. This year we see an important contribution towards reducing the cost of credit. So there's all the work that is being done in terms of risk management. I believe that our prevention strategy of last year and especially in terms of the fact that we are being cautious in terms of origination is already bearing results. I think we can get good results in terms of our credit portfolio.

Expenses, the Bank has always had a very rigorous control of expenses. The banking industry is faced with an additional challenge because when the paradigm changes the way you serve your customer changes as well and this brings about challenges for those that are controlling expenses. But I would say that our transformation piece and our efficiency is in line or I would even say when compared to our peers we obtained a level of excellence in terms of our control of expenses and we intend to keep it that way.

And in terms of seeking for additional revenues through data and innovation, this is here to stay, that's strategy, an open strategy of the Bank as part of our strategic planning and we are just expediting and accelerating that. It's organic growth and sustainability not only in regards to the generation of more results, but this emphasis of ESG and all

(Technical Difficulty) on the E aspect, I mean, science and sustainability, we have a large program to expand the use of (Technical Difficulty) with saving. And this is quite important. There -- in the physical world a lot of work is being done in that regard. I think this -- the emphasis we are giving and Fausto talked about that also when he addressed the employees of the company and the results of the first quarter already giving signs of these indicators.

Q - Domingos Falavina {BIO 16313407 <GO>}

Good luck to the new team.

Operator

Our next question from Carlos Gomez from HSBC. You may proceed sir. Mr. Carlos Gomez from HSBC, you may proceed.

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

Yes. Good morning. I have two questions. First, we noticed an increase in net worth in the quarter from the pension funds and healthcare. Do you see the possibility of reducing the risk or the volatility of Previ in the Bank in the long run? And the second question, because I know that you were involved with Sarbanes-Oxley, would you consider an ADR program or going to the New York Exchange in the future?

A - Daniel Maria {BIO 17030121 <GO>}

This is Daniel Maria. Let me just answer the first part of your question about actuarials. We do have a actuarial effect which is mark-to-market, but this involves several effects in the case of the Previ's benefit plan, you have to look at the curve because you have to discount the liabilities and you have also to look at the behavior of assets. The behavior of assets, here you have a concentration in some of the things that the funds have that they intend to reduce. By reducing it, then you minimize the impact. But now the effect of the curb, this is a fact. The way to manage that is by creating capital buffers as we have done it and this is how we monitor that.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Daniel, would you like to answer the second part of the question?

A - Daniel Maria {BIO 17030121 <GO>}

Sure. In terms of ADRs, we have ADR level 1 and the decision to go ADR level 2, I mean, we are monitoring the market but we don't have anything already defined in that regard. The important thing is to follow the best practices and if you look at the best practices adopted in the New York Exchange or Sarbox and all the others, this is what we do.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Perfect. I would just like to add to what Daniel said. So when the Bank made a decision back then to do some internal work to adjust to all of the required practices in a

regulating environment as the one in the US, we hired a consulting company. They worked with us for 2.5 years back then in an attempt to improve the governance standards of the Bank and I was the leader of that project, representing Banco do Brasil. So we had to do a lot of work to comply with the very high standards of governance.

There were several meetings from strategic committee and there were many tasks in our internal controls and this is now carried out by the person in charge and we want to ensure the integrity of the figures that appear in our income statement. The important thing is that the Bank has been adopting these practices since then and the decision to go to level 3 in the US market is still a decision that depends on further analysis on the market momentum.

To date, we don't have anything to tell you at this moment about this subject. Carlos, I hope we're able to answer your question.

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

Yes, you did answer it. In terms of ADR, it depends on the market. Maybe in the long run, don't you think it would be better for the Bank to be in the same area where all the other Brazilian banks are?

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

This is a point. We have a very diversified base of investors. We have over 870,000 investors. So in fact the fact that we are not listed in the New York Exchange, I mean this is not an impediment because we also have a very large base of foreign investors. But it's important that we look at the best practices. This is a process that we look at. We want to do bring those best practices into the Bank and even though we're not listed, we comply with them and we follow them.

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

Okay, thank you.

Operator

(inaudible) Goldman Sachs. He asks, provisions are lower than the annual guidance. Does this mean that the provisions should go up over the year? Or are you going to decrease the guidance for provisions? And what will it mean to the Bank? Should it start here?

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

This is Ricardo Forni talking about the guidance for expenses -- provisions. I think we have already talked about that. But provisions for this quarter were quite lower than the guidance. And looking ahead, and considering all the uncertainties that have already been mentioned in this call, we believe that in the second and the third quarter mainly our retail customers and most of the forbearance portfolio will be paid in the second and the third quarter.

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And then we will see what -- how much is risk and how much it increases delinquency because the prudential provision as we build were to be proactive regarding this moment. So we are optimistic but we are conservative at the same time in terms of the future of evaluation regarding our provisions. So, the expectation of the guidance is in the lower part of the range regarding provisions and regarding (inaudible), this is our expectation for the year if we are to evolve and some of the ROE. And if we have good news about that we might in the future have this situation of provision will be affected by the fact that the risk will become more clear to us and it will have higher results and lower provisions, but the guidance is maintained because it's too early for us to review it because of the risks and uncertainties that we still have. So, we are still in a scenario of pandemic, so the higher risk has not disappeared yet. But we see the second half of the year with a higher activity than the first half of this year. So I think this is the basis for us to keep our guidance with a degree of optimism vis-a-vis higher ROE and lower provisions.

Operator

Our Q&A session has come to an end. And Mr.Fausto Ribeiro will come back and make the closing remarks.

A - Fausto de Andrade Ribeiro {BIO 22049499 <GO>}

Thank you very much for participating in our call. And I hope we have been able to answer objectively all your questions and without trying to avoid any questions. And I hope we have been able to clarify all the things regarding the variations in our balance sheet and our investor relations team is available to you at all times should you still need some further clarification. Thank you very much and have a good afternoon.

Operator

Banco do Brasil conference call has come to an end. We thank you for participating and the material used in this call is available at the Investor Relations portal on the Internet. Thank you very much for participating. We wish you all a very good day. Thank you.

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