

## Y 2015 Earnings Call

### Company Participants

- Bernardo Rothe, Head of Investor Relations
- Jose Mauricio Pereira Coelho, Chief Financial Officer

### Other Participants

- Anibal Valdez, Analyst
- Carlos Macedo, Analyst
- Jason Mollin, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Rafael Frade, Analyst
- Sebastian Salvay, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst
- Victor Galliano, Analyst

### Presentation

#### Operator

Good morning, everyone, and thank you for waiting. Welcome to Banco do Brasil Fourth Quarter 2015 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company presentation. After this, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and through Banco do Brasil website at [www.bb.com.br/ir](http://www.bb.com.br/ir) where the presentation is also available. Participants may view the slides in any order they wish.

Before proceeding, let me mention that this presentation may include reference and statements, planned synergies, estimates, projections, and forward-looking statements and strategies concerning Banco do Brasil, its associate and affiliate companies and subsidiaries. These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and bank system. Banco do Brasil is not responsible for updating any estimate in this presentation. With us today, we have Mr. Jose Mauricio Pereira Coelho, CFO; and Mr. Bernardo Rothe, Head of Investor Relations. Mr. Bernardo, you may now begin.

**Bernardo Rothe** {BIO 18059993 <GO>}

Good morning. Thank you for participating in our conference call for our earnings release of the fourth quarter 2015. I would like to start in page three of the presentation where we have the highlights of our quarter and year. Starting with the NII that grew by 13.3%, we also have an increase of 17.2% in pre-tax and pre-provision earnings, our fee income increased by 9.2%, the administrative expenses are under control and grew only 6.9% throughout the year, and cost to income ratio improved to 40.8%.

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In page four, we have the net income. Starting with the quarter where we had BRL2.648 billion in adjusted net income in fourth quarter and BRL2.512 billion in net income in the fourth quarter. On an annual basis, we have the return on equity of 13% for the year with adjusted net income of BRL11.594 billion and the net income of BRL14.4 billion.

In page five, we showed you what is our structure results where we have the pre-tax and pre-provision earnings, growing 17.2%, reaching BRL43.5 billion during the year.

In page six, we have some market ratios like the earnings per share that came at BRL0.89 and BRL0.92 in the adjusted earnings per share. Dividend yield reaching 13.96% at the end of the quarter. Price/earnings at 2.86% and price/book value at 0.50%.

In page seven, we have the funding of Banco do Brasil that reached BRL672 billion at the end of the quarter and the main highlights here, the growth in LCAs and LCIs of 31% in 12 months and also the performance of the savings deposits that we have that grew over the year with 1.4% growth against the third quarter 2015 at the end of the fourth quarter even in a market where we are seeing reduction in savings accounts throughout the market.

In page eight, we have other sources of funding as well to bring to you. First, starting with our asset manager BB DTVM that has 21.5% market share that reached BRL603 billion of assets under management. Also Brasilprev is the leader in terms of new deposits with 49.5% market share, reaching BRL22.8 billion.

On page nine, we bring to you the loan portfolio in a broad concept reaching BRL814 billion, 6.9% growth.

Page 10, we have some highlights in terms of our lines with lower risk starting with mortgage that grew by 26.6%. In mortgage we have the breakdown on what's the portfolio with companies and the individuals, BRL11.9 billion in case of the companies and BRL37.2 billion in the case of individuals. We have also in this slide delinquency ratio for over 90 days for all these four different lines of credit.

In the case of mortgage, we reached 1.16% delinquency ratio for these products. In payroll, the delinquency ratio is only 1.26%, has improved over 12 months. The portfolio grew by 6.2% reaching BRL62.5 billion and our market share is 23.5%.

Salary loans, we also have an improvement in terms of delinquency ratio going from 3.18% to 2.49%. We had an increase of 10.5% in the portfolio reaching BRL18.6 billion. Auto loans although we have decrease in the portfolio minus 5.6%, we still have a very low

delinquency ratio in our own portfolio at 0.9% in this particular case with small increase over December 2014, only 3 bps.

Slide 11, we have here something that's very important for Banco do Brasil when we establish a credit limit for our clients, that's the time of relationship. As you can see, 87.7% of our individuals' portfolio is with clients that we have more than five years of relationship.

These individuals portfolio profile basically direct consumer credit and auto loans, 86.8% is with civil servants and retirees and pensioners and only 13% of the portfolio is with private sector employees.

Page 12, we bring information about the loans to companies in the broad concept. We had an increase of 5% in 12 months to BRL364 billion at the end of December 2015 bringing BRL93.6 billion with very small and small companies, a portfolio that decreased 8.4% in 12 months and BRL271 billion with companies in the middle market, corporate, and government that increased 10.7% in 12 months.

On page 13, again we bring to you the relationship with the very small and small companies in our portfolio. As you can see, 96.5% of our portfolio with very small and small companies is with clients that have relationship with the bank for more than two years.

We also bring to you what's the time of existence of these companies. As you can see, only 3.5% of our exposure in these companies with up to two years of existence. Also, more than 75% is with companies that exist for more than five years.

On page 14, we bring information about the agribusiness portfolio. The portfolio grew 6.1% to reach almost BRL175 billion at the end of December '15 being BRL51.6 billion with companies and BRL123 billion with individuals. We have a 60.9% market share in this segment, a small increase from the third quarter where we had 60.1%.

We still are using a lot of mitigators in the portfolio and now we have 67% coverage over the working capital portfolio. And the total disbursement in the '15-'16 Harvest was BRL43.6 billion at the end of December 2015.

On page 15, we have information about our renegotiated overdue loan portfolio.

As you can see, we have new contracts of BRL6 billion in the quarter, but we also have amortizations of more than BRL1 billion in this portfolio in the quarter reaching at the end of the quarter BRL19.6 billion, only 2.7% of our total portfolio. This is the result of our early renegotiation process as we've been more active in doing that.

Also, we bring to you that 85.6% of the new contracts that we did in the quarter have guarantees. Page 16, we bring to you delinquency ratios of Banco do Brasil. For the total

portfolio, we have a 2.24% delinquency ratio over 90 days. For individuals, we went from 2.3% to 2.17% in 12 months, a reduction in delinquency ratio.

But the company's portfolio increased from 2.59% to 3.42%. In the 15 days past due delinquency ratio, we have small improvements in the different types of loans that we have.

But as we always say, the correlation between plus 15 days delinquencies and plus 90 days is not that big as much. In page 17, we bring to you the vintage in our individuals' loans portfolio and the vintage for very small and small companies as well. As you can see, the recent vintages are performing better than the previous ones showing that we have been granting loans with very good quality.

Even in these very small and small companies as you can see even with a very difficult scenario that we are right now, the performance of the later vintages is very good comparing to the previous ones if you consider that the scenarios are completely different.

2010, we have a totally different economic scenario in Brazil from what we experienced in 2015 and we still had a very good performance in this portfolio given the backdrop that we are.

In page 18, we have the NPL formation and the average risk. As you can see, our ratio was 0.88% in the fourth quarter and the quarterly provision that we did cover 112% of the new NPL. Page 19, we have the coverage ratio for delinquency over 90 days and the total balance in provisions. We reached 209.19% coverage ratio at the end of the quarter and the total balance is BRL33.5 billion.

We have also the breakdown of the flow of provision in the quarter by type of loans being BRL391 million for the loans made abroad outside of Brazil, BRL4.319 billion in the company's portfolio, BRL1.326 billion for the individuals portfolio, and BRL954 million for the agribusiness portfolio.

Page 20, we bring to you information about the balance for allowance for loan losses in IFRS and also in BR GAAP just to give you more information about the provisions at Banco do Brasil.

In page 21, we bring to you net interest income and net interest margin at the end of the quarter. As you can see, in 12 months we had the NII growing 13.3% reaching BRL57 billion. Our spread by segment improved in all the lines. In the individuals portfolio the spread is now 15.5% as against 14.9% in the previous quarter, 7.4% for the total loan portfolio, 5.8% for companies against 5.7% in the previous quarter, and the agribusiness 4.8% against 4.5% in the previous quarter. The global spread reached 4.5% and the risk adjusted NIM reached 2.3%.

In page 22, we have more information about the composition of the NII. As we can see, revenues from loans reached BRL26.4 billion, 18.4% growth in 12 months. The funding expenses as a percentage of Selic reached 75.7% at the end of the quarter, slightly better than what we had in the fourth quarter 2014 that was 77.3% of Selic rate.

Page 23, we bring to you the fee income of Banco do Brasil in the quarter and on an annual basis. As you can see, we reached at the end of the year BRL26.9 billion in fees with a growth of 9.2%.

I would like to highlight in terms of the account fees that grew 13.4% in the period, our asset management fees growing 14.4%, collections at 14.3%, and also the consortium line that although is small it grew by almost 27% in 12 months.

Page 24, we bring to you information about the BB Seguridade, our insurance arm. The adjusted net income grew by 22.4% reaching BRL3.945 billion. And we are the leaders in different segments of the insurance business; second in vehicle, first in life, first in rural, we are first in pension plans, and first in premium bonds.

Page 25, we have our service network. We create specialized offers to deal with our very small and small companies, 16 during the year.

And we have the forecast of opening more 30 new offices for 2016 with the intention to improve margins with our clients in this segment with a different style of relationship. We also have a new platform for our individuals' portfolio that we call Estilo Digital. We have already 104 new branches under this new platform and we have the vision to reach more than 200 branches by the end of 2016.

We now are attending more than 300,000 clients through this platform and the goal is to reach more than 1 million at the end of the year. The automated services channel by transactions we reached 80.5% of all these transactions going through automated channels. The highlight here is the participation of mobile in this total reaching 31.9%, the most used channel that we have right now.

As you can see in terms of transactions, we have expressive growth of 157% in number of transactions through mobile going from 836 million transactions to 2.155 billion transactions in this channel.

Page 26, we have here the administrative expense and cost to income ratio. As you can see on a quarterly basis, we went from 43.5% cost to income ratio to 40.4% in the fourth quarter 2015, a very good performance. In an annual basis looking at 12 months, we also went from BRL43.6 billion to BRL40.8 billion, a very good improvement over the 12-month period.

On page 27, we have our BIS ratio being 16.15% at the end of the quarter, Tier 1 is at 11.39%, and core capital 18.17%. Page 28, we have the impact of the full application of Basel III rules over situations where the BIS ratio goes from 16.1% to 14.7% after the

implementation of the Basel III rules. But if you consider the use of tax credits, that ratio goes back to 15.6%.

The Tier 1, we have the same behavior going from 11.4% to 10% and after the use of tax credits, it goes back to 10.9%. Page 29, we have our performance in 2015 compared to the guidance. Adjusted return on equity was 13%, inside the guidance; net interest income of 13.3%, also inside the guidance; commercial funding of 5.9%, also inside the guidance.

We missed the guidance of domestic loan portfolio growth in a broad concept reaching 5.9% against a minimum of 7% in our guidance; but individuals we were inside the guidance as well as companies with 7.5% growth and 5% growth respectively. Agribusiness, we missed the guidance reaching growth of 6.1% mainly because we had a lack of demand for investments in this segment in the second half of the year. Allowance for loan losses was a little bit over the guidance at 3.6% where we had at the top of the guidance 3.5%. Fee income was inside the guidance with 9.2% growth and the administrative expenses also inside the guidance with 6.9%.

Our guidance for 2016, page 30. As you can see, we expect an adjusted return on equity of 11% to 14%, growth in the net interest income during the year from 7% to 11%. The growth of our domestic loan portfolio in a broad concept from 3% to 6%; individuals growing 5% to 8%, companies 1% to 4%, and the agribusiness 6% to 9%.

Allowance for loan losses as a percentage of the total portfolio would be between 3.7% and 4.1%. We expect growth in the fee income from 7% to 11% and administrative expenses growing from 5% to 8%. On a final note, as you can see from what we just presented to you, we've been improving the structural results of the bank through more income and controlled expenses throughout the year and the guidance also shows you that we are going to keep doing that through 2016.

With that final note, I would like to end now and open for 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 Carlos Macedo from Goldman Sachs.

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

Thank you, good morning, gentlemen. I have a couple of questions. First question, you recently as you said lowered your dividend payout to 25% for 2016. Could you give us a little bit of an idea behind that? Is it something that's going to last beyond 2016?

Is it because you're concerned with capital levels even though you didn't really give us the common equity Tier 1 levels adjusted for mitigation and tax credits and all that and the fully loaded in other words? Is it because you expect to expand your loan portfolio more

or because you're going to have bigger credit losses or because you're concerned about other losses like having to contribute again to Previ? What is behind that and should we expect that to stay at 25% going forward or is it going to bounce back to 40% in 2017?

Second question in terms of margins, finally I think we're seeing some life out of the spreads and your credit book and a couple of quarters now with them going up.

You showed the average duration of your portfolio when it's originated and all that and we can see that you're now starting to migrate to a combination or a mix of loans that was originated in 2015 and 2014 as opposed to prior years when spreads were much lower. Should we expect that spread to continue to increase and therefore to provide some support to your margins or would that be even if rates go down for instance or would a decline in rates in Brazil eventually towards the end of the year put pressure on your spreads and be a risk to your financial margin guidance?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Thanks Macedo for your questions and good morning. First, starting with the payouts decision. The corporate governance of the bank requires the Board of Directors to review every year what would be the payout ratio for the current year.

So, the decision was made now to reduce to 25% and we have no expectation that this will change in the near future. In relation to margins, we expect margins to keep improving over 2016. And just a little I mention now on the payouts, why we reduce because we want to retain more earnings. That's it.

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

That's it, could you give us, I mean you did the fully loaded adjustments for the Tier 1 capital and the capital ratio as a whole. Could you give us an idea of where your common equity Tier 1 would be under the same assumptions? Could we just assume they would be the same the 40 basis points lower than what you reported on a standalone basis for now?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

It will have the similar behavior.

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

Okay. Now just going back to margins, so you would expect margins to go up throughout the year as you reprice your portfolio. Would there be any risk? If for instance the Central Bank decided to cut rates, would there be any risk to your financial margin guidance or are you comfortable with the levels where you guided given the repricing of your portfolio?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

We are comfortable with the guidance where they are.

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

So, just -- sorry, final question. What do you put in your -- when you put together your guidance, what do you assume for the Selic rate through the end of 2016?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

We don't disclose our projection, sorry.

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

Okay. Thank you so much.

**Operator**

Our next question comes from Mr. Mario Pierry from Bank of America Merrill Lynch.

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

Hi, good morning, everybody. Just one question related to your guidance. Basically when we look at your guidance, you're expecting provision charges to increase between 11% and 21% in 2016. In 2015, provisions grew close to 40%. Given that the macroeconomic outlook in Brazil is not improving, I was just wondering why shouldn't we see the similar type of growth in provisions in 2016 as we saw in 2015? Thank you.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

First, we are comparing different scenarios. We had a very low base in 2014 so the increase was coming from a very low base. The guidance reflects what we expect in terms of downgrades that we may have in the portfolio and also potential delinquency we may see in the future and also if you included the growth of the portfolio as we mentioned in our guidance so even if we grow the portfolio resulting in delinquencies, provisions have to go up as well. So, everything is inside our guidance then reflects the best expectation that we have for the year.

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

Bernardo, if you could talk then about your expectation for NPLs between corporates and consumers going forward? It seems like the bulk of the deterioration has happened in the corporate book, the individuals has stayed relatively under control. However, given the outlook for rising unemployment, do you think this is where we're going to see the bigger problems in 2016?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Given the profile of our individual portfolio, we don't see much pressure coming from there, a big exposure to a group of clients that are not subject to unemployment. So, we've been fairly active in managing the portfolio to avoid growing exposure in the risk lines of credit like the overdraft and the credit card as well. So, overall we don't see much trouble coming from there.



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

Okay. Thank you.

## Operator

Our next question comes from Mr. Tito Labarta from Deutsche Bank.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Hi, good morning, good afternoon, thanks for the call. Couple of questions as well. I guess following up on the lower dividend, just looking at your capital ratio based where you are today and in terms of the implementation schedule you're showing on page 33 to get to that 10.5% just seems a bit difficult even with the lower dividend just given where your current level of profitability is.

If you can maybe give some more color in terms of how you expect to continue to increase your capital ratio? I think a good move to lower the dividend, but just kind of how else do you think you can continue to increase your capital ratio going forward to reach that 10.5% by 2019? And then second question, there was some news in the press a few weeks ago about a potential debt to equity swap with Petrobras, I don't know if there is any color you can give on that, but just if there's any truth to that or just in terms of how you're seeing your exposure there. Thank you.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Hi, Tito, thank you for the questions. I will start with the last one. There is nothing going on in terms of debt to equity swap involving Petrobras. There is no discussions over that particular issue, no way.

Second thing, the first question, in terms of our capital ratio, we have a capital plan, the capital plan is in place, we have our projections, everything indicates that we are going to reach the 9.5% that we kept as our target in core equity Tier 1

We are going to retain more earnings going forward, moving forward and we are going to manage the way we're growing our portfolio focusing on lines of credit that consume less capital. So, we are pretty comfortable that we are going to be within the minimal capital ratio that was set by the Board of Directors.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Thanks. That's very helpful. So just to be clear, so you think with the retained earnings there by improving profitability and maybe slowing growth further, you think you're able to reach that 9.5%, you don't expect any asset sales or anything like that to get there?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

We cannot anticipate any measures that we are going to take, but the 9.5% is pretty much going to be reached through what I just said.

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**Q - Tito Labarta** {BIO 20837559 <GO>}

Alright. Thank you very much.

**Operator**

Our next question comes from Mr. Marcelo Telles from Credit Suisse.

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

Hi, hello everyone and thanks for the time. I have two question. One, related to the guidance. I'm having a little bit of difficulty reconciling your ROE guidance that you provided with the guidance that you provided on a line by line basis.

Because when I look at your ROE guidance of 11% to 14%, but if I do the calculation on a bottom-up basis based on your NII growth expectation OpEx growth, I get to something around 9% to 12%, which probably mean net profits ranging from around BRL8.8 billion to BRL12.7 billion.

How do we reconcile that difference between the two? Why is your ROE guidance so different versus what would be implied by the guidance on a line by line basis? And my second question, sorry to get back to your capital situation.

But if we look at the information you provide in terms of your capital calculation, if we were to bring forward all the, let's say, the transitory adjustments, your capital base will probably be around 7.1% core equity Tier 1 fully loaded, which would probably be a core capital around BRL53 billion.

And I'm just trying to reconcile that in terms of the dividend reduction being enough to meet your capital deductions because if you are able to have, let's say, BRL10 billion of net profit over the next two years because say, you need to be at 9.5% maybe 18 months before and considering let's say a 25% payout ratio, actually we get to a capital shortfall of BRL10 billion more or less. So, how are you going to make up for that difference? Do these calculations makes sense or they might be a little bit on the conservative side? Thank you.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Hi, Telles, thank you for your questions. On the guidance and how you are forecasting the net income for the bank, we can discuss later in detail. But what you're projecting is not in line with what we are projecting. So, we will discuss that later outside of the conference call.

In relation to the capital, as I mentioned before, our projections, our capital plan, unfortunately I cannot share my capital plan with you guys. We have our own calculations there and everything shows that we can reach the target as we plan with the things that we have in our capital plan.

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

Okay. Thank you.

## Operator

Our next question comes from Mr. Anibal Valdez from Barclays.

**Q - Anibal Valdez**

Hi, good morning Jose, Eduardo and Bernado. I have a question regarding your assumptions for 2016. Basically what's different in your view from the beginning of last year compared to the beginning of this year in relation to your guidance for non-provision expenses?

Because you started 2015 with a guidance of 2.7% to 3.1%; you ended up the year at 3.6%. Now, you're guiding a 3.7% to 4.1%. So, what confidence do you have that that guidance is more accurate than what you were able to provide last year and we're not going to see a surprise?

And in relation to asset quality, I assume that for state-owned companies, the provision level should be close to the minimum. Therefore, what could change -- what would change your provision approach to state-owned companies if something fundamentally changed in that exposure? Thank you.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Okay. First, about the allowance for loan losses. If you recall what everyone in the world was projecting for Brazil for 2015-2016, at the beginning of 2015 has changed a lot along the year and we had some events in the second half that made things move in a different direction.

So, we have completely different perspectives for the Brazilian economy at the start of 2015 than what we have right now. The guidance that we are giving you is our best projection for what we expect during 2016 given some indicators that we have.

Of course, if there is a big change in that particular indicator, we are going to go back to the market and tell everyone our guidance can change down or up depending on the change that we may see in these macroeconomic indicators if they change dramatically moving forward.

So, that's what we have. Now based on all the information that we have, we are pretty comfortable with the guidance that we provide to the market. In terms of the asset quality, I have to just let you know that we don't have different treatments for state-owned companies from private-owned companies.

Our policy is the same for both. So, we do the provisions and we do accurate ratings to companies based on their risk not the ownership of the company. So having said that, if

the risk is increasing, we're doing downgrades; if the risk is decreasing, we are doing upgrades; and we have upgrades in our portfolio at this point in time as well.

### Q - Anibal Valdez

Okay. Thank you, Bernado. A quick follow-up. Regarding non-core assets, I think that I saw headlines on the Portuguese call that you mentioned the potential sale of non-core assets if needed. Is there a statement that if needed or you're really actually looking at selling non-core assets in the next 12 months? And how much, if you were to sell your non-core assets, how much money would you be able to raise from those under your estimates? Thank you.

### A - Bernardo Rothe {BIO 18059993 <GO>}

Thank you. It was a good question by the way to clarify what's been going on. We didn't say that we are selling. We say that non-core assets because they are non-core one day in the future, don't know when, there is nothing in the radar right now, we may sell if we see fit to sell at that particular point in time because they are non-core. That doesn't mean that we're selling right now, we have any plans to sell during the year, nothing like that.

So, that is not part of our capital plan. We cannot disclose our capital plan unfortunately for you guys. We have strategic things there that we cannot share with the market.

### Q - Anibal Valdez

Alright. Thank you so much, guys.

### Operator

Our next question comes from Mr. Thiago Batista from Itau BBA.

### Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys thanks for the opportunity. I have just one question, Bernado, if you could comment about the change you did in this year? Is it not wrong? Will it change the (inaudible) increasing the weight for the March contributions of the branch and reducing the weight of after volume of sales? Could you comment a little about this change?

### A - Bernardo Rothe {BIO 18059993 <GO>}

You know, we make changes to our systems all the time to adequate to the strategy. Of course, we are now at this point in time looking at the profitability. As we mentioned in the beginning of last year, last year we went to the market to say increase profitability is one of our many targets.

So, we are adjusting things to reflect our strategy and we announced the strategy that we didn't change at the beginning of this year; increase profitability, control delinquencies, and improve efficiency. So, it's totally in line with what we are saying to the market.

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

Okay, thanks for that. But do you believe -- for sure do you believe this will improve your ROE in the long term?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

I didn't get that Thiago. Can you repeat it?

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

For sure, do you believe that those changes will improve the profitability of the bank in the long term?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Yeah, that's the idea, you know. The idea is to improve the profitability of the bank. And the purchase of the branches are retracting that goal of the whole bank.

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

Okay. Thank you, Bernardo.

**Operator**

Our next question comes from Mr. Jason Mollin from Scotiabank.

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

(Foreign Language). Thank you for taking my questions. Most of them on capital and such have been asked. But if I could just ask on the agribusiness segment, you provided guidance of 6% to 9% growth in 2016. Can you give a sense of Banco do Brasil's views on the outlook for this sector?

This year, you cited the bank's 60.9% market share in the segment, do you think the segment will grow in line? Is that your forecast also for the sector? Do you think you'll be gaining share or losing share? And maybe if you can give us a sense of the profitability for the bank in this segment and how you think that's evolving?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Thank you, Jason. Well, the agribusiness segment is performing pretty well, has performed pretty well even in this challenging scenario that we have. The growth of the portfolio represents our best view what's going to happen in terms of demand, not only how much we can supply in terms of loans to this segment, but it's a reflection of what we expect in terms of demand. Having said that, we don't expect growing market share. We expect to be pretty flat with small variations.

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

In terms of profitability, are you able to convert these relations to this large market share into more fees or how would you describe the evolution of profitability in this business?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Our clients that we support through agribusiness lines of credit, they are also clients in our retail business and they tend to be very good clients. So, there are a lot of opportunities in cross selling here and we've been exploring that. So, it's a very profitable business for us.

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

Thank you.

**Operator**

Our next question comes from Mr. Rafael Frade from Bradesco.

**Q - Rafael Frade** {BIO 16621076 <GO>}

Hi, good morning. I have two questions. The first is related to the level of recovery that we saw in the quarter, we saw a huge increase in the level of recovery. I would like to understand if it's much more related to just increasing the base and -- or if there were any specific one-offs here that we should see a lower amount for the next quarters or really this should be the new level for recovery? And the second question would be related to the debt in Previ, if you could provide any color about how do you expect this to component this debt?

**A - Jose Mauricio Pereira Coelho** {BIO 3329132 <GO>}

We have several initiatives to improve the flow of recoveries and as you know that have the -- we launched some new sites (inaudible) that help in improving the levels of the recovery that we have in the quarter and other initiatives in the bank. There is no one-off here in fact. There's no particular case that made the number be higher than what you would expect.

So I cannot guarantee you that in the next quarter we are going to see the same level, but that's the result of our strategy. So it's not one-off, it can repeat, and be even higher than that. In terms of Previ, we don't see any change in terms of our contribution for Previ in the near term.

Just now for the first time we changed from (inaudible) to adapt in that particular plan. There is a lot of room for Previ to manage that and by the way the results of Previ itself we are going to know only in a couple of weeks. So, that's how we mark to market Previ assets and their liabilities. In our own point of view, that is not the same as Previ.

So, we don't see any change in contributions. The position of their assets and liabilities will change over time given several market impacts. So far they have been negative, they

can start to be positive depending on how they are managing their portfolio. So, we don't see anything happening in the short to medium term.

**Q - Rafael Frade** {BIO 16621076 <GO>}

Okay. That's perfect. Thank you.

**Operator**

Our next question comes from Mr. Victor Galliano from Barclays.

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

Hi, my main questions have been answered, but if we could just focus a little bit on the renegotiated portfolio, which we saw increased by 100% the stock on a year-on-year basis and 25% quarter-on-quarter. I just want to get a sense here of maybe a feeling from you in terms of or what do you think has been happening in the last couple of quarters where we've seen this pace of growth in the stock that you have here growing? And also if you could give us some color on what type of guarantees you have against the bulk of this portfolio? And I have another question, but I'll ask that later.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Good afternoon, Victor. Thank you for your question. In terms of the renegotiated loan portfolio, it's a reflection of the environment that we are of course and our own strategy to be very proactive in doing these renegotiations, very early in the process to be able to have concluded the renegotiations.

We've been experiencing or companies have experienced a reduction in their cash flow, free cash flows, and so on. So, the right thing to do if we want to be repaid is to adjust the repayment schedule of the loans through the free cash flow of the companies that they have right now so that is impacting the renegotiation. But as you can see, we've been renegotiating lower and we are receiving. We received over BRL1 billion in the quarter and that's net of interest capital lines we have.

So the principal plus interest, less interest that will capitalize, so it's a very big number as well, a good increase over the previous quarters meaning that we are renegotiating, but we are receiving it. So, we are doing good renegotiation. From what we see in terms of performance by vintage, the early vintage is performing better than the previous ones. So because we are doing early renegotiation, we are increasing the portfolio, but at the same time, we're improving the quality of the portfolio. So, overall that's the right thing to do in this particular time and we are going to keep doing that as necessary.

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

Okay, thank you. So just quickly --

**A - Bernardo Rothe** {BIO 18059993 <GO>}

As far as the second question, we have several different guarantees there. We have real estate, urban real estate, we have farms, we have machinery, you name it. We have a lot of different stuff there.

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

Okay. Fair enough. And just a quick follow-up if I may coming back to capital I'm afraid. So, if we assume that the fully loaded CET-1 is around 7% and you want to get to 9.5% in CET-1, I presume by the end of 2018, then will it be fair to say that you're targeting around 80, 90 basis points of capital creation per year looking forward and would it be fair to say that you expect that to be achievable without doing too much of asset sales or that's an optional kind of thing?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

I don't need to agree with your calculation. You have your own calculation, we have our own calculation, right. And we believe that through measures that we have in our capital plan we are going to be able to reach the 9.5%.

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

Okay. Thank you.

**Operator**

Our next question comes from Mr. Sebastian Salvay from Bank of Singapore.

**Q - Sebastian Salvay** {BIO 18605517 <GO>}

Good morning. Thank so much for the time. Could you please give us more color on the change in the judicial deposits and if there's any estimations on the impact in earnings? That's my first question. And the second one, if you have any plans doing another bond buyback this year? Thank you.

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Okay. I'll start with the second question and then I'll ask you to repeat the first one because I didn't get the two questions. So, the buybacks. Any time we decide to do a buyback through a tender, we are going to announce to the market at the same time to everyone. So, I cannot anticipate anything happening in that regard. And the first question, can you repeat once more?

**Q - Sebastian Salvay** {BIO 18605517 <GO>}

Yeah, sure. Just related to the judicial deposits, if you can give us any color on the change of that and if you have any estimates on the impact in earnings?

**A - Bernardo Rothe** {BIO 18059993 <GO>}

Okay. Well, what we have so far, you can see in the evolution of the balance of judicial deposits that we are keeping at a very good level. There were BRL115 billion at the end of

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December 2014, we had almost BRL114 billion at the end of December 2015 so no big change there.

So even with the changes that happened in Brazil last year, we kept the balance at the same level. In terms of judicial deposits moving forward, there is nothing approved so far. It's very hard to comment on that.

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**Q - Sebastian Salvay** {BIO 18605517 <GO>}

Okay. Thank you.

## Operator

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

**A - Bernardo Rothe** {BIO 18059993 <GO>}

I'd just like to thank everyone for participating in our conference call, for formulating questions to us. And I would like to put my whole team at your disposal to clarify any other issues and questions you may have on our earnings release material. Okay. Thank you very much.

## Operator

That does conclude Banco do Brasil conference call for today. As a reminder, the material used in this conference call is available on the 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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