

Y 2020 Earnings Call

Company Participants

- Andre Guilherme Brandao, Chief Executive Officer
- Carlos Jose da Costa Andre, Chief Financial Officer
- Carlos Renato Bonetti, Chief Internal Controls & Risk Management Officer
- Daniel Alves Maria, General Manager of Investor Relations and Sustainability

Other Participants

- Felipe Martinez, Analyst
- Gustavo Schroden, Analyst
- Jason Mollin, Analyst
- Jorg Friedemann, Analyst
- Mario Pierry, Analyst
- Nicolas Riva, Analyst
- Otavio Tanganelli, Analyst
- Unidentified Participant
- Victor Schabbel, Analyst
- Yuri Fernandes, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Banco do Brasil Fourth Quarter 2020 Earnings Conference Call. This event is being conducted in Portuguese with simultaneous translation into English, and is also being recorded and broadcast live via webcast to Banco do Brasil's website, www.bb.com.br/ir, where the presentation is also available. All participants will be in listen-only mode during the company's presentation. And after that, we will initiate the Q&A session, when further instructions will be provided. (Operator Instructions)

With us today are Mr. Andre Brandao, CEO; Mr. Carlos Andre, Financial, VP and IRO, and Mr. Daniel Maria, Head of Investor Relations for Banco do Brasil.

Mr. Andre Brandao, you may proceed, sir.

Andre Guilherme Brandao {BIO 2468269 <GO>}

Good morning, everyone. Thank you very much for joining us today during our conference call for the results of 2020.

As always, I will start with a brief introduction and I'll give the floor to Carlos Andre to elaborate on the details. I would like to start by talking about the year of 2020. As I said in our previous meeting, it has been a very unusual year. And as we said during the presentation, it was a challenging year for several reasons, personal and professional reasons. And also, it was a very transformational year, because it led the financial industry and Banco do Brasil as well to rethink about ways of operating in this new momentum. And in terms of what we saw, competition group, digital banks, fintechs, regulatory changes, as we are now seeing with open bank and PIX.

Certainly, this has been a very unusual and unique year in the way we have to operate. Usually, we say in the bank that open bank will drive customers to be more empowered. They will decide what they want to do. So as a result, I would like to reinstate a viewpoint. Having the customer at the center, the way to retain clients, goes through customer retention. Therefore, we have to understand how that client is, how he thinks, and we have to be on his shoes to see how we can best serve that client.

I already talked about digital. But 2020 was the year that led us to really expedite that digital transformation, also in terms of having a client-centered view and to empower our clients. We see clients who favor a digital interaction, whereas others favor a more personal interaction. That's why digital is here to stay and we just have to adapt. And specialization, this proximity that we have with our clients lead us to be more specific in terms of the way we want to operate and serve our clients.

In the past, Banco do Brasil lead acceleration, both in terms of digital, specialization and channel integration, all of that has become something very clear and part of our strategy. Certainly, now a unique year with the pandemic and the role of the financial system and the role of Banco do Brasil in society has become very important. We already talked about that in different occasions, but we were very strong in terms of our actions and the way we supported society, society and our clients as well. But as we mentioned before, everything we did was in a very responsible way with total alignment to our view and the way we operate in the credit line or credit granting lines.

And finally, given everything that has happened this past year and in social terms as well, sustainability has been a very clear pillar, not only for society as a whole but at Banco do Brasil as well. This is something that is all over the place. And last year, this was accelerated even further and we also wanted to stress that.

Next slide, you might remember that I showed you this mandala. I don't want to get into all of the details of it, but I would just like to draw your attention to a few things. I already talked about the importance of being customer standard. Customer experience involves physical and digital interaction. So, I would like to refer to how we are prepared to face the digital agenda and how we are operating with that agenda.

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I would also like to talk about efficiency. Last year, I said that we would tackle this agenda and this is what we are doing right now. That's why I'd just like to elaborate a bit in this regard, and then Carlos Andre will give you more details about what we are doing and will give you some more numbers about it. I would also like to talk about our ESG agenda. This is a mainstream thing in the world. And I would just like to let you know what Banco do Brasil is doing in that regard, in regards to ESG. Banco do Brasil has to work in many details in terms of revenue leverages and we are focusing on that as well. I do not intend to have a very lengthy introductory remark, but I'll allow some time for questions at the end.

Last year, I talked about three important aspects to integrate our business further. And I can talk a bit more about that, but we have a lot of cross-target between retail and wholesale and to sell and payroll. But this goes even beyond that, because it involves insurance product, agriculture, productive chain, that also involves a large corporate, small and mid-size clients and even retail clients.

I also talked about some areas, where we stand out, where we take the lead. We are protagonists. And agribusiness and government are two important areas and certainly, these are areas that will help us strengthen our operations. And certainly, there are some other areas that were still untapped and now we're getting into these untapped markets. I mentioned this briefly last time we met, and I talked about open market and cards. This is an area where we are focusing right now, because we believe that we also have to operate through partnerships and we are engaging in partnerships.

Now, finally, an update because I talked about investment banking. And last time we talked, I mentioned our partnership with you UBS BB. We are moving quite well in this direction with strong growth and very robust pipeline. Since the announcement, we already have almost 40 transactions in the capital markets that have been concluded with over 30 mandates and the pipeline is growing. Therefore, I would say that we are on a good track, positive track. And with the growth of the capital markets in Brazil, we will certainly benefit from that.

Now going to the customer experience point. I would just like to say that this is a journey. Last time, I talked a lot about that. So, I don't want to elaborate further about that slide. I'll just mention two important points. First, the indicators are the KPIs. We talked a lot about that. And I have here are indicators of Banco do Brasil. The main one is NPS. We already have very robust NPS. We are growing our NPS in general. There was an increase of 10 points from last year to this year and we anticipate further growth looking forward. This is not the only indicator we look at, because as I said during a previous meeting, we have a new area and that area will work with several KPIs and NPS being one of them, like sales quality, quality live, suitability, et cetera, et cetera. All of these aspects will help us understand, how we can best serve our clients and at the same time, have sustainable revenue.

Indicators are not everything. It's not the target that we will look at, because as I said, these are indicators. Our goal is to perform a cultural transformation in this agenda. So it's cultural, analytical, it involve data on the cultural side. As I said, this is a journey we already started in that journey and we are really focusing in that area.

We already have adequate governance and we -- and this cultural transformation has to do with the induction program. And I believe that any deviation or I mean, any problems that we may have in terms of not pleasing our client maybe has to do with some misleading actions. So, we have to work with our team to make corrections along the way. And this involves training on our side, so we can help the salespeople to do that correctly.

And finally, we also aligned our business to clear indicators and this, in return, impacts the compensation of our employees. So once again, it's a journey that involves alignment and also compensation. And it's a journey of strengthening the culture of the company and the pillars involve use of data and analytics to help us best understand our clients and serve them adequately. We are going on this journey because this is the way that we believe we should go.

Now, speaking about digital. Well, digital, it is important all over the world. I just want to bring you some indicators. Firstly, I think I -- we are seeing that in the industry about the percentage of transactions conducted through digital platform accounts for 86% of all transactions and this is as of December of last year. Therefore, transactional operation is migrating into digital. That's why we have to adapt to that. We have more digital clients growing 40, reaching 21 million digital clients, active clients. So, these are clients who posted transactions with the bank in the last 90 days.

We also monitor those digital native customers. And there was a significant growth since December of '19, almost 80% growth and we have 6.8 million native digital customers. We are also serving clients through Fale Com services or through WhatsApp. And we posted a significant growth in those areas as well. This is here to stay. Also, we are -- we have operations of credit disbursements and we are doing that both remotely and digital. And at the end of last year, the indicator was 72% of Individual disbursements. And PIX, volume of transactions has increased to PIX and Banco do Brasil contribute with 31% of this PIX market at the end of last year.

As for innovation, we launched PIX to voice command in WhatsApp as well. We are committed to innovate, and to follow the changes in the industry. Certainly, to do all that, we need investment, and therefore, we are investing heavily in this area. Investment growth is over 100% year-on-year, more particularly in terms of artificial intelligence and analytics. But we know that the way to operate with digital and throughout this process involves partnerships with other platforms and we are open to do that and heavily engaged and committed to that.

And finally, I would like to stress the quality of our app. Our mobile app, it was ranked both by Apple and Google with some of the highest ratings. While we are increasingly more digital, we are investing even more and by the same token, we will generate more savings, and this will allow us to invest further. Certainly, this is a very strong trend for Banco do Brasil.

And in addition to that, going to the next page, we are now looking towards the future and that involves digital inclusion. And here I would like to mention two aspects. One is business and the other is social. We believe that social inclusion will help on the social

aspect. And that's why to that end, we partnered with the Ministry of Communications, and they are helping us with Internet capabilities in the interiors of the country. So through our foundation, we are also bringing digital and financial education to students and their families.

This not only will help society, but will also help serve our clients once they navigate in routes through the digital world. Banco do Brasil today has, I mean, clients of older age and then we have to tackle those that are younger. This is very important, and this is also another way to operate looking towards the future. Not only this involves the social aspect, but also has to do with future onboarding and customer attraction.

And then we have the business side. We will talk a little bit about that further on. But working together with the Ministry of Communications, we are providing free WiFi in our stores or branches or Mais BB stores. And with that, we help our clients to acquire digital maturity, connecting them to our platform and making them more aware of our apps and help them to navigate through our web.

We are visiting now 1,000 cities in the next coming months to increase digital maturity. Again, this involves the combination of calls and free WiFi, with the antennas provided by the Ministry of Communications. And with all of this effort, we will be able to improve digital maturity of our clients. And by the same token, we will gain more efficiency. This also applies to the rural areas. As we said before, we are very strong in agribusiness. And nowadays, the rural areas, they need better Internet connection. On the one hand, we want to invest in providing funding to providers to improve connectivity in the field. And also, moving to the social aspect, part of the municipalities, where we will operate at, there are rural communities and so we want to educate our clients to operate in the digital world. And all of that is done in combination with the Ministry of Communications.

Moving on to the next slide. Now, I would like to mention one growth leverage. So, this refers to specialization, something I mentioned before. Specialization in our customer base. First of all, we identified that we still had clients that were not totally added to our management base. And now we are including 1.3 million customers with expert advice. So, all retail -- high-retail customers will be served 100% by our expert professionals. It does not only improves profitability, but also customer satisfaction. This is one avenue of growth.

Moreover in terms of investment, we increasingly now that clients need some expert advice. Our clients and investors were served by branches that offer a whole range of products, including investments, with a small area with investment advisors. So, we decided to change the platform and focus at the top of the pyramid of these clients, adding 800 expert professionals and investment advisors. And now we have 46 regional offices operating through 32 platforms.

We will take that customer base, and have them being served by expert professionals and removing that activity from the day-to-day operation of the branch. And at the same time, we will be closer to our investor clients. Another point is the fact that we are already very strong in agribusiness. But our traditional way of operation, I could say that in almost all of

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our branches, we talk about agribusiness. We are already very active. But in terms of being more special -- specialized, we are adding 2,000 specialized professionals, only focusing on agribusiness. 18 -- we will have 18 specialized branches only working with agribusiness. They will not do anything but agribusiness. And we will have 915 customer portfolios in 643 municipalities and we will be able to grow 40% in terms of customers with professional advices. That means that we are engaging this avenue of specialization.

And finally, as I was saying, customers are increasingly more digital. They no longer go to a branch. Therefore, we created our light offices, as we call them. And we have almost 1,500 expert professionals that will operate in a very specialized manner. And that's why we are creating two separate superintendencies.

Now, speaking about efficiency, and this is a very important point. And I mentioned this during our last meeting. This is an obvious agenda. I don't think I need to explain this any further because this efficiency agenda is a given in the global market.

I would like to now refer to our aspiration. Our admin expenses are about BRL31 billion every year, and we aspire to reduce that by BRL3 billion, or approximately 10% of all of these recurring expenses every year. To do that, we have to engage in several different actions. Some of that, you are very familiar with. Reform and compensation plan is something that we mentioned last quarter. But the more we tamper with our employee base, things become faster, things are quicker and then we have home office. We are returning some of the buildings, and this continues to happen after the pandemic. And this will be even stressed further to improve efficiencies, also eco-energy efficiency. We continue to pursue these areas, and ESG as well. And then that also involves organizational restructuring and that involves retail and wholesale chain in our headquarters and supporting areas. All of these areas will be impacted, taking into account the overall change to the system. Therefore, we are now going to optimize these areas. And finally PAQ and PDE we just released a material fact that this process has been concluded.

As we had said, 5,533 employees adhere to the volunteer severance program. And 80% of them here are either very close to retirement, meaning almost 80% of all of these employees were very close to retirement. So, they decided to adhere to the voluntary severance plan. Only, this PAQ and PDE area will allow us to reduce our recurring expenses by almost BRL800 million. This is quite important. The process has been concluded. And we can elaborate further on that during Carlos Andre's presentation.

And finally, I would just like to revisit the review of the retail network. On the one hand, we are focusing on efficiency and on the other hand, we are focusing on serving our customers. As I talked about light offices, having them part of our portfolio of experts. And this is all part of our remodeling of the retail operation. The media talks a lot about that, but they only report to the reduction in the number of our own facilities. But in terms of our own buildings and third-party, we have 8,300 POSs. And after the refurbishing of our network, we are focusing on the reduction of our own network, but also, we are increasing the number of banking correspondents carrying the name of Banco do Brasil that we call Mais BB.

With that, we are increasing our range to serve our clients and gaining efficiencies in areas that didn't really need a brick and mortar branch. Another aspect is that we will not leave any municipality. On the contrary, we will be in 4,483 municipalities. We will just alternate in terms of service stations and physical and brick and mortar branches. So Banco do Brasil is not going to lose any client. We will keep the ones we have. We are just changing the way to serve these clients. And any changes in branches will be performed very carefully. We will previously introduce the banking correspondents and also, we have the digital channels. All the municipalities or localities that will be altered, will go through what we call a blip. That is a group of people that will go to that place to improve the maturity of our digital clients.

Now moving to our next step, I would like to talk about our international operations. Banco do Brasil is operating abroad for many years. And the way we are operating abroad was a bit spread around. We are just finalizing a study to optimize our footprint abroad. And then we defined two strategic avenues.

Number one, our operation abroad has actually served only Brazilian customers. When these clients or companies, the idea is to help them to promote foreign trade. We don't just want to be there for them just to provide lending or financing in the countries where they are because there are other larger banks with better funding to do that. So, our idea there is just to focus on foreign trade.

In terms of individuals, I clearly believe that there is a migration of Brazilians abroad and we can certainly serve them providing banking solution, exchange solutions, and depending on, where, we can also provide international investments. And along this new strategic line of operation, we have some drivers. And one driver is customer focus, improving customer satisfaction and certainly efficiencies. Because as I was saying, to do everything I said that we want to do, we can operate in a more centralized fashion with leaner restructures. And this is exactly what we are doing.

Today, our officers abroad are very expensive, particularly due to the exchange depreciation. And it's important that we generate efficiencies without impacting our customer base. With that, we will generate further efficiencies and optimize our service to clients. So, this is what we have in terms of our units abroad.

There are two other topics I would like to mention. I first talked about our ESG agenda. Banco do Brasil has been for years very sound in this area. We have -- we are the bank with largest disbursements in terms of sustainable agriculture. We are recognized by several Brazilian and international rating agencies. But we decided to go one extra mile. And for those that have not watched this video, I recommend you watch it because it talks about our strategy and how we should operate, and also the commitments we have for ourselves looking forward.

We listed 10 tangible commitments, and they are divided into three pillars. One is to help our clients on this transition towards a more sustainable economy. And among these commitments, we have renewable energy, reaching BRL15 billion in funding for renewable energy. We are also starting to operate even more strongly. In agriculture, we

just recently had an agreement with BRF to help them to deploy photovoltaic plates. We just signed an agreement with a platform called Portal Solar, solar portals to help our agribusiness clients throughout Brazil, to make that transition to photovoltaic energy and we are just emphasizing funding for this sector.

Well, we want to grow even more in this area. We are already very strong in terms of funding entrepreneurs in Brazil, but we want to strengthen our footprint, reaching one million customers or entrepreneurial customers in the country. And finally, our strengthening in states and municipalities, we want to improve the efficiency of both the states and municipalities both in terms of energy and sanitation, BRL20 billion. By 2025, our portfolio will reach BRL20 billion.

Another way to push this agenda forward is, what I call, a remediation between investors and borrowers, with the intent of increasing their sustainable footprint. And we are doing that through an ESG fund. We want to reach BRL20 billion in ESG funds by 2025 and vast majority of these assets, 100% of these assets are ESG certified. Also, in terms of the capital markets, we want to provide funding and companies will then invest and we want to provide BRL30 billion to these transactions.

And finally, we have to operate in a responsible manner. And after 2021, we want to compensate 100% of GHG, and also reduce 30% by 2030 all of the GHG emissions. So, we will compensate with reductions. And there is another platform saying that our consumed energy will be 100% renewable, but 90% produced through photovoltaic energy and we will then sign certificates to reduce that further.

We also believe in social impact, diversity in governance. And to that end, we are committing to having 30% of our base of leaders being female workers and 23% black and mixed-race. I talked about digital platform. We want customers to be increasingly more digital, not using paper anymore and we want to reach 17 million paperless customers by 2025

And talking about Banco do Brasil's foundation, we intend to invest BRL1 billion by 2030 in education, social technologies and many other things that are already part of the pipeline of the foundation.

Now, I'll give the floor to Carlos Andre. But I would just like to touch two points that caught my attention. First is capital. Our capital is very strong. Our expenses are -- were very stable in 2020. But as I said, we have what it takes to continue to grow or to -- I mean, to continue to reduce expenses. And I would also like to mention our loan portfolio that grew 9% in a very unusual year, which is a very reasonable volume. But given the fact that our portfolio quality is very robust, we have everything that is necessary to outperform and to be even better.

So thank you very much. And now, I'll give the floor to Carlos Andre.

Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Well, good morning, everyone, and thank you very much for joining us today during our earnings release call. Thank you, Andre, for your initial remarks.

And now, I will talk to you about our main numbers and indicators. First of all, on Slide 15, I think that it's important that we highlight what happened last year. I mean last year, we needed to put in place some preemptive, and these provisions somehow impacted our results. Despite all that, it's important that we start by mentioning the results of Q4 2020 that grew 6.1% vis-a-vis the previous quarter. By the same token, our accumulated net income in 2020 -- adjusted net income was BRL13.9 million, which is an ROE of 12%. It's also important to highlight that our PPOP was very resilient. PPOP is pre-tax and pre-provision earnings. So by the end of 2020, we reached BRL42.4 billion, growing 5.9% vis-a-vis the same period of the year before.

Now speaking about our expanded loan portfolio. By the end of 2020, we had BRL742 billion, growing 1.5%, vis-a-vis the third quarter and also growing 9%, vis-a-vis the end of 2019. The main highlights involve the individuals portfolio, which grew 6.7%, vis-a-vis 2019, with some line -- particularly payroll-deductible loans with a good performance. We grew 15.2%. Also when you look at SMEs, we grew -- vis-a-vis 2019, we grew 25.6%. And the highlight here goes to our participation in the government aid programs, especially Pronampe and CGPE.

Now speaking about large corporations and large corporates and government, there was an increase of 10.8%. And probably, I would draw your attention here to our performance in the upper middle segment. That is in keeping with our goal to improve the mix of the portfolio for better returns. And finally, agribusiness, which is one of the highlights of the bank. We were able to post 4.3% growth when compared to 2019. And mostly this was rural credit.

Moving to the next slide here. We have a lot of information. And we bring a lot of details about our credit forbearance portfolio. And I know that analysts will look at this in a lot of detail. Our credit portfolio was BRL130.1 billion, which serves 2.3 million customers. First point here is the quality of this forbearance portfolio, with almost 95% in operations with double AA-C ratings with over 98% of transactions with no delinquency history, with a very long history with the bank, over 17 years of relationship time. We had four ways of private forbearance. In the last two ways, I think if you look at the yellow bar in the slide, here we had a relevant participation of government clients. And due to a very specific law approved by the end of November, they were able to adhere to these forbearance portfolios. When we consider the government segment, together with the payroll loans of individuals, out of the BRL130 billion, almost 45%, considering payroll loans and governments, add up to the two items with a lower risk in this forbearance portfolio.

In addition to that, in payroll loans, as part of that gray bar that appears in the slide, we also have the dynamic flow of exit from grace period. That's why sometimes it's difficult for us to distinguish what is really forbearance because of the pandemic, or what are natural forbearance that is carried with the operation. And SME is an area that we have to look closely because of the risk. 85% of the credit forbearance were geared towards companies that are more resilient.

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Speaking about the portfolio, we showed you how we were able to expand the credit. Now, we look towards the future. The first point here is that over 50% of all of the transactions are already presenting a good payment flow. And I would like to refer to NPL. NPL, I mean the shorter NPL, 15 days to 90 days and NPL over 90 days. They are still at very low levels, 0.76 in the shorter NPL and 0.44% in longer NPL. Well, we certainly will see adjustments in these figures caused by the payment dynamics. We expect to see a higher concentration in the first quarter of this year, and the remaining of the portfolio will be normalized in the next coming quarters.

Now moving to Slide 19. Here, we will talk about the renegotiated portfolio. And I would like to make a distinction between the forbearance portfolio and the renegotiated one. The renegotiated one ended at BRL29.6 billion, was due to a specific case that was included in this calculation. What I would like to highlight here are receivables minus net interest that presented a good performance. We had BRL2.8 million, which represented an increase, vis-a-vis previous year. And that was a positive performance in terms of delinquency levels, with a very satisfactory coverage ratio.

In regards to individuals, I would also like to emphasize renegotiation conducted through digital channels. 47.5% of renegotiations occurs through the digital channels, which brings a more positive experience to clients. And at the same time, these negotiations are more pushing on our side. And this led to almost 372,000 contracts from individuals.

Now moving to the next slide, we talk about ALL and credit risks. As I said earlier on, this year, we had a very unique dynamic on the provision side. We introduced into our balance sheet, preemptive provisions for credit risks amounting to BRL8.1 billion. These preemptive provisions were spread in a very uniform way between all of the four quarters of 2020, about BRL20 million per quarter.

ALL expanded. At the end of the fourth quarter, we had BRL5.2 billion being added. In fact, there was a decrease when compared to BRL5.5 billion on Q3 of 2020. In fact, this was partially attributed to our good performance in terms of recovery of write-off. I mean, 50% of credit recovery was done with cash payments, and this is a very significant aspect. And also, a reduction in impairments when we compare fourth quarter to third quarter. Anyway, we believe that we were able to build and we indeed build a good cushion of provisions, good enough to allow us to navigate through 2021 in a very -- with a very comfortable provision, offering all of the pre-conditions that are necessary for us to improve our results.

Slide 21 refers to NPL, our NPL indicators. Even if you look at the growth of the portfolio, the renegotiation dynamic, they are in a very comfortable position by the end of 2020. I mean, NPL over 90 days is just 1.9%, meaning that it is lower when compared to the average of the national system, which was 2.1%. And NPL 15 days to 90 days is flat at very comfortable levels once again. Coverage ratio, and our provisions vis-a-vis delinquency, the balance is very robust by the end of 2020. We had almost 350% coverage, whereas NPL formation and new NPL coverage still remains at very comfortable level.

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Now, speaking about our revenues. First of all, I would like to emphasize our NII. NII was up by 5.1%, reaching at the end of 2020, BRL56.7 billion. Very important contribution coming from our funding costs. Our funding costs were significantly reduced in 2020. That was an important -- there was an important contribution coming from the reduction of the basic interest rate. And in 2021, I think it's reasonable to expect that this contribution on the funding side would be proportionately lower. But we believe that credit revenues would be strengthened. And as a consequence, we will be able to deliver a net interest income, which will be very competitive.

In terms of fee income, looking from the third quarter towards the fourth quarter, there was an increase of 1.5%. And once we compare 2020 to 2019, in fee income, there was a reduction of 1.7%. And there are some peculiarities in the way that where we calculate our fee income from lines that traditionally for some of our peers. At the end, impact to fee income in our various specific case, they are calculated in the line of equity income. And I can talk about credit card acquiring business and part of revenue is captured through equity income and also with our partnership with UBS BB in the area of capital markets. Part of the revenue from the capital markets, a significant part of it will also be calculated through equity income rather than fee income.

Now speaking about admin expenses, our CEO already talked about that. It was very stable between 2019 and 2020. But the highlight is in personnel expenses, which had a decline of 0.1%, resulting in an efficiency increase of 36%. As I ended the previous slides with expenses, I think it's important that I mention now our efficiency measures, already mentioned by Andre here.

So the goal is to seek for further reductions of BRL3 billion in a recurrent way. Once we deploy all of the measures, we aim at reaching an expense reduction of BRL3 billion, a reduction in recurring expenses. And then we have, what we call, institutional reorganization. In fact, this is a combination of mergers that starts with the recombination of our branches that we are now implementing in our head office.

Also, we are making changes to our back office and commission positions and this will generate savings of BRL982 million, close to BRL1 billion in terms of Performa and new compensation plan. This was the measure that together with Flexy BB and Home Office and all of the eco-efficiency measures, measures that have been previously announced and I think you might recall that we have talked about it, a capacity to reduce expenses of BRL3.3 billion during a period of five years with Performa, Flexy BB and efficiency measures.

So due to the dynamics of all of the other measures and in particular related to PAQ and PDE, we will accelerate the capture of these savings and especially, with the Performa and new compensation plan. So much so that in the next five years, we will probably reach savings of BRL10 billion. And in 2020 alone, our gross savings reached BRL1 billion. In voluntary severance program, PAQ and PDE, our calculation indicates savings -- recurrent savings of BRL783 million a year.

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Moving to Slide 24. Here, I talk about both voluntary severance plans or termination plan. We already had the adherence of 5,533 employees that adhere to the program. Almost, 75% of these employees are employees close to retirement and there was an additional percentage of about 5% of other employees that very soon would be eligible for retirement. And as I said before, these two programs, PAQ and PDE will provide us with recurring savings of BRL783 million annually. And in the next five years, we will be saving net savings of BRL2.9 billion.

The evolution of our employee or headcount appears in the bottom part of the slide. At the end of 2019, we had 93,190 employees and in 2020, we had retirements or natural terminations of 1,500 employees. And by the end of 2020, we had 91,673 employees with an additional reduction of 5,523 of employees to adhere to the voluntary program. So, when all of the terminations are concluded, we will end up with 86,140 employees, so a reduction of over 7,000 employees.

Another interesting point to highlight is the average cost of new employees or employees that will be future employees of the bank is, on average, 50% lower than the current average part. And finally, already mentioned by Andre, it's always good to mention our CETI. At the end of 2020, our CETI reached 13.62% and this was a combination of sum and mix as well, net income, positive effects of mark-to-market, some prudential adjustment that had a positive impact. And on the negative side, I will probably mention some actuarial impacts, which reduce that number a bit and also risk-adjusted assets.

An important thing to mention is that now we have a very sound capital base and this will help with the performance, boost the performance of our loan operations. Well, I already talked about 2020 and now we are revisiting our guidance for 2021. And I'll just highlight a few items. Our guidance for adjusted net income for 2021 is being presented here in the range between BRL16 billion to BRL19 billion. And contributing to this guidance is a return to normality of the provisions dynamics and we expect here that the expanded ALL should be between BRL14 billion and BRL17 billion.

Our growth expectation of our NII is between 2.5% and 6.5%. I already talked about what we anticipate in terms of the dynamic of 2020. I mean, we have funding dynamic that should be compensated by some loans dynamics and we still envision some additional gains, even though not so high in terms of cost of funding loan portfolio. We expect to grow between 8% to 12%, and in our view, this is a very robust growth.

Fee income, I already explained. I think that it's important to mention and I will reemphasize that we have some peculiarities that really distinguishes vis-a-vis our peers. And I think that these peculiarities in part explain our expectation to work in a -- in the range of minus 1.5% to 1.5% growth.

Admin expenses, the range is minus 1.5% to 1.5%. And this takes into account inflationary expectations. We already planted the seeds to reap the benefits as of 2021. So after 2021, we expect to increase our performance in terms of admin expenses. So, we will work hard to be on the negative side of the range in order to deliver sustainable results in the future.

And with that, I conclude my presentation. And we are now available to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate our Q&A session. (Operator Instructions) Our first question comes from Mr. Jorg Friedemann from Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you very much for this opportunity. Can you hear me well?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Yes. Very well. Thank you.

Q - Jorg Friedemann {BIO 15405752 <GO>}

I have two questions. The first one -- and thank you, Carlos, for the very detailed explanation about the range of fee income. But we were a bit surprised even with that range because when you look at the numbers for 2020, if you could please give us an idea of what would be that adjusted figure, the recurrent with equity income would be really helpful. This is my first question.

And my second question is about capital. You are surprising us very positively. Quarter-on-quarter, it is really impressive, an impressive growth of the loan portfolio. The RWA of credit risk is lower. It has been quite stable, well, certainly due to the government programs. But you had a very good management of your credit risk. But what is the destination of that surplus capital? You have 11% in terms of your CET1. Do you have any idea in terms of the destination of the capital or dividends, or even the payment of that BRL8.1 billion? And if you were to adjust it by that, you would still have CET about -- of around 12.5% and whether that will be also discussed by your Executive Committee?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Well, thank you, Jorg. I will start with some explanations. And here, we also have Carlos Bonetti. He is our Vice President for risk and credit risk. Well, addressing your question about fee income, I don't have here a pro forma number of what would be the range once you perform all of the adjustments, considering the peculiarities of fee income. So, I'll leave that for Daniel Maria. Maybe he can do that homework and give you an overview considering all of the items that appear under equity income. And in terms of the dynamics or the components that are captured in fee income, here we have important contributions in that line, in our revenues related to checking account fees and in this regard because of competition, et cetera. We have some very challenging scenarios. But I would also like to mention the counter side of that, which is the improvement of our service capacity, putting more customers onboard. If on one side, this competition is high, we also believe that we still have further opportunities to capture through better service

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and better opportunities to serve clients better and more encompassing. And eventually, we will certainly see some contribution coming forward with fee income.

Another important component is admin expenses of asset management. In 2020, we made several adjustments to some product lines and some asset management to adjust them to this new reality of low interest rates. Therefore, we expect that using, I mean, good investment consulting, we wanted to make a transition from some products to more sophisticated products, so -- like products that have exposure to international markets, et cetera.

So despite the competition and despite the very challenging scenario, especially in terms of fixed income investments, we will be able to deliver good results and growing result in terms of asset management. We see still some other opportunities in terms of pension funds, insurance and premium bonds. This is the first part of your question.

There is another question also. I think that in practice, we present a very robust number. You should also recall some peculiarities that lead us to be more conservative on our side. One point is the item related to actuarial risk. With actuarial risk, I think you are quite aware that there is some volatility that comes to our capital index because of actuarial issues, especially related to Previ employee fund, and our healthcare plan. And as a consequence, we understand that it will be prudent to keep a safety cushion for some contingencies. And another point you mentioned relates to capital debt index, BRL8.1 billion. We are still looking at it and discussing issues related to probably the return of that plan to National Treasury. I mean, just during a more recent discussion, it was a safeguard to maintain legal security on the side of the asset, having as a base, all of the funding that was earmarked.

The funding was used for agribusiness and the portfolio of these agribusiness transactions have a very long maturity date. So until you have a mature portfolio, I mean, it takes a long time for the portfolio to totally mature. And during that recent discussion, they mentioned that we have to respect issues related to capital. And with all that, I believe that we have very comfortable rates and they allow us to outperform in terms of revenues and assets.

Now, I'll turn the floor to Brunetti.

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

I just want to mention the way we will use that capital. I think the most direct answer is offering credit. Our growth guidance is very robust for 2021. So, this capital will be used to -- will be used in our main business, which is loan portfolio. The bank has a big appetite, and we will still use this very positive gear.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Another follow-up. So that changes the view about your capital target, a CET1 target or still remains at 11%? Or maybe we should assume that in the next quarters, you will consume the CET1 to converge to your expectation?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

No, our target remains the same at 11%. And we also believe that with a better dynamic in the economy, we will have the opportunity to allocate that capital in our credit business.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you. Thank you very much.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. Good morning, everyone, and thank you for your presentation. I have two questions. My first question is about your decision to remain offering that wave of renegotiations. For the first time, private banks were only offering one or two waves at the most. You said that most of the renegotiated loans refers to payroll loans or government credits with a lower risk. I just want to understand the bank's decision to continue to offer these renegotiated opportunity, especially in cases with a very low delinquency rate. Then, PAQ and PDE, you made clear what the benefits were. But I just want to understand what is the cost of these programs to the bank? What could we expect in terms of some extraordinary expense looking towards the second and third quarters?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Bonetti?

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

I will start addressing your first question about renegotiations. The first wave that we implemented, I mean, both the third and the fourth wave had a larger number of forbearance, especially in regards to government transaction. The regulation that allowed for that extension came a little bit later. And that's why this was mostly concentrated in the third and fourth wave.

These are loans backed by the federal government. And in fact, the risk is very low. But the idea here is just to organize and optimize the cash flow of these governments with the payment of the installment. So, we still also had, I mean, loan portfolio and forbearance from large companies, about BRL4 billion in the fourth wave, were earmarked for large companies. And again, serving the needs of the bank to organize the cash flow and the payment flow of these transactions.

It's important to remember that we are talking about clients that have been with the bank for many years. The relationship time exceeds 17 years. Therefore, we are very much aware of their business, and we know we are very much aware of the cash flow of these companies. That's why we granted that extension. And then we have a number of individuals. And this involved the organization of payments from payroll loans from the states. The idea that was renegotiated, together with the paying agents was just to give a

relief to the families in terms of the deductions from their payrolls and extending the payments to a later date. Well, we know the paying company, the payer, and therefore, we decided that it was an adequate move to grant an additional payment relief (Technical Difficulty) plan to those clients [ph]. So in fact, you're right at first, we have the implementation cost of some of these programs, but we expect the impact to be around BRL800 million in terms of implementation cost on year one.

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Q - Mario Pierry {BIO 1505554 <GO>}

Thank you. Thank you very much.

Operator

(Operator Instructions) Our next question is from Gustavo Schroden from Goldman Sachs.

Q - Gustavo Schroden {BIO 21633251 <GO>}

Good morning, and thank you for this opportunity. I also have two questions. My first question is about NII. Carlos talked about some pressure on the funding cost. But I would just like some additional clarity. What is behind that pressure on the funding cost, and whether that has to do with this expectation of increase in the Selic rate? And after so many changes in your mix, what about today? I mean, how much of your asset today is pre-fixed? And how much your liability is pre-fixed? So, this will give us a better idea about what would be the impact of a potential increase on the Selic rate and what is the dynamic of the margins throughout 2021.

My second question. Because it's not very clear to me, when we look at the numbers, when you talk about BRL6 billion, but for how long? This is not very clear to me. And how does that communicate with that savings of BRL10 million by 2025? I just want to understand that window of time and how does that talk to that BRL10 million by 2025? And whether in your OpEx guidance, do you believe that your expectation is 100% included in your guidance? I know that this is a plan you have an expectation of having an improvement of BRL3 billion. Are you already considering that BRL3 billion improvement in your guidance or not? Thank you.

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Well, thank you, Gustavo. I will start with your first question, which is related to our margin. And then you asked us to elaborate on funding. And in fact, as you put it yourself, in 2020, there was an important contribution in the reduction of the cost of funding. Still structurally speaking, on the funding side, on the liability side, most liabilities are indexed to CMI. I don't have the exact numbers. But we can tell you, we will give you more details about the mismatch. But certainly, part of -- an important part of our portfolio is on the asset side on a pre-fixed rate naturally. And we are getting into 2021, where we see an evolution of the Selic rate. And this somehow could put some pressure. I mean, not really put some pressure, but change the dynamic in terms of our NII. So, number one, we still have additional gains to be captured on the funding side due to renegotiation of some escrow deposits or legal deposits. Some of them were already implemented at the end of 2020. So as a consequence, the benefit from more interesting renegotiations will be captured in full throughout the year of 2021.

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Also, on the funding side, we anticipate that our treasury will be more active to capture further opportunities. Therefore, proactively we will be able to perform better in terms of this mismatch between assets and liabilities. Just to give you an idea, in terms of assets and liabilities, on the asset side, we have a higher percentage. So, a higher mismatch. In terms of pre-fixed, there is about BRL45 billion, I would say now was fixed. It's flat. So, this most important mismatch where we have BRL45 billion on the asset side, this is the position by the end of last year in terms of our funding. But it's also important to say that, number one, this is not a very significant number. And point number two is that the recycling of this portfolio occurs in a very short period of time, which allows us to go back to some positive and competitive levels in terms of NII.

And I think you had a second question. Daniel, I think you can answer the second question.

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

Well, I still have a comment about this question, Gustavo. I really -- I recommend you to look at this information later on. This mismatch we have about BRL400 million and this is carried over, as Carlos Andre said, to savings and the other party at the indexing figures. But 60% of this amount is priced in up to one year. And because of that, the impact is almost neutral. In some transactions, there was a shock of 100 basis points and the curve would mean something around a reduction of BRL100 million in terms of NII. And I would like to remind you that this higher interest rate will occur gradually. And this, at the end, mitigates the impact in terms of NII because of that, the behavior is almost neutral.

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

One more point. Your second question was about the dynamics of the way we capture savings, right?

Q - Gustavo Schrodén {BIO 21633251 <GO>}

Yes. I just want to understand the dynamic behind that BRL3 billion and what is the timeframe and how much you're considering in your OpEx guidance? And how do you consider the capture of that BRL3 billion, whether this is considered in full or you consider that this -- in the guidance, you already believe that this will be in effect in 2021? Or are you being more conservative?

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Well, the first important point is that the guidance considers what, in fact, we believe will be captured throughout the year of 2021. And during my presentation on Slide 23, our gross savings would be for BRL1 billion in 2021. And in 2021, this is a year where somehow our implementation costs will be in effect of that BRL3 billion. The full implementation of each of these areas will happen in a timeline, but it's a short period of time. So in a short period of time, we believe that all of these measures will be fully implemented.

And I would say that most likely, most of these measures will be captured in the next three years. Certainly, some of them will occur in that timeline like Performa and new compensation plan. You might recall that we made changes to the fixed compensation of

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commissioned positions with a reduction in the fixed compensation and there was a reduction in variable compensation. The capture of this reduction due to lower fixed remuneration occurs as the turnover of our staff occurs in that timeframe.

And with the implementation of PAQ and PDE, our expected headcount turnover to capture savings throughout time in our Performa and new composition plan was down because employees leave the voluntary severance program, so that turnover was accelerated. And with Flexy BB and eco-efficiency planned, we will capture these in that timeframe, as we deploy both restructuring of our real estate occupation and also capture of energy efficiencies.

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you. Very clear. Thank you very much.

Operator

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

Q - Nicolas Riva {BIO 20589225 <GO>}

Thank you for this opportunity. I have one question. Can you comment on your discussions with the government to pay for that BRL8 billion of debt after the decision from the accounts court, could you comment on the timing of that? Thank you very much.

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Here is Bonetti.

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

Well, the discussion about that return is still ongoing. We don't have a time frame yet. But there is an important assumption, which is to follow the schedule of rural credit schedule, which is captured by that capital. So, we are talking about following that retail schedule. That schedule is long. It's up to 10 years. This is the time that these transactions will remain in our portfolio.

Q - Nicolas Riva {BIO 20589225 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Otavio Tanganelli from Credit Suisse.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Good morning. Thank you for this opportunity. I just have one question related to the asset. Do you still see some pressure coming from asset pricing? Strategically speaking, do you anticipate migration in the assets to a more risky assets that charge higher

management fees, or whether there is something to be done in this area? Or maybe you can engage in some partnership, or whether it would make sense to have an asset in the bank or maybe you think about some divestment? I would just like to understand what is your view? Thank you.

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Otávio, here is Carlos Andre. Thank you for your question. I would even benefit from my previous position because I used to be CEO of BB DTVM. And this will help me to answer your question. Well, as you put it yourself, we've been seeing a very important move in the inventory in terms of repricing, repricing of some product lines and in particular, some fixed income products or capital funds. The market is more competitive. Not only that, macroeconomic conditions are requiring some further repositioning in these particular product lines.

On the other hand, what we see is, number one, in fact, here we have the opportunity to promote a better -- spend allocation, so to diversify into better added-value products like ones that are located in assets abroad. Not only, we would be able to deliver a better portfolio to our clients, but also we -- not only will be able to compensate for some eventual necessary adjustments from those more passive products, but it's important to highlight another move that we currently implemented, just announced by Andre during his presentation, which is to strengthen our investment advisory area.

We are adding more than 900 expert professionals in asset management. We are also focusing on our -- investing in our style clients, so as to give them a more personalized service. By the same token, we are focusing on investing in our digital tools, so that investors that are more independent in terms of their investment decisions that they can find not only advice the additional information to help them make investment decisions. So, we want to grow our investment base. We want to improve the mix somehow to some product -- products that are more profitable so that we can work with admin rates and better products. And he also mentioned a more strategic move involving our asset management area.

One point that I would like to mention is that this is a very important activity that we can offer our clients, meaning that investments are not out of the radar of what we want to offer our investors. We have a very relevant footprint. We have about 20% market share. This is a relevant presence. But again, we wanted to strengthen our credentials. And by doing so, we will somehow envision strategies that will help us to strengthen our capacity to manage and offer these products. And certainly, this is a partnership. It's an option. We do not call them divestment, but it's just a partnership to strengthen our capacity to develop solutions and in particular consider this current scenario.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Very, very clear, Carlos. Thank you very much.

Operator

Our next question comes from Victor Schabbel from Bradesco.

Q - Victor Schabbel {BIO 17149929 <GO>}

Thank you for this opportunity. So along the same lines of Otavio's question, especially now regarding to commission, what do you think, looking forward, considering that this segment is becoming more and more competitive? When you're looking at issuances of credit cards by fintechs, and you also have other players offering cashbacks? And you keep 100% of the cost and 50% of the revenue. How do you think you can equate that situation, considering costs and admissions and competition for volume, considering the fact that digital banks are growing right now?

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Victor, thank you. This is Carlos Andre. Thank you for your question. I will talk about some of the aspects you mentioned. In the universe that we call means of payment, and I'll try to be very encompassing. You already said it yourself, that it is important that we take into account the market dynamics. In fact, this is a market segment that is going through enormous transformation with new players being very disruptive vis-a-vis traditional models. Therefore, we have to take into account the market dynamics.

Another point mentioned by Andre is that products related to payment means and solutions related to payment means like acquiring business itself are all businesses in solutions that are important and strategic in regards to the banking relationship that, obviously, not only we want to maintain but also to strengthen. And moreover, in all of the different segments, if I take the entire means of payment offering, we also have to take into account the format of all of our initiatives and strategies. In some cases, we have some specific partners. And in other instances, we work with the state companies and with minority shareholders. Therefore, it's important that what we can say about it is that, okay, undoubtedly, this is a segment that is certainly going through a very quick transformation in competitive terms.

The second point is that we understand that, certainly, we do have some solutions in some business lines that are important and that they remain in our basket of offers to our clients in favor of our relationship with them and all of the banking relationships that we intend to develop further. And also we have to take into account the partnerships and the relationships that we have when it comes to thinking about the solutions that can strengthen our position. I think for now, this is all I can say. I don't know whether that was helpful

Q - Victor Schabbel {BIO 17149929 <GO>}

Thank you. I have another follow-up. Do you believe that some eventual solutions to optimize or to unleash additional value in this context of means of payment could also be build up in a reasonable timeline of one or two years? Do you think this is something that you can structure in a good time frame, particularly in view of this very quick change that the industry is going through right now?

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Well, we believe, yes. We certainly have to look for alternatives and solutions that can be deployed quickly. It's difficult to tell you what would be the ideal time frame. But

considering, what I said before and what we are noticing from the market, I think it's reasonable to expect that our expectation would be to grow and look for measures to strengthen our business. It's difficult to give you a timeline, but we wanted to move this as quickly as possible

Q - Victor Schabbel {BIO 17149929 <GO>}

Excellent. Thank you. Thank you very much.

Operator

Our next question is from Jason Mollin from Scotiabank.

Q - Jason Mollin {BIO 1888181 <GO>}

Good morning. Congratulations for having just one earnings release call rather than two. I like that efficiency. And I think you answered most of my questions about efficiency gains. But my first question is with 100 -- with a decrease in headcount by 2021, do you see the possibility of coming up with other additional programs for voluntary severance or termination in the future and also changes to your distribution network?

And my second question is about joint venture with UBS and the outlook for future joint ventures. You already mentioned an amazing number of transactions concluded in attributed mandates. So the question is, your current net equity, is that appropriate? And what should we assume in terms of profitability through that subsidiary? Moreover, could you give us some more color about your strategic objective to pursue further asset sales or divestments?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Hi. This is Andre. Thank you for your question. I think your first question was about additional voluntary severance program. This certainly depends on the market. Clearly, we see that with further digitalization and the reduction on physical transactions, this certainly has an impact on the transactional mode. We decided to do what had to be done to anticipate our move due to other criteria as well, because our employee base, our headcount base and the age bracket is very different when compared to our peers. But I think the main answer I could give you, to be very transparent is that this will be done according to adjustments to the model. I believe that the industry as a whole will continue to be impacted and efficiency is just part of our everyday operation. Our guidance will be a bit higher. Therefore, this will be a reality looking forward, as you can clearly see happening abroad.

Now in regards to your second question about our JV with UBS BB, as I said before, it was a very good start. We certainly changed our relationship dynamics and the content as well when we talk to our clients. And as I also said, the pipeline is growing significantly beyond transactions. The Brazilian capital market is evolving as well. Therefore, I'm very optimistic and I'm very optimistic as well in terms of the potential growth looking forward.

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Therefore, we wanted to increase our balance sheet capacity with our content proposition to our clients. This is still in its infant phase. Certainly, we are already a large bank for several clients and the idea now is to strengthen our position. Our main clients, we are now coming up with a list of different categories of clients or capital markets, et cetera. And the idea now is to evolve in the process. And as I said, we are just starting. And as we said before last year, this JV not only increases our funding capacity in the Brazilian capital markets, but also it increases our distribution capacity as well, both for wealth and also on the institutional side. It's a win-win for both parties.

We are improving. Not only we are improving on the relationship side, but also on the content side. We are adding new people to provide content in terms of M&A and on the capital market side as well. We are very pleased with the beginning of this transaction and this tends to grow certainly depending on the evolution of the capital markets in Brazil. But the trend is very positive.

In terms of other partnerships, Carlos Andre just mentioned a potential alternative that involves the asset management area of the bank. What we see is our track record. Banco do Brasil traditionally uses partnerships to expedite distribution processes to back serve our clients. We did that with insurance many years ago. And this is just a trend. I briefly mentioned that. But more and more, Banco do Brasil understands that the way to accelerate our technological capability and also to offer more products is through partnerships. Considering this current momentum with fintechs, et cetera, we don't have a lot of time to develop everything internally because there are other opportunities available in the market, offerings to clients in terms of technology, et cetera. So announcements of further partnership will continue to appear. They will be more common.

Q - Nicolas Riva {BIO 20589225 <GO>}

Thank you.

Operator

Our next question comes from Mr. Yuri Fernandes from J.P. Morgan.

Q - Yuri Fernandes

Thank you very much, and good morning. Congratulations on your initiatives to improve the bank's efficiency. I have one question about taxes. I don't think anybody here asked that question yet. Can you tell us about what happened in this quarter, that the tax rate was very low? When we do the reconciliation, there was some adjustments coming from equity. Can you explain what happened? And what is your view for 2021? I know that equity income helps your average tax rate.

I have another question about investment on digital. You talked about BRL2.3 billion in the next few years. And how does this compare with what the bank was doing before? There are some basic investment (Technical Difficulty) the past about an investment, which would be -- which will mean a higher average compared to digital. How does that number compares to your track record?

And the third question is about your fee. I think you already talked a lot of about that. So very quickly, the number of clients, an even increase. Is the bank changing its strategy? Or is becoming more aggressive? What is your view on that specific line in terms of the income?

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Let me just take up this question and then, I'll give the floor to Daniel. In terms of digital, I'd just like to drive your attention to two aspects. Number one, the significant growth that, in fact, we are focusing more on analytics and AI. When I look year-on-year, just this year when compared to last year, the growth is over 120%. We are growing and we know that we won't be able to invest in everything or in every area. That's why I said that we will have to team up and have partnerships with fintechs to expedite the process. And we already said last year that we have venture capital area to invest in fintechs to help them to accelerate their growth. With a larger commercial critical mass, we will have additional gains and we will accelerate that process. The growth is really significant. But investment will never be as much as we would like because things happen much more quicker. And we know for sure that we won't be able to follow things at the pace that they happen. So, please take that into account. Now investment, about BRL3 billion a year and those come in addition to what has been done.

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Here is Carlos Andre. Thank you for your question. You talked about taxes. I think you answered your own question. The main contribution was a change in that possibility to do distribution. Through interest on capital, there was a cap of dividend payout of 20% imposed by the Central Bank, which was increased to 30%. And that would be the net amount that could be paid out to shareholders through interest on capital and sometimes the percentage could even be higher. That was the main item of contribution when it comes to tax payments in 2020. And then this is part of the natural dynamics throughout 2021. There isn't much else we could add about that.

Now you have also asked about fee income and how we see the dynamic, especially in terms of checking account fees. The main aspect that I would like to highlight here is that at first, due to the fact that the market is more competitive, those lines were a bit more pressured. And again, I repeat, probably, we will have further opportunities because of the improvement of the fact that we are rendering further investment advice to our customers. We can offer them better products and this will be translated into better opportunities. And in turn, we will have a more positive performance, especially in these lines of checking accounts.

In my previous presentation, there are some lines that you will see some more positive performance like asset management. We expect to see some growth despite the fact that the market is now more competitive. In regards to consortium and insurance product, pension plans and premium bonds, we anticipate some positive results and a positive contribution to that fee income line. I think that was all.

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Q - Unidentified Participant

Good morning, and thank you for this opportunity. I have a question about the one-off items. What were the one-off items, especially in terms of legal risk? Because this is not very clear by reading the release. And how do you see the evolution of the legal risks looking forward? We saw a trend towards improvement and we believe that this trend will continue in 2021.

And the other question is about provisions. The guidance, through my calculations, I think I see a 38% reduction in provisions and you are already talking about BRL3.9 billion per quarter versus that BRL5.2 billion in the last quarter of 2020. How do you see the evolution in 2021? Is it something that should be normalized in the first half of the year? Or we should expect this trend upwards throughout the year?

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Thank you, (inaudible). This is Carlos Andre. Well, you asked about legal and one-off risks -- legal risks and one-off items. In our Investor Relations area, I mean, we anticipated by 2021 a top guidance of about BRL1 billion of legal risk per quarter or something like that. But when you look at the accrued numbers throughout 2020, I think we were within that range, something like BRL4.2 billion in legal risk but in practical terms in the last quarter, it was more specific and when we talk about legal risk, basically talking about labor lawsuits and civil lawsuits in terms of label suits, there was one specific advance when there was a change in the likelihood of successful outcome on our side in terms of civil legal claims, we have some models that use artificial intelligence, whereby we try to capture.

It's all the need or additional provisions due to the fact that sometimes we see -- that we need additional provisions and this is pretty much in keeping with our predictive models that indicated what the amounts to be wasn't additional amounts could be certainly, linked to the vigorous. We have also asked about one-off items in terms of one-off items. There is one thing related to reconciliation of accounts because of the government, because we are the managing agent of the program. This is part of our one of the new operation. This is by itself a one-off item and posted as an extraordinary item and it accounts for most part of what you're asking. Now, speaking about provisions, I think was your last question, Bonetti, can you give some color about that and how we expect to see this evolving this year?

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

Well, I will just revisit the aspects of the legal risk because there is another strategy that we implemented in 2020 that is worth mentioning. And this is the acceleration of our agreement. We have a very important strategy to accelerate and then you know that when you do that you also accelerate expenses but with the intent of having savings as a result and you will also ask me about trends looking forward in 2021. The strategy will be accelerated in 2021. We will try to engage in further in 2021 to preserve value in the future. This will be an important part of our management strategy, to manage that legally and our projection continues to follow an improvement trajectory.

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Now speaking about provisions, our reading is that in 2020, we have the prudential repayment to support increasing in NPL in the future. Therefore what is our recurring portfolio in addition to what we intend to grow in terms of credits and disbursements. With that we would be able to go back to our normal evolution of the portfolio and normal evolution of provisions without any additional needs to post additional provisions and we're talking about a very positive (Technical difficulty) throughout '20. '21 we will resume normality very close to what we had in 2019. That's it. I hope I answered your question.

Q - Unidentified Participant

Perfect, thank you.

Operator

Our next question from Mr. Felipe Martinez with Morgan Stanley.

Q - Felipe Martinez {BIO 16006712 <GO>}

Good morning and thank you for taking my question. My question is about asset quality especially NPL. You said some quarters ago that we expected to see a peak of NPL in the second and third quarter of 2021. So how does that stand right now, you see that your NPL is very low, is it below that of the market, how do you see the performance of NPL for 2021?

A - Carlos Jose da Costa Andre {BIO 21746021 <GO>}

Felipe, thank you for your question. This is Carlos Andre. In fact our NPL is posting a very positive performance. Well, certainly, as I said before, there are some elements that contribute to that performance given the growth of that portfolio and migration of some portfolios to losses, but I think the most important aspect has to do with the dynamic of the forbearance of the portfolio that we did in 2020. As you can see through some of our slides we have prepayment scheduled where there is a higher concentration throughout the first half of this year. So it would be fair to say that based on this schedule that is mostly concentrated in the first quarter after that you will start to see -- after that first quarter an increase in NPL levels. We believe that we will probably be close to higher NPL levels at the end of the first half of the year or maybe of the third quarter of the year.

At the end of the second half, my colleagues are correct me -- correcting me, that's true. We do not anticipate NPL levels to reach the peaks that we had back in 2016 and 2017. I just want to add something. We are updating NPL projections as things evolve and uncertainty are lower. So our projections for the end of the year, we will reach the peak of that projection. But the good news is that we believe NPL will resume the levels that we had at the end of 2019. So the expectation to supersede that level, I mean, this is already history. So everything indicates that NPL will perform better than what we expected before that's good news and that just reinstate that our provision -- the provisions in place will be enough to cover that new period.

Q - Felipe Martinez {BIO 16006712 <GO>}

Perfect, very clear. Thank you very much.

Operator

We now conclude the Q&A session. Mr. Andre Brandao will now continue with his final remarks.

A - Andre Guilherme Brandao {BIO 2468269 <GO>}

Well, thank you so much for joining us today. Once again, we are available as I said before, our IR team is always available to talk to you and also myself and Carlos Andre. We want to have a very close relationship with you, so please don't hesitate to contact us. I will elaborate on our figures and then feel free to contact us. Have a very good day and nice weekend. And all the best to all of you. Banco do Brasil's earnings release call is now concluded. We would like to thank you very much for participating, and all of the materials used during this call is available through the IR portal of the bank have a very good day.

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