

Y 2014 Earnings Call

Company Participants

- Jose Mauricio Pereira Coelho, Chief Financial Officer
- Leonardo Loyola, Head of Investor Relations

Other Participants

- Carlos Macedo, Analyst
- Natalia Corfield, Analyst
- Saul Martinez, Analyst
- Thiago Batista, Analyst
- Unidentified Participant
- Victor Galliano, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Banco do Brasil Fourth Quarter 2014 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After this, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

This event is also being broadcasted live via webcast into Banco do Brasil's website at 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 references and statements, planned synergies, estimates, projections and forward-looking strategies concerning Banco do Brasil, its associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions and on the performance of domestic and international markets, the Brazilian economy and banking system. Banco do Brasil is not responsible for updating any estimate in this presentation.

With us, today, we have Mr. Jose Mauricio Pereira Coelho, CFO; and Mr. Leonardo Loyola, Head of Investor Relations. Mr. Leonardo, you may now begin.

Leonardo Loyola {BIO 16193219 <GO>}

Good morning, everyone, and thank you for joining us for our fourth quarter earnings conference call. First of all, I would like to introduce Mr. Jose Mauricio Coelho, the new CFO of the Bank and talk to him.

Jose Mauricio Pereira Coelho {BIO 3329132 <GO>}

Good morning, everyone. My name is Jose Mauricio and I am the CFO for Banco do Brasil. I would like to take this opportunity to introduce myself and talk a little about my journey at BB. In [ph] 27 years, I served in many areas and most recently I served as Executive Manager at the Insurance, Pension Plan and Premium Bonds division. After that, I was the Managing Director at the Capital Markets and Investment Division. And then, I held my last position as Finance Managing director until last Tuesday, when I was honored to become the CFO.

I have worked with Ivan Monteiro for more than five years. And ahead of this team, our purpose is to keep on the good work done by Mr. Monteiro. The main points are to focus on improving efficiency, keeping costs under control, monitoring delinquencies as a way to increase the ROE on a sustainable basis. My team and I are at your disposal. Thank you.

Leonardo Loyola {BIO 16193219 <GO>}

So, let's start the presentation on slide three, where we show the main highlights of Banco do Brasil's performance in the period. In the fourth quarter of 2014, we posted an adjusted net income of R\$3.0 billion, NII grew 8.8% compared to 2013. Our delinquency ratio remains the best in the banking industry, closing the quarter at 2.03%. Finally, we highlight our admin expenses that reached 7.1% in December.

On slide four, we can see that NII grew by 8.8% hitting the guidance estimate. Fee income reached 7.6% year-on-year, hitting the guidance. The main income generators were cards, asset management and insurance businesses. On the bottom line, the net income was R\$3.0 billion in the fourth quarter, corresponding to an adjusted return on equity of 16.6% in the quarter.

On slide five, commercial funding reached R\$634.6 billion, a 4.5% growth in 12 months. The Bank continues its strategy of changing its funding mix, as we can see, agribusiness letters of credit and real estate letters of credit that together grew 42.9% in 12 months. The balance of foreign funding including fixed income -- securities, certificates of deposits, deposits and repos and repos agreements was US\$51.1 billion in the end of December 2014.

On slide six, we display BB's net interest income performance. In the upper left hand side graph, you can see our global spread behavior reaching 4.1% in this quarter. On the right hand side we show the credit spread by segments that showed recovery in agribusiness and company segments. Year-on-year, NII grew by 8.8%, reaching more than R\$50.0 billion. We also highlight increase in loans operations income that reached R\$83.1 billion year-on-year, an 18.7% growth in treasury income that reached R\$12.3 billion, a 20.5 growth year-on-year.

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On the next slide, we have the evolution of loan portfolio in the broad concept reaching R\$761 billion in December '14, representing 9.8% growth in 12 months. The portfolio had a slowdown in the last three quarters in line with the market due to the lower demand. In the same period, individuals portfolio grew by 6.8%, representing 23.6% of the total loan portfolio. The companies portfolio grew by 9.9%, representing 46.5% of the total loan portfolio, and the agribusiness portfolio grew by 13.9%, representing 21.7% of the Banco do Brasil's total loan portfolio. Considering the classified loans portfolio, BB's market share was 21% in December '14.

On slide eight, we have the loan portfolio in the classified concept, which does not include BV operations, considering the contracts by period. By the end of December 2014, we can see that the contracts from 2014 represents 37.1% of the total portfolio.

On slide nine, we have the organic portfolio with individuals. The portfolio grew 12.5% in 12 months and 3.8% in the quarter. The four lower risk lines are Payroll, Salary loans, Mortgage and auto loans that represented together 75.9% of the portfolio against 74.6% in December '13, an increase of 130 basis points.

On the upper graph of the slide 10, we observe the payroll loan's portfolio whose balance in December '14 was R\$64.2 billion, a growth of 3.7% year-on-year, allowing the BB to end the period with 25.5 market share. If we consider the organic portfolio, 88.4% of this portfolio is customers who are civil servants, 7.7% relates to INSS retirees, and 3.9% to private sector employees.

We highlight BB's mortgage portfolio that posted a balance of 38.8 billion in the end of December 2014, an increase of 59.1% in 12 months. For individuals, the growth was 54.3%, reaching R\$28.5 billion, while for companies, the increase was 74%, with a balance of R\$10.3 billion. The bottom right hand side graph shows the auto loans portfolio, credit offered exclusively to our customers within our branch network. In December '14, 85.8% of our auto loans were taken by customers with BB relationship of over five years.

Moving to the next slide, we present the company's loan portfolio, totaling over R\$354 billion, representing 9.9% growth in 12 months. Highlighting the increase of 74.0% in mortgages and 18.6% in credit for investment.

On slide 12, we present the breakdown of the loan portfolio with companies by size: SME, medium and large companies and governments. The SME portfolio ended December 2014 with a balance of R\$102.2 billion, up 2.4% year-on-year. The medium and large companies and governments portfolio reached 13.3% growth for the same period.

In the upper right hand side graph, 25% of the total SME loan portfolio was covered by the Operations Guarantee Fund, the FGO, and by FAMPE, the SME Guarantee Fund. This coverage amount grew 14.9% year-on-year. Finally, on the bottom graph, we show that more than 72% from the SME portfolio is contracted by clients with BB relationship of over five years.

On the next slide, we can see that our agribusiness loan portfolio grew 13.9% compared to December 2013. As we can see from the chart on the right, 58.4% of loans destined for working capital for input purchase, on the '14-'15 crop are protected with insurance options offered to our customers. The '14-'15 crop started in July 2014, had an estimate of R\$81.5 billion disbursement through June 2015, and up to December 2014, the disbursement was R\$46.2 billion.

On slide 14, we detail BB's asset quality. In the fourth quarter of 2014, the average risk of our loan portfolio was 3.75%, lower than the banking industry. In December '14, we posted 195.37 coverage ratio, much better ratio than the industry as shown on the bottom graph. Our current provision levels enabled us to remain below the industry even with the scenario change, such as increase in delinquencies.

On the upper graph, on the next slide, in December '14, the NPL 90 ratio was 2.03, remaining considerably below the banking industry average. On the bottom graphs, we present BB's NPL15 and NPL90 in the three largest segments of the loan portfolio: individuals, companies and agribusiness. NPL15 remains stable and NPL90 is stable with a slight recovery in individuals and companies.

On slide 16, we see the NPL formation index, with an improved ratio compared to the last quarter and new NPL slightly lower than the previous quarter, with a substantial decrease in write-offs. I'd like to draw your attention just to see the behavior of the line at the top of the graph. I mean, 0.58 is one of the lowest points of the graph.

On slide 17, we can observe our current provision expenses considering the average classified loan portfolio. On the first graph on the upper left hand side, we have the ratio between provision expenses and the loan portfolio on a 12 months view. By the end of December '14, we reached 2.86% according to our estimates for 2014. In the bottom graph, we see that 10.3% growth of the loan portfolio between December '13 and December '14 has been concentrated in the best risks, mainly between AA and C levels.

On slide 18, we present Banco Votorantim net income in the third [ph] quarter of 2014 that reached a total of R\$75 million, continuing to post positive results. On the left hand bottom graph, we have information regarding the origination figures for light vehicles for Banco Votorantim where we can observe a decrease on the NPL 90 days line compared to December 2013. The right hand side bottom graph shows the new vintage contracted after September '11 that already occupies almost all of the BB's managerial auto loans portfolio.

On the following slide we show our performance in fees. Considering 2014 fee income reached R\$25 billion, growing 7.6% [ph] compared to '13, hitting the guidance. We highlight the 13.6% growth in card operations, year-on-year. In the insurance, pension and premium lines we achieved growth of 19%, asset management growth of 11.3% and 16.3% growth in fiduciary services due to the strategic review.

On slide 20, we present BB [ph] Seguridade's performance, a company that leads in several segments such as life, pension plans and premium bonds. It's important to notice

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the increase of 42.6% in the adjusted net income in 2014 compared to 2013.

On the top graph on slide 21, we see the cards business net income which reached more than R\$2.0 billion in 2014 corresponding to 29.1% growth compared to 2013. On the right, we show the total turnover that increased 10.3% in 12 months reaching R\$238.3 billion in 2014. In 2014, BB's cost division introduced innovations in line with the business strategy launching Stello, an Internet safe payment solution; Livello, constituted to offer a new loyalty program that recently announced the joint venture that created the first payment institution in Brazil, authorized by CADE and Central Bank in January 2015.

On slide 22, we can see the performance of our admin expenses. These expenses amounted to R\$32.3 billion in 2014, corresponding to 7.1% increase compared to 2013 hitting the guidance and contributing to our cost of income ratio by 120 bps as we can see on the next slide.

On slide 24, we show the BIS ratio of Banco do Brasil that ended December 2014 at 16.11%. These metrics already considers Basel III rules and if we consider the full implementation measured over December '14, the estimated BIS ratio would reach 15.07% and Tier I ratio 10.27%.

On slide 25, we closed this presentation with our guidance. We demonstrate our 2014 performance against what we projected throughout the year and also the estimates for 2015. We've posted 15.1% adjusted ROE, hitting the guidance for 2014 [ph]. Regarding the NII hitting the high end of the guidance we grew by 8.8%. We also reached the guidance on items on for losses, fee income and admin expenses.

The loan portfolio and the performed guidance is mainly due to clients lower demand. Commercial funding also remain below the guidance estimates, overall a part of Banco do Brasil strategy in the fourth quarter. The main forces were agribusiness letters of credit, repos with corporate bonds as well as assets under management.

For 2015, we estimate an adjusted net income between 14% and 17%. And we call your attention to the fact that in 2015 we will consider R\$8.1 billion from the hybrid instrument incorporated into our shareholders equity.

We estimate NII growth between 9% and 13% and commercial funding between 5% and 9%. For the loan portfolio, we estimate growth between 7% and 11% for the broad concept and for companies; 6% or 7% [ph] and 10.0% for individuals; and 10% and 14% for agribusiness. The allowance for losses we estimate growth to be at the same level as 2014, between 2.7% and 3.1%, while fee income is estimated to increase between 7% and 10% and admin expenses between 5% and 8%.

Thank you for your attention and let's proceed to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mario Pierre [ph] from Bank of America.

Q - Unidentified Participant

Hi, good morning everybody and congratulations on a solid quarter. I'd like to hear from Jose Mauricio specially given all these changes in management, I know that (inaudible) has been there a while, but I'd like to hear his views on how does he look at possible asset sales going forward, especially when we look at the high evaluation on some of the companies you have listed in the past, specially BB Seguridade and Cielo, if there is any chance that you could even divest some of the stakes given the high appreciation of the stocks and the impact, the positive impact it could have in your capital ratio.

A second question is also related to capital. You have announced the JV with Cielo is going to lead to our one-time gain of R\$3.2 billion. I was wondering if you are going to pay dividends on these extra gains and what would be the impact on your capital ratio. Thank you.

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

Hi, Mario. Thank you for your question. I would like to say that the new management, I mean Mr. Abreu, Mr. Raul and I, we are all part of the management team and we participated of the discussions and the decisions in regards of the strategies that the bank puts in place. That's why I would like to emphasize that we are just going to do exactly what we have been doing. Okay. You asked about asset sales. We don't have plans in the short time to make any decision like that.

A - Leonardo Loyola {BIO 16193219 <GO>}

So, basically, Mario, if I can complement, basically we don't have, as we said before, it's not in our plans, sell Cielo, if I'm taking your question right, any stake and also any stake in BB Seguridade value as well, as we said before. Basically, just looking forward in terms of the new JV with Cielo, as you know so, which has been approved by regulators both Central Bank and CADE, in Brazil, the antitrust body, basically what we have, so we have found precedent conditions to close the deal, so it's hard to say exactly when we are going to get it done.

But in terms of the dividends, what we can say is basically that we follow the 40% payout ratio policy, so it's something that we've put in place since at least eight or nine years ago and we do not intend to change this policy, basically, so that's why we tend to follow exactly what we did when we sold the BB Seguridade stake.

Q - Unidentified Participant

Okay. That's clear. So if you can just let us know what do you think that this JV will be formalized, because we thought it would close by the end of last year, maybe now is the first quarter, do you think that there can be more delays?

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A - Leonardo Loyola {BIO 16193219 <GO>}

No, basically, so this question came in the press conference when we released the fourth quarter results. And this year, Raul Moreira, the new Vice President of Retail Businesses said during the conference that it's very hard to predict exactly when we are getting it done as -- so it's a negotiation, so that's why -- so it's hard to say right now.

So, the important thing here, the important message that we are going to inform the market as soon as we get it closed, so we are going to release the material facts, just providing the details of the transactions and informing exactly, when we close the deal. Okay.

Q - Unidentified Participant

Okay. Just to be clear. But you already have all the regulatory approvals to do this transaction?

A - Leonardo Loyola {BIO 16193219 <GO>}

True, as we released in our material facts, the last one that if you remember, so in that material fact, we said that there are still some conditions pending just to get it closed.

Q - Unidentified Participant

Okay. Thank you very much.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, Mario.

Operator

Our next question comes from Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, gentlemen. (inaudible) welcome to a more senior role. A couple of questions on the quarter. First, we did see, actually one in the quarter, one in the guidance. We did see one of your renegotiated loans increased quite significantly in the quarter mostly in the new loans.

And if you could just give us some color overall on how that affects your asset quality, how that affects your provision expenses? It was quite a significant increase, just try and understand how mechanically or accounting wise that works and will impact and profitability?

Second question on your guidance, you give guidance in number of lines, one of the lines that we didn't see what's the effective tax rate, which was quite low for most of this year. This quarter was low again compared to what you've been talking about at 24% to 28% range.

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What should we expect for 2013, should we work with that 24% to 28% range for taxes or should we migrate for higher rate where most of your peers are or should we expect a lower rate like 2014 was? Thanks.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, Macedo. Let me start from the second one. Basically, I would like to emphasize that there are two points, just in regards of your questions -- of your second question. Basically, the non-finance companies stakes that we have so, you have to consider that those companies they are under different tax rates, which is 34 differently from 40%, which is the tax rate for Banco do Brasil.

So as long as we get more and more results coming, contribution coming from the non-financial business. So this effect tends to push down the tax rate for the bank. This is an important thing to consider. So, it tends to move down -- the more move down, the more we have the contribution coming from this part of the business.

Another thing to be considered as well, so traditionally, Banco Votorantim dividends on the last quarter and those dividends they are not on the fiscal base. That's why this is another thing that affects the tax rate of Banco do Brasil. Both things you have to consider.

Just taking your first question, I mean in regards our renegotiated -- I mean take away the chapter on the MD&A, so we have basically there, we have renegotiated by delay line, which means that -- in that line, we are -- we put there, I mean all the strategies that we have with our customers in terms of providing more -- negotiated with them and providing more adjusted conditions for their cash flows.

So this is something that is part of our strategy negotiating with customers. I mean, basically what we have there, basically SME, and also what we call the middle market segment, so the segment of companies immediately after above the SME segment. So it's something that we have been using and we saw this movement, part of this strategy between the third quarter and the fourth quarter. There's another question Macedo that I think I didn't take?

Q - Carlos Macedo {BIO 15158925 <GO>}

No, just the impact on the renegotiation, I mean, it was --

A - Leonardo Loyola {BIO 16193219 <GO>}

And renovated, which is on the line (inaudible) below. So you have to consider which is the different thing, it's more based on individuals. So we've had some changes in the regulatory framework in Brazil, I mean, the payroll loans both were retirees and also for civil servants. They are -- I mean, the cap for those in terms of timeframe, the cap for those credits they have been extended.

So it creates a kind of effect, immediate effect which means that people in general form they get an extension in their credits and they cashing in part of their credits. This is

something that we also put in place to protect our customer base just as part of the strategy of Banco do Brasil.

Q - Carlos Macedo {BIO 15158925 <GO>}

These were loans that were past due. They were just part of the extension in the regulatory term for payroll loans that you took advantage of to lend more?

A - Leonardo Loyola {BIO 16193219 <GO>}

Yeah, you have to separate both. So, the first -- the renegotiated by delays, so they are credits in a rear that, with basically, companies and so we put in place a strategy to put conditions were causing to their cash flow generation. This is one thing.

The renovated, we are predominately there, we have individuals, basically individuals in the payroll, credits and the thing that happened in the fourth quarter was changing regulatory framework that affected that particular line.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you so much.

A - Leonardo Loyola {BIO 16193219 <GO>}

Okay, Macedo. Thank you.

Operator

Our next question comes from Victor Galliano from Barclays.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi. My main question has been answered but just a focusing on the E to H, we saw on quarter-on-quarter that increase that E to H composition of the lines by (inaudible) which is growing about double rate of overall loan growth. Can you give us some idea a little bit more color of what is going on in here?

Is this more driven by corporates? By consumers? By SME? And also taking with the topic of credit quality, can you talk a little bit about if the drought -- if you see any impact of the drought coming through in terms of your agribusiness book? Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Let me start from the second one. So we haven't seen any impact coming from the drought so far in the agribusiness portfolio. Basically, there was a slight increase and you have to consider that the NPL90 days ratio of this particular part of the segment which was at a historical low, very low level increased by 10 bps. But basically it's not related to any impact coming from the drought. If you can please rephrase the first part of your question, I would appreciate.

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Q - Victor Galliano {BIO 1517713 <GO>}

Of course. As just about the E to H category in the loan book that increased by about 8% quarter-on-quarter. My question is, where is this increase predominantly coming from? Are they coming on the individuals side, on the corporate side? It doesn't sound like it's coming from the agribusiness side, as you've just mentioned. And if you can say, is it more SME driven?

A - Leonardo Loyola {BIO 16193219 <GO>}

You are correct. So, as I said before, I mean, this E to H increased basically came from the SME as I said, not only from SME to be clear, I mean, there is another segment, what we call middle, which is the immediate part coming exactly above the SME portfolio that increased a bit. I mean, basically we are talking about small businesses in Brazil, pretty much.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you. And if you allow me a very quick follow up on the renegotiated portfolio, so as per the previous question, this is really due to an extension of the credit term to borrowers in the payroll space and we can expect this to return to a more normal rate in terms of looking to previous quarters around the 8 billion or 9 billion mark going forward. Is that reasonable to assume?

A - Leonardo Loyola {BIO 16193219 <GO>}

Yeah, it is. Whenever we get an extension, I mean, the first impact is to get an increase in this credit line. People tend to get, I mean, the extra leverage room just to cash in the credit immediately. But, as time goes by, so we intend to have a more normal behavior. And you have to consider that change in regulation took place in the fourth quarter, that's why the impact was called in the fourth quarter. What we expect to looking forward is pretty much to become more normal overtime.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you very much.

A - Leonardo Loyola {BIO 16193219 <GO>}

I appreciate.

Operator

Our next question comes from Saul Martinez from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, good afternoon to you guys. So, first of all congratulations Jose Mauricio on your position. My question is for you Jose. And Leo, obviously you can chime in. But as you entering in your new position, as the CFO, if you have to categorize what your top three challenges or your top three concerns -- you take this position, what would they be and

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why? That's my first question. I know it's a very broad big pictured question but I just kind want to get a sense for how you're thinking about the challenges and opportunities.

And secondly, Petrobras, you obviously don't, because (inaudible) don't give specific exposures, but in a scenario where the grading agencies downgrade Petrobras, what does that mean for your provisioning for that exposure, is there a risk that you have to migrate that exposure down into a higher risk bucket and have to provision more for that? How should we think about that?

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

Okay. Thank you Saul. Thank you for your questions. The main points I have to focus on improving efficiency, keeping costs under control, monitoring delinquencies as a way to increase the ROE on sustainable basis as I said in the beginning. And that are the main points that we are going to focus.

A - Leonardo Loyola {BIO 16193219 <GO>}

In regards to Petrobras, Saul, basically we have the resolution 2682 in Brazil just to, this is the resolution that we follow pretty much among others, just to make provision. And basically, the key issue here is to monitor not only Petrobras, so Petrobras is okay, a big company, so, within the headlines, but I would say monitoring the system and monitoring the companies as a whole and this is something that we are doing.

But what we can say to you is that we are comfortable with the levels of provisions and we are pretty much in compliance with all regulations.

One thing to make clear as well is we have a table in our MD&A that provides the levels of exposures to different segments and this is also an important thing to be considered. Basically so we are Banco do Brasil in the real economy in Brazil so we have exposure to a lot of sectors and a lot of companies as well. And basically so you can have a better view exactly on that particular table.

The key issue here is monitoring and obviously so be in compliance with the regulation and monitoring this market on a daily basis. And what we can say so far is that we are pretty comfortable with the level of provision.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, look, that's helpful. Just following that Jose, my first question. Some of your competitors said has and when asked, some of the management team were asked about the credit quality issues in light of it seems like a very difficult economic backdrop in Brazil, rationing, drought conditions, Lava Jato, a lot of things that have expressed a remarkable amount of conflicts in that asset qualities not going to worsen.

You mentioned monitoring in delinquency is one think that is a challenge or something you are looking at. Your guidance certainly doesn't imply that you see a lot of worsening going forward. What gives you comfort that credit quality will remain under control in a

stress-like scenario with indeed the economy really hitting very, very difficult environment over the next year?

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

I think that there are challenges ahead but there are also opportunities. The best understanding of how we see the future is reflected on our guidance. We have a , very strong -- our delinquency is always a priority for us. And I think this year we have -- we did a very great work. And the number shows that we are in the correct way. And we want to continue to do the same.

A - Leonardo Loyola {BIO 16193219 <GO>}

If I can complement, Saul, basically, we have, I mean, obviously, so -- you are talking about a strict scenario and that's why, so, we are talking about monitoring, because we have to monitor on a daily basis just to see, I mean, how the market evolves and how the links between different sectors and how the things get better or worse overtime. This is a key issue here.

But one important thing to mention, so we are obviously, as Jose Mauricio said, I mean, it's a challenging year, 2015 is a challenging year, but we move over 2015, so we tend to have a much better 2015 in our view and basically we have -- I mean, we put all these inputs in our guidance and we are considering the scenario. And if things get somehow better or worse, we are going to consider, we are going to evaluate and put in the scenario we have.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thank you so much.

Operator

Our next question comes from (inaudible).

Q - Unidentified Participant

Hi, good morning. Good afternoon. I have a couple of questions which are related a little bit to the previous question that was asked. And I'm sorry if it would be the same question. I'm just trying to get a bit more clarifications here. First question is, could you please provide a little bit more detail on the exposure of the bank to Lava Jato?

And the second question which is also related is, basically you are -- when I look at your 2015 guidance, the allowance for loan losses is essentially unchanged from 2014. So in light of the challenging economic environment this year and also the exposure to the car wash situation, could you please elaborate a little bit more about your key underline assumptions for such an unchanged allowance for loan losses? Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

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Yeah. Thank you. Basically, the exposure -- starting from the exposure for Lava Jato companies, as I said before, as you know, so we are a bank linked with the real economy but we are in many different sectors that you can see on the table in MD&A. But you can also see that in terms of just taking the figures from there, basically the exposure of heavy construction is around R\$5 billion, it's not -- it's very -- it's 2.1% of that particular portfolio which is not even the total portfolio of the bank because there we are getting only the portfolio from corporates, it's much lower than that.

I mean, the whole heavy construction exposure, so basically Lava Jato (inaudible) it's not for those companies alone, but it's for the whole segment. This is an important thing. It's very in line with the stake of Banco do Brasil in the credit market in Brasil. And, again, so we are very comfortable with that.

So just moving to your second question, basically, why we are comfortable? Monitoring, but also using strategies that put tools and employees, one thing important to -- there are two things that I would like to emphasize here. The first is the new NPL. I mean, the new NPL which is important to just to see how the NPL will evolve, so you can see from the presentation that the new NPL is one of the lowest levels in the last, if I'm not mistaken, nine quarters. Basically this is an important thing to consider.

If we take a broader view in just (inaudible), so just taking 2010 starting point, so you could see the NPL ratio of Banco do Brasil has been behaving, I mean below the market in the long run, even during hard times, because, I said, I mean during that time -- period of time, we also face some problems here and there.

And the delinquency the behavior of NPL90 days of Banco do Brasil behave very well moving down and becoming stable overtime. So differently from what we saw at the NPL of the market. Again, This is what we call monitoring and using strategies, using tools just to keep under control and this is one of the things that Mr. Alexandre Abreu mentioned in the press conference yesterday. I mean, to get efficiency, using to make the bank more and more efficient and also keep the delinquencies under control. This is part of our strategy and management is really committed with that.

Q - Unidentified Participant

Thank you very much.

Operator

Our next question comes from Thiago Batista from Itau BBA.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Thank you for the opportunity. I have just one question on the agribusiness segment and it is almost a follow up of previous questions. Basically we saw some increase in the ratio of agribusiness, I think that in bps, I know that's from a very low level but it went up in bps. But more important than this increase will the fact that half of the

increase in the expenses of the Bank in the quarter, who was explained in agribusiness loans to individuals.

Could you give us some color about this small deterioration in NPL ratio and also in the increase in the provision for the agribusiness sector, you call agribusiness loan to individual. So, why the provision for agribusiness loans increased?

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, Thiago for your question. Basically, I mean, it's something that it's not something specific coming from one region or one particular product, it's not something specific about thing. That's why we see this movement as a normal thing. We are not considering this as something could be a deep level of delinquency. So, we are not concerned, but as I said so we are monitoring closely this movement.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay.

Operator

Our next question comes from Natalia Corfield from JPMorgan.

Q - Natalia Corfield {BIO 6421991 <GO>}

Hi, good afternoon everybody. Thank you for the question. It's a follow up from the previous questions. I understand that the exposure to have a construction is not relevant but I'd like to know a little bit more the exposure to oil and gas which I think it's a little bit higher. If you could give us some color on how you are dealing with this slowdown in the sector and also it would be interesting to know as well how you are proceeding to lending to not only oil and gas, but heavy construction companies given the Car Washing situation and if you are lending to them if you are depending if the company is involved or not if you can still lend to them. That would be very helpful. Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you for your question, Natalia. Basically, I mean, just taking the oil and gas as a reference as you mentioned, so the exposure of the bank as you can see on table 66 is pretty much in line with the size of the bank in the economy. That's why we are not concentrated in one sector.

So if you take the table as a whole, so we are going to see that the credit of Banco do Brasil is spread out all over the economy as a whole. There is no concentration. Just taking oil and gas, particularly, so you can also see that, just taking, again, the corporate portfolio as a reference, so you can see that the stake of oil and gas is going down actively. So, it's not, the exposure as a whole, the take of this part of the business in the portfolio is pretty much moving down. This is an important thing.

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The other thing is that we are comfortable with that and we have all the rules and regulations in Brazil and all the committees that monitored this exposures. I would say that we have many committees and we have a lot of members of Banco do Brasil participating in those committees, analyzing a very thorough database just to get more and more information on a daily basis. And as I said, we are very comfortable with that.

In terms of Lava Jato, we cannot say, because anything about it, because we have companies there, but again, you have to consider that Banco do Brasil, as you can see on table 66, we have credit with companies in many different sectors and as a largest bank in Brazil, you are going to see that there is no, that table is a good table to see that we are not concentrated in any particular sector, not even in heavy construction.

Q - Natalia Corfield {BIO 6421991 <GO>}

Okay. Thank you.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you, Natalia.

Operator

This concludes today's Q&A session. I would like to invite Mr. Leonardo Loyola to proceed with his closing statements. Please, go ahead, sir.

A - Leonardo Loyola {BIO 16193219 <GO>}

Thank you very much for participating in our conference call today. Have you all a nice day.

Operator

That does conclude Banco do Brasil conference call for today. As a reminder, the material used in the conference call is available on Banco do Brasil Investor Relations' website. Thank you very much for your participation and have a nice day. You may now disconnect.

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