

## Y 2019 Earnings Call

### Company Participants

- Joao Marcello Dantas Leite, Executive Officer, Chief Financial Officer
- Roberto Balls Sallouti, Chief Executive Officer

### Other Participants

- Nicolas Riva, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, and welcome to the Fourth Quarter of 2019 Results Conference Call of Banco BTG Pactual. With us here today, we have Roberto Sallouti; Joao Dantas, Pedro da Rocha Lima.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Bank's presentation. After Banco BTG Pactual's remarks, there will be a question-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions)

Today, we have a simultaneous webcast that may be accessed through the website, [www.btgpactual.com/ir](http://www.btgpactual.com/ir) and the platform. There will be a replay facility for this call from February 14th through February 20th.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results and those related to the growth prospects of Banco BTG Pactual. These are merely projections and as such, are based exclusively on the expectations of Banco BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changes in market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry, among other factors and risks disclosed in Banco BTG Pactual's filed disclosure documents and are therefore, subject to change without prior notice.

Now, I'll turn the floor to Mr. Roberto Sallouti, who will begin the presentation. Mr. Sallouti, please go ahead.

**Roberto Balls Sallouti** {BIO 4150617 <GO>}

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Thank you very much. Good afternoon or good morning to all of you on the call. We actually are quite satisfied with the results of the fourth quarter and especially, with the results of the full year 2019. We'd like to start the presentation by highlighting some of the key points of the fourth quarter of 2019, on page three. For the fourth quarter, revenues were up 14%, when compared to the third quarter, with the exceptional performance by all of our client franchises. As can be seen on item number two, asset management expanded significantly, that had a 50% revenue increase fourth quarter versus third quarter. A large chunk of that due to the accrual of performance fees, but not only that, but also of the growth of the underlying business. And this can be seen in our assets under management and assets under administration, which grew 30% year-over-year.

In wealth management also, we had a growth in assets under management in the [ph] wealth management business with 40% year-over-year. But more important than that, we also had some very important recognition of the quality of the service and the platform they're offering to clients. We were awarded for the third time in the row, the Best Upper Retail Digital Platform to invest and for the second year in a row, we were elected the Best Private Bank in Brazil by Euromoney and in this case, we were actually the winner in all of the 16 categories, which just shows the quality of the service that we are able to provide to our clients.

Going to item four, investment banking, had a record high quarter, since our IPO, all-time high, doubling its revenues from the fourth quarter of last year. Going to the fifth item, our sales and trading had a phenomenal year, not only year, but also quarter and we finished the year with BRL2.8 billion in revenues from sales and trading, basically taking advantage of increased client activity, increased flow, be it in fixed income sales, be it in FX sales, be it in equity sales, but not only that, but also the market present a very good opportunity throughout the year.

And finally, we had a normalized cost to income ratio of 40% for the quarter, which is slightly below our average, even while we were investing significantly, especially in our digital retail platform. This means that, they will probably -- the cost to income probably increased to 41%, 42% over the next quarter and for the next year, but it just shows that we've been able to even though our costs are increasing, we've been able to increase revenues more than proportionate to the increase in costs.

Moving to page four, we can see the highlights of the numbers of the fourth quarter. We had total revenues for the quarter of BRL2.48 billion and adjusted net income of BRL1,010 million. That gives us an annualized return on equity of 19.1%. And if we exclude the capital allocated to Banco Pan, that gives us a 19.6% return on equity for BTG Pactual core business. We had a net income per unit of BRL1.16 and an accounting net income for the quarter of BRL1.179 billion which Dantas will then later reconcile with the adjusted net income of the BRL1.01 billion. As I mentioned previously, we had a cost to income ratio of 39.5%, comp ratio of 21.4%. We finished the quarter with total assets of BRL160.4 billion (sic BRL164.4 billion), a Basel ratio of 14.9% and shareholders' equity of BRL21.4 billion.

It's important to mention that we had significant amount of capital allocated to market risk, given the opportunities in the market and the amount of the client business. We have now gone back to our historical average and with that, we are seeing an increase in our

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capital ratio of roughly 3% to around 18%. So what this means is that, we have more than enough capital to allocate to the growth of our business, especially to our credit portfolio. Finally in the quarter, we also announced a distribution of interest on capital of BRL541 million.

Moving on to page five, we look at the highlights of the numbers of the full-year results. Here, we had total revenues of BRL8.33 billion and adjusted net income for the year of BRL3,828 million, very similar to accounting net income. This gives us an ROE for the year of 19.1%. For the year, we had a cost to income ratio of 40.3% and a comp ratio of 21.6%. As I mentioned previously, we had a shareholder increase of 13.5% year-over-year and ended the period with BRL21.4 billion of equity and distributed throughout the year, BRL1.165 billion of interest on capital.

Moving to page six, you can see the distribution of revenues among our business units. I would -- what we would like to highlight here is that if you sum our client franchise businesses that don't use capital, so basically investment banking, asset management, wealth management, they're roughly one-third of our revenues, 30% for the quarter, 28% for the year. And this gives us a coverage ratio of 158% for the quarter, 145% for the year, which leaves us very satisfied with the growth of the client franchise businesses and a more distributed income coming from businesses that use capital and businesses that don't use capital. This is exactly what that has been happening over the last years and quarters, and we are quite satisfied this trend continues and we expect it to continue over the next few quarters.

Finally, turning to page seven, here you can see -- as I mentioned previously, the core BTG Pactual business yield for the quarter, 19.6% ROE, when you exclude Banco Pan. We were actually in doubt whether we should exclude the slide or not because it made much more sense when we had to exclude ESG from the calculations, but however [ph] ESG is outside of Banco BTG, it does not make much sense, but we decided to keep it for the last time in this quarter, but it's interesting to notice that the core BTG Pactual business yielded for 2019 a return on equity of 23.5%, if you exclude Pan and ESG. So very strong performance from our core businesses.

Moving on to page eight, we understand that there is enormous demand from our clients, our investors and society in general for greater transparency of our ESG initiatives and policies. And what we are committing is throughout 2020, we will improve the transparency of our ESG Agenda, achieving the highest ESG reporting standards, but we thought, this would be a good opportunity to just give a few highlights of our current policies and our current businesses. We have already integrated ESG aspects into decision making process for our transactions. We are signers of the UN Global Compact of the Carbon Disclosure Program and the PRI, the Principles for Responsible Investment. In 2019, we compensated for the second year in a row, our direct and indirect carbon emissions linked to energy consumption. Our credit portfolio has a BRL10 billion exposure linked to the green economy, of which BRL4.6 billion were disbursed in 2019.

And finally our BTG Pactual timber asset management business has assets of \$3.5 million in forests of -- in Latin America and the US. And we annually report ESG indicators related to it. As I said previously, we're conscious that this transparency has been very timid. But

we're committed to increasing this to what will be the best -- highest reporting standards of ESG in 2020.

With that, I'll pass the floor to Joao Dantas who will give more details on the performance for each of the business units.

## **Joao Marcello Dantas Leite** {BIO 17617595 <GO>}

Thank you, Roberto, thanks, everyone joining the call today. We have a lot to go through in the individual business performance, but to start with a more comprehensive and to put things in context, markets in 2019, they were quite benign for our business and we were provided with plenty of opportunities to grow our business organically, both increasing our market share and also widening our reach into new client segments. Our teams, following that have successfully seized those opportunities, which results in the strong financial performance and operational metrics, that will show in the next slides.

So turning to page 10; starting with investment banking. Our revenues in investment banking in the fourth quarter reached BRL306 million. This is our best quarter ever in terms of revenues. And our full year revenues reached BRL942 million, so approaching the BRL1 billion level. We were number two in number of transactions in M&A, in Brazil and Latin America and we were number one in ECM, in Brazil and Latin America. We had a very strong year. The strongest performance in the year was -- came from the ECM. Debt capital markets have provided us for the first time in our history, the largest share of revenues inside investment banking. We also had good performance in ECM and M&A in the year.

We had also a strong year in investment banking in Brazil. We grew significantly maintaining our leadership position. We also held up revenue levels in LatAm ex-Brazil, comparing 2019 to 2018. Even though '19 was a more convoluted year for many of the countries in which we operate outside Brazil, like Chile, Mexico, Argentina, but nevertheless, investment banking delivered strong revenues from those countries as well.

Moving to page 11, talking about corporate lending. Our revenues in the quarter reached BRL229 million. Full year revenues for corporate lending were BRL814 million. We had a BRL4.5 billion portfolio growth in the quarter, of which, about BRL1 billion came from SME lending and about BRL1 billion came from special situation credits. The portfolio growth for the full year was BRL13.3 billion, which is 45% growth. The most part of the growth was the -- on unfunded transactions, so off balance sheet transactions like standby letters of credits and guarantees. The reason we are growing at this pace without changing much on what we do in corporate lending is very much associated with the growth of investors' confidence and entrepreneur confidence in Brazil. As you know, we typically finance the long-term cycles of the companies which we operate, we don't typically finance inventories and working capital. Typically what we are financing is CapEx acquisitions and expansion and in a moment like this, where we see a significant pickup in entrepreneurial confidence in Brazil, which is still not at very high levels. We are still at average levels, but coming from lower levels of confidence, this is an interesting pickup, which contributes to the sustainable portfolio growth base that we see and as we grow the portfolio, we have seen spreads behave very well. They are stable. Provision levels are more than adequate

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at this point, we have 3.9% of the portfolio as provisions and the quality of the portfolio also remains very high.

We do have some smaller contribution from special situation in terms of revenues in 2019. So, most of the revenues that we have captured throughout the year came from corporate lending. But it doesn't mean that the special situations business is not going well. It's just that we didn't monetize as many transactions in 2019 as we did in 2018. And as in special situations, we don't have accrual, as an accounting principle, we just recognize revenues as we realize and monetize the credits that didn't happen so much in 2019. But the business is going well and the portfolio is growing and we see strong prospects for this business going forward.

But the one business we wanted to highlight this quarter is the SME business. We started to do SME lending in 2019, we didn't have that business before. This is a digitally enabled business, where basically we right now are doing just one type of transaction, which is the supplier financing. It's a relationship between suppliers, buyers, which are the big corporations and us, and it's all digitally enabled. Today, we have a portfolio reaching BRL2.2 billion. We have 22 sponsor companies, which are the large corporations, and then, we have about 2,200 [ph] suppliers who are the credit-takers. We have an average ticket of BRL100,000 per supplier and an average ticket of BRL30,000 per trade. And the growth of the portfolio and the initial set up makes us confident that this business will continue to grow successfully. So out of the BRL43.8 billion of the credit portfolio today, BRL16 billion is unfunded and BRL27 billion is on balance sheet transactions and of the BRL43.8 billion, we have a breakdown of BRL37 billion of high grade credit, BRL4 billion of special situations and BRL2 billion of small and medium enterprises. Good performance for our credit lending in 2019.

Turning to page 12, we have sales and trading. Our revenues in sales and trading reached BRL678 million in the fourth quarter, which is smaller than the third and the second quarter revenues, but still strong level of revenues compared historically with the business. We have produced for the full year of 2019, BRL2.8 billion in revenues, compared to BRL1.5 billion in 2018. So a strong performance of sales and trading in 2019. During 2019, our average VaR increased and now have returned to closer to historical levels. So the average VaR in the third quarter was 0.72% of our equity, while at the fourth quarter, it was already lower at 0.54% of our equity. The good performance for fourth quarter of 2019 comes mainly from our active positions, which took advantage of good momentum for Brazilian equities, but also we had good performance coming from fixed income and FX, we have a significantly larger number of transactions.

Moving to page 13, here asset management. We have reached BRL284 million of revenues in the fourth quarter. For the full year, we reached BRL867 million of revenues in asset management. The revenues in the fourth quarter were benefited from the fact that we captured performance fees in the fourth quarter -- typically in the fourth quarter. We have more funds that accrue their performance fees on the fourth quarter, which contributed to this 50% increase in revenues, compared to the third quarter. But we also had an increase in management fees along -- according to the increase in AUM. Our AUM reached BRL273 billion, with net new money of BRL10.7 billion in the quarter. We have had 31% growth of assets under management in the year compared to 43% in 2018. So we

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have maintained a good pace of growth of assets under management now for three consecutive years in the asset management business.

We -- our inflows were marked mainly by the fund services business. This is a well consolidated business in Brazil, which provides excellent level of service and it's growing significantly in terms of market share. We also had good inflows in our LatAm liquid funds, especially in equities, which -- where we deliver very good performance in the year and in the quarter, especially in the equities Brazilian funds. We also had strong performance coming from our international hedge funds, and this is an important feature of our business because we see more and more demand from wealth management clients in LatAm for diversification of their investments outside LatAm. And finally, we had also strong inflows in real estate funds in Brazil. We are the largest real estate asset manager in Brazil and our business continues to grow, where we see -- while we see this environment of low interest rates consolidating those.

Page 14 is wealth management. The business has reached BRL163 million of revenues in the fourth quarter and BRL168 billion of assets under management. Our net new money on the quarter was BRL4.8 billion. For the year we had a net new money of BRL36 billion, BRL36.5 billion, while in 2018, we had BRL43.8 billion of net new money. So again for Wealth Management, another strong year and three consecutive strong years of growth in Wealth Management.

The assets under management have grown 41% in 2019, versus 34% in 2018. We did have strong inflows in Wealth Management from our offshore offices. So, New York and Miami, as well as the Chilean business. We did open a new office now operational in Lisbon and also we have strong inflows here in the fourth quarter and along the year from the digital clients. So all of that kicking in to contribute to the strong growth in wealth under management in the recent quarters. Our wealth management business was awarded in a second consecutive year, the Best Private Banking services overall in Brazil by Euromoney, which is one of the main recognitions of wealth management quality in the country. And our digital -- BTG Pactual digital platform has been awarded for the third consecutive year, the Best Upper Retail Platform to invest. And both demonstrates our strong commitment to quality in these both businesses.

Another final comment here is Consumer Banking, which is a project that we have announced before and is in advanced phase, in a pilot testing right now. I'm happy to share that we already are testing credit cards, debit cards, utilities, payments as well as payments in general, and cash withdrawals. Those five are the main products, but not the only products. They are already, as I said, in a pilot phase being tested. We have more products that will enter now a testing phase and we plan to launch our consumer banking platform before -- still this year before year-end, which is going in our view to be accretive both to the client acquisition and to the increase in terms of share of wallet for the clients we already have. So very good performance as well from wealth management.

Turning to page 15, principal investments had a strong performance coming from merchant banking where basically our Eneva position has contributed well to the revenues in the quarter. It's important to remember to you all that our Eneva shares are marked at a discount to screen price. We also had good performance from our investments in global

markets. It's basically reflecting our allocation of capital to the funds of our International Asset Management division. We have not increased the capital allocation to those funds. Actually, we have been reducing the capital allocation to those funds, the business is growing on the back of more client activity and client inflows. But since we have very good performance in the fourth quarter, we have reached revenues of BRL100 million in that business. And then we have BRL17 million of contribution from our own real estate investments, which are now reducing as well, which doesn't communicate with the strong growth of our asset management real estate revenues on the back of strong client inflows. This is just a small contribution of revenues from our principal investments in the real estate.

Section two, moving to expenses. I will make some comments about costs and efficiency ratios. And also, we have here some comments about the non-recurring results in the quarter. Starting with the costs, well, they are behaving well. For our core businesses, costs have been flat for some years now, while, we see our revenues grow. So we are operating our core businesses, taking advantage of operational leverage and also taking advantage of many of the digital investments and enhancements that we are doing in our technology platforms that have enabled us to increase volumes significantly, without increasing costs phenomenally. And on the other hand, we have been increasing our digital business investments. We have been hiring people, set the margin for digital businesses, be it client advisors or technology people or operations to support the business and we plan to continue to accelerate the pace with which we implement project. We see that the project has a lot -- gained a lot of traction and we have a good momentum to enter this upper retail segment in Brazil. So what we could expect for 2020 as Roberto has mentioned before, is that for the core businesses, we will keep the efficiency and cost should be behaving like they have behaved recently, nominally flat, but we will accelerate the speed of implementation and therefore, increase the costs nominally overall. This will probably take our cost-to-income ratio slightly higher, but not far from the ranges we have seen in the last couple of years.

Then to talk about non-recurring events in the quarter, we have included a chart here at the bottom of the page, because in this quarter, we have as many of you know, banks in Brazil have recognized an increase in the tax -- the deferred tax assets, because of the increase of the corporate tax rate for banks in Brazil. Corporate tax rate has increased from 40% to 45% and this commands an increase in the DTA, that is recognized into P&L. The impact of that adjustment of tax rate is, as you can see in the table, BRL546 million. In turn, what we have done was to review the amount of DTA that we have recognized and we decided to de-recognize the long tail DTA. Long tail DTA for us, is DTA that takes more time for us to monetize and convert into cash, still within the five-year time horizon that Brazilian regulation requires, but we decided to mark down the long tail DTA inside those provisions, those -- that time horizon.

And that impact was BRL354 million. So, in turn, we have not -- even though we recognized that the 5% increase in the corporate tax rate, we have not increased significantly our amount of DTA that is booked in the balance sheet. As a result, non-recurring adjustments in the quarter were positive on the net amount of BRL170 million and this is why for this quarter for the first time, we had adjusted net income and adjusted

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revenues higher, sorry -- on the contrary, the accounting net income and revenues, higher than the adjusted net income and revenues.

On the other hand, it is important to note that we also reviewed other provisions in the balance sheet like civil labor, credit provision and we consider -- we continue to consider those at adequate levels. So we have not changed on extraordinary basis any of these provisions. We know that some of the larger commercial banks in Brazil did take a position to increase their civil, labor or credit provisions, we haven't done so. And going forward, whenever the rate goes down in Brazil, which we expect to happen, we also don't expect other provisions to change in our balance sheet. They will continue to change according to the fundamentals of each quarter.

Another point is that even though we have reflected this corporate tax increase -- rate increase in Brazil now, in our view going forward, Brazil tends to reduce corporate taxes in general, taxes -- corporate taxes in Brazil are higher than the international average, while individual taxes in Brazil are lower than the international average, which puts us as a country in a not so competitive position vis-a-vis international -- vis-a-vis the other countries. So to be more attractive for international investments, probably we should change that. So going forward, we not expect increases in corporate tax rate for us and for banks and for corporations, actually the contrary.

A final note as many of you know, we have the largest tax dispute that we have with IRS in Brazil is regarding goodwill from acquisition in the past. We have had a first trial in the Administrative Court of that claim last Wednesday, which was in favor of us. So we are happy to report that there is still a second stance of appraisal inside the Administrative Court. But on the first stance, our arguments have been accepted.

Moving to page -- to section three, page 19 to talk about the balance sheet. Three highlights here. We ended the quarter with BRL164.4 billion in assets, slightly less than what we had in the third quarter. This implies a 7.7 times leverage of assets to equity, which is still conservative and gives us room to increase total assets as we see opportunity to continue to grow. Our liquidity ratios remain with -- remain high, while our LCR continues to be above 150%, LCR is the regulatory measure of stressed liquidity in a 60 day horizon. And that has been consistently high and remains high and remains high during the quarter, and so our balance sheet continues to be well -- conservative in terms of leverage and well hovered in terms of liquidity which gives us comfort to continue to grow in 2020.

Going to page 20, we have the broader credit portfolio, which includes the corporate lending portfolio plus lending to individuals. And it has behaved in line with our corporate lending growth. Moving to page 20 is a snapshot on unsecured funding. Our unsecured funding reached BRL53.6 billion, a BRL1.3 billion growth compared to the third quarter of 2019. Two comments here. In terms of local funding, we continue to see strong inflows. We already see some positive contribution from digital clients. You can see, for example, that on the bottom of the chart, we have seen a growth in demand deposits, which is a tiny fraction of the total assets of our digital clients, but is a consistent contribution since it's growing throughout -- quarter on quarter, is a consistent contribution from digital



clients and you can expect that funding -- longer-term funding and NCDs are also growing in the same manner.

Also, we are taking advantage from the good momentum in international markets for Brazilian and LatAm issuers and we have issued a new bond, BRL750 million five-year senior bond was issued in December last year, with a RETAP [ph] on January this year, which makes us confident that international markets are quite open at this point for Brazilian issuers and us. CDS -- Brazilian CDS is trading below 100 basis points. Corporate spreads are at an all-time low. So we took advantage of that and we see our clients also taking advantage of that very active -- and be very active in that space.

A final comment, our credit book is growing more than our funding in the quarter, even though as I mentioned, the growth on the corporate book is not entirely consuming cash because most of the growth in the quarter comes from unfunded transactions, off balance sheet transactions. But nevertheless, the growth on balance sheet -- of on-balance sheet credit is higher than the funding growth. But this is because we have reallocated cash usage from other businesses, especially from principal investments into credit. So that allows us to grow the credit portfolio, maintaining liquidity ratio is quite strong.

Then a final comment on page 22, you see average daily trading VaR going down from 0.72% of average equity to 0.54%. The average daily trading VaR reflects faster the reduction of risk in the market risk turns. This will be reflected in the upcoming weeks in the Basel ratio. So you see that Basel ratio went from 15.1% to 14.9% in the end of the fourth quarter, but this is because Basel typically reflects with delay due to averaging the lower consumption of the market risk. Our daily capital usage for market risk has been reduced already and we will see the Basel ratio converging up to levels above 17%, closer to 18% in the upcoming months.

So with that, we conclude our comments of fourth quarter performance and we are open for questions.

**Roberto Balls Sallouti** {BIO 4150617 <GO>}

Thank you all very much.

## Questions And Answers

### Operator

The floor is now open for questions from investors and analysts. (Operator Instructions) And our first question comes from (inaudible) of UBS. Please go ahead.

### Q - Unidentified Participant

Thank you everyone for taking my question. So the first one; you guys wrote down in the earnings release, the part of the increase in the volume of wealth under management

was partially affected by the BTG digital platform. So, could you please share with us a little bit more about how BTG digital is evolving, and in the case, if you cannot talk about number of clients, digital accounts or incremental revenues, could you please just give us a short info on how much that growth rate of 40% year-on-year in volumes is explained by the BTG digital? Then I'll go to my second question. Thank you.

### **A - Roberto Balls Sallouti {BIO 4150617 <GO>}**

Hi (inaudible). As I explained before, we really don't want to send the wrong incentive to our teams regarding digital. It would probably benefit our capital market story, if we started releasing number of clients and number of AUM, separating wealth management from digital. But we want to make sure that we are servicing the right clients with the right profile and not over burdening our platform with that decrease in the level of service. So that's why we have consciously decided to reveal wealth management as a whole, basically all of the businesses related to individuals. So unfortunately, I cannot disclose exactly what the percentage increase is, but let me put it this way. BTG digital performed above our business plan for 2019 and every quarter that passes, it is growing in relevant both in net new money and in total of wealth under management.

### **Q - Unidentified Participant**

Okay. Okay, thank you. So my second question, the revenue from investment banking registered its record high in the Bank's P&L this quarter. And a large part of the market participants knows that it's a very challenging to forecast this revenue driver of the bank. So my question is, what are your expectations for this business segment going forward? And could we start to talk about a new normal level of revenue generation and if so, what level could this be?

### **A - Roberto Balls Sallouti {BIO 4150617 <GO>}**

So, thank you, (inaudible). This is very similar to some questions which came via the Internet, from the Credit Corp analysts. So I'll consider them, I am answering both. Yes, you are right. It's very hard to forecast exactly, because you have M&A, which -- this is not so transparent, the levels and you have many times performance fees involved especially in the fixed income market, where we are willing to ensure that our interests are aligned with those of the clients and that he can pay us a higher performance fee if he is very satisfied. So even though the number of transactions might have been slightly below, revenues were a bit higher, that is because of these factors.

I would say to you that, yes, we are very confident that we have reached the new normal in investment banking. It's still hard to say if that's 200, 300, 350, but definitely given what we are seeing with the whole financial deepening, this new level of interest rates in Brazil, which is our biggest market, meaning that capital markets activity has completely changed level. So yes, I agree with you. It has changed, it's still very hard to know what the equilibrium is, but we agree with you. That has definitely changed.

### **Q - Unidentified Participant**

Okay. And this is very helpful. Thank you very much.

## A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, (inaudible).

## Operator

(Operator Instructions) And our next question comes from Nicolas Riva of Bank of America. Please go ahead.

## Q - Nicolas Riva {BIO 20589225 <GO>}

Yeah, thanks very much for taking my question. One question, you mentioned the gain you had on the deferred tax credit and you said that differently from other Brazilian banks, you didn't use that gain to book more provisions for corporate clients. Can you talk about asset quality, net corporate credit book, what's the coverage of NPLs, the NPL ratio and more or less what are the trends there, given that you're growing a lot in that book? Thanks.

## A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thank you, Nicolas. Yes. So just to confirm what you already expressed, yes, we reviewed all of those provisions. We consider them adequate and we haven't done any changes. We today have about 3.9% of level of provision as a percentage of total exposure, total gross exposure and we feel comfortable that those levels are adequate. Typically as you know, our corporate lending book is comprised of longer tenure transactions, so averaging from two to three years today and they are typically issued with an average of five years, about five years of tenure -- of term to maturity. And typically, our transactions are collateralized by real assets, assets that are strategic for the companies to which we'll provide credit that are inherent to their cash flows and therefore, constitute good collateral.

So typically, the level of losses that we recognized in our corporate lending book tends to be much lower than the average of the Brazilian industry, because most of the assets in the Brazilian industry in corporate lending are shorter term in nature and not collateralized by strategic assets, but yet, by inventories or liquid assets that tend to vary in value and don't constitute in our view so strong guarantees. That's why our corporate lending book is the most resilient corporate lending book in Brazil. And we have never suffered any losses in any given quarter, remembering to you that the revenues that we -- that we report in corporate lending are just the spreads over Brazilian CDI. These are not nominal revenues but only the real revenues above our cost of funding for that business. So when I say we've never suffered losses in a quarter, we never suffered any losses, even considering that the revenues are just the real spreads.

That said, we believe that the trend going forward is the same. We will continue to disburse credit to the same clients, the clients that compose our corporate lending portfolio are typically the companies we've been advising for 10 or 20 years that we are very close, so the management and to the strategy and that we understand very well their balance sheet structure. Therefore, we can structure transactions that are suited to their needs, with more agility than most of our competitors. And we believe that the quality of the credit will be as strong as it is today in that book.

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We also think that there is an opportunity to grow the corporate;ending book as we see the level of confidence of those entrepreneurs increasing, as I mentioned before, it's at an average now around 50%, the confidence levels as measured by the institutes that do that, coming from much lower and depressed levels, but still with room to improve. So if things go as expected in 2020, and without putting much expectation about that, we believe that the pace of growth will continue and the quality levels will remain. With that, I can answer to you that we consider that the level of provisions are more than adequate vis-a-vis the delinquencies and the actual losses of the past.

**Q - Nicolas Riva** {BIO 20589225 <GO>}

Right, thanks very much. Thanks.

## Operator

(Operator Instructions)

**A - Roberto Balls Sallouti** {BIO 4150617 <GO>}

Hi, there was also one question here from the webcast coming from Diego Ciconi of Credicorp. Please elaborate on development of the retail business. We heard news of the spin-off of this line of business, what can we expect here?

So as I mentioned previously, we were quite satisfied with retail, it's well -- it's about business plan and we're quite optimistic that it's really exponentializing [ph] the growth. Yes, there was some news on a potential spin-off. I don't know where that came from, but we are not considering any kind of spin-off of this business or listing of this business. We think there are a lot of synergies, for example, I think between our ultra high net worth -- ultra high net worth wealth management business and the digital business, all of the technology investments we do, leverage as a platform. So the technology investments we do for PME also benefits large corp and so on and so forth so we -- I don't know where that came from, but you should definitely -- there is nothing, no discussion of this of a potential spin off or listing going on right now.

## Operator

(Operator Instructions) Thank you. And that brings us to the end of the question-and-answer session. I will now return the floor to Mr. Roberto Sallouti for his closing remarks.

**A - Roberto Balls Sallouti** {BIO 4150617 <GO>}

Once again, thank you all very much for joining our quarterly call, actually our full year 2019 call. We're quite satisfied with the results for 2019. We're very optimistic with the perspectives for 2020 and we would really like to thank all of you for your trust and your partnership throughout 2019. So, wishing you all great day and a great weekend. Thank you very much once again.

## Operator

Thank you, this concludes today's presentation. You may disconnect your line at this time and have a nice day.

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