

Q3 2021 Earnings Call

Company Participants

- Daniel Maria, Head of Investor Relations
- Fausto de Andrade Ribeiro, Chief Executive Officer
- Jose Ricardo Fagonde Forni, Chief Financial Management and Investor Relations Officer

Other Participants

- Jason Mollin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, welcome to Banco do Brasil's Third Quarter 2021 Earnings Conference Call. We would like to inform you that this conference call is being recorded.

With us today we have Ricardo Forni, CFO; and Daniel Maria, Head of Investor Relations; (Foreign Language) Fausto De Ribeiro, who would not be able to join us today, but he left a message for this conference call opening.

The Q&A session will begin right after the presentation when further instructions will be given. Now we will begin the presentation.

Fausto de Andrade Ribeiro {BIO 22225741 <GO>}

Good morning, everyone, it's a pleasure to be with you today to discuss the third quarter 2021 results. When I became CEO of Banco Do Brasil I set 10 structuring initiatives in line with the strategic planning these 10 initiatives are summarizing three pillars proximity, digital impacts, and profitability that enable the main deliveries of the last nine months.

When I talk about proximity, I'm talking about being always available with a specialized relationship debt, understand the customers' moments of life their needs, and their preference. We offer specialized services to micro in the small companies which can count on 7,000 dedicated professionals.

Also, I'd like to highlight our specialized service for rural producers both retail and wholesale. And finally, our private offices which provide highly qualified advice. We made robust investments in analytics that allow us to extend management service to more than seven million people escalating the service with efficiency with the best customer knowledge technologies with personalized experiences. An example of this is our advisor robot which recommends investment considering our customer's goals.

At Banco do Brasil, customers can be served throughout Brazil digitally or in one of the physical points of contact. We are changing our services structure to lighter and more efficient models, increasing the number of banking correspondents. Banco do Brasil has nearly 22 million active customers in digital channels. Our app has qualified all of this with a daily pick-up of almost nine million people. This is our biggest showcase.

Digitally, the customer can renegotiate debt through WhatsApp. It also pre-approves loans. Through our channels platform we offer a fully credit cycle, it's the customers once it's possible to restart a low operation on a particular channel such as a cell phone and edit in another one such as a branch, in our omnichannel view. The purchase of credit follows the customer desire in a fluid and a safe manner. All of this results in a full experience in channels ensuring the best convenience for our customers.

We see continuous and consistent growth in the satisfaction of our customers with an annual increase of eight points in our general and PS. Every interaction carried out by our employees is followed by a service evaluation. In September we are retaining 4.8 rating in individual service and 4.86 rating in company shares on a scale between one and five. Our app ranks among the highest rated in the financial industry.

That's what we pursue every day. Our customer satisfaction through a close and personalized and increasingly digital experience. For us being digital in practice means advancing every day bringing benefits and improving customer loyalty. At Loja BB, our store in our app we centralize in one place no financial solutions such as gift cards, recharge, prepaid phones and the benefits and promotions of the entire Banco do Brasil program.

We are launching a new business model, an affiliate marketplace, which generates cash backs for customers and fee for Banco do Brasil diversifying our revenue sources and for the launch we made an agreement with Amazon Banco do Brasil that is available to our customers. Soon we will bring the new brands adding more value to our customers to make Banco do Brasil more relevant and present in their lives.

On business diversification, I would like to highlight Broto, our agribusiness virtual platform. Broto built together with BB Seguros. The platform reached BRL1 billion in dues since its launch. (inaudible), a digital initiative that was put virtually together as e-sellers and buyers was a successful solution. All the initiatives that are part of the constant improvement of solutions for our customers are truly the beneficiaries with rewards on products and services and the ponto pra voce program with cashback in their account.

Now I would like to talk about sustainability. This is the reason why I'm here in Glasgow in the next few days participating in panels and debates at the United Nations Conference of Climate Change. In last September, our sustainable business portfolio surpassed BRL282 billion, a growth of 18.9% in 12 months. Banco do Brasil is working to engage clients to invest in sustainable assets offering a portfolio that combines profitability, corporate governance, and social and environmental responsibility. As an example, the recent launch of LCA Verde reached BRL158.4 million.

As a result of our position in the ESG agenda, we are ranked as the most sustainable bank in the world by Global 100 and recently we were elected as the most sustainable bank in South America by CFI magazine. The coverage is proximity, digital presence, and profitability guidelines are reflected in our performance over the nine months of 2021.

For the third consecutive quarter, Banco Brasil posted record results. Adjusted net income reached the highest level in the historical series BRL15 billion in this year and annual growth of 48%. We also show growing credit with a portfolio exceeding BRL814 billion in NPLs reduced to 1.82% in September below the financial industry. Our CET1 reached 13.17% organically.

To end my speech, I like to reinforce our commitment to profitability and to the construction of increasingly and sustainable results. Now I will hand the floor to our CFO, Ricardo Forni who will detail our results with you. Thank you very much.

Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}

Good morning, everyone. I will start the presentation on Slide 10. The adjusted net income grew 47.6% compared to the third quarter '20 and 2% compared to the second quarter '21 reaching BRL5.1 billion in the third quarter with an ROE of 14.3%. Compared to the second quarter '21 the result was driven by the positive performances both in the NII and fee income and the solid cost control, partially offset by the 36.7% increase in the allowance for loan losses in the expanded view.

The nine-month accumulated net income was BRL15.1 billion, an increase of 48.1% compared to the same period of the previous year driven by the reduction in the allowance for loan losses. Throughout 2020, we constituted preemptive credit provisions to strengthen our balance sheet in face of potential impacts from the pandemic. Likewise, the good performance on the income side and the control in administrative expenses driven the result on the nine months accumulate, and the ROE ended at 15%.

On Slide 11, we show the net interest income a breakdown with the growth of 11.9% compared to the third quarter, and 9% in the quarter. In the accumulated nine-month view, NII grew 5.3% totaling BRL44.6 billion. The income from loans increased driven by the credit growth is a better mix. Also, the positive performance on treasury helped the NII. These movements more than compensate the growth heading funding expenses due to higher silica rates in the period.

On Slide 12, we have the loan portfolio in the expanded view, which grew 11.4% year-on-year and 6.2% compared to June, '21 totaling BRL814.2 billion mainly owing individuals and agribusiness portfolios. The individual's portfolio grew 5.7% compared to June '21 and 14.2% compared to September '20. Highlights for the positive performance on payroll loans, consumer finance and credit cards, as a result of our strategy of changing the mix.

The agribusiness portfolio grew 9.7% compared to June '21. Agribusiness Seguros also had a positive performance. The SME segment, which includes companies with annual revenues of up to BRL200 million grew 10% in the quarterly comparison influenced by disbursements in Pronampe. The corporate and government portfolio grew 1.1% year.

Operator

Ladies and gentlemen, please stay connected Banco do Brasil's conference call has been interrupted for technical reasons. Please hold on while we soon resume the conference call.

Jose Ricardo Fagonde Forni {BIO 20394486 <GO>}

On year and 2% quarter-on-quarter. We highlight the growth of transactions with companies with annual revenues between BRL200 million and BRL800 million contributing positively to the portfolio mix.

On the next slide, we have the agribusiness portfolio breakdown. We reached the historic mark of BRL225.8 billion, 18.5% up from September last year. Besides the traditional loans, I would like to highlight the 483% increase in the agribusiness loan write certificates commonly referred to as CDCA's that constitute a new form of agribusiness funding.

In addition to the high demand, the strong performance is driven by Banco do Brasil's historical protagonist in this segment with specialized service, dedicated professionals, technical knowledge, and national capillarity. In addition, we start from a robust strategy to strengthen our presence in the agribusiness with actions that improve businesses, bring modernity and technology to the relationship with the entire agribusiness chain. As a result, we had another record of disbursements in the first quarter of the 2021-2022 harvest plan with a growth of 6% compared to the same period of the previous harvest with operations in 4,715 Brazilian municipalities.

On Slide 14 we bring the highlights of the company's portfolio, which grew 4.3% compared to last June. As I mentioned, the highlight in the period was the growth of the SMEs portfolio favored by disbursements of BRL8.1 billion in the Pronampe lines only in the last quarter. We are investing in an important strategy called Elos Produtivos, which brings a closer relationship with the supply chain of wholesale agribusiness and government companies. In the first nine months of 2021, we disbursed BRL15.4 billion in credit to small and medium-sized companies under this movement that integrates the best service network.

On Slide 15, we see the schedule for the resumption of payment for the operations of the forbearance portfolio. Payments are being made according to plan as shown both by the reduction in the balance of the portfolio and the reduction in the balance in the grace period which totaled BRL3.6 billion here in September '21.

From the amount of grace period, half are expected to resume payments in the fourth quarter of '21 as shown in the graph on the right-hand side. The NPL over 90 days of the forbearance portfolio increases in relation to the previous quarter as expected and remains under control at 2.29%.

On Slide 16, we show the evolution of the allowance for loan losses in the expanded view, which ended the quarter at BRL3.9 billion, a reduction of 28.8% compared to the third quarter of '20 and an increase of 36.7% compared to the second quarter '21. The increase in the quarter is mainly due to the higher credit provisions in line with the loan portfolio growth. The good performance of the recovery of write-offs also helped allowance for loan losses.

In the nine-month accumulate, the allowance for loan losses in expanded view totaled BRL9.3 billion, a reduction of 44.4% compared to nine-month '20 due to preemptive provisions made throughout 2020 in the amount of BRL8.2 billion. The cost of credit ended the third quarter at 2.8%.

On Slide 17, we have the credit quality, which proved to be resilient. The NPL over 90 days showed a reduction in relation to June '21 reaching 1.8% in September '21. The portfolio coverage ratio ended the quarter at 323.3%, a slight reduction compared to June '21. The new NPL in the portfolio reached 0.69% and the coverage of the new NPL reached higher than 13.4%.

On the next slide, we present the fee income and administrative expenses dynamics. Fee income reached BRL7.4 billion in the quarter, an increase of 2.2% compared to the third quarter '20 and 3.2% in the quarterly comparison. The growth was mainly driven by the positive annual performance in the lines of insurance based on plans and premium bonds, consortium and asset management.

In the nine-month '21, fee income grew 1% converging to the guidance. Administrative expenses remained under strict control almost flat in the annual comparison totaling BRL7.9 billion, even considering the salary readjustment of 10.9% as of September '21 administrative expenses grew only 0.7% in the quarter. The cost to income ratio accumulated in 12 months ended the period at 35.9%.

On Slide 19, we show BB to BI ratio highlighting the common equity Tier 1, which ended September at 13.17%.

Finally, on Slide 20, we bring the performance regarding the guidance. BB reviewed its corporate projections to better represent management's expectations. The range for the loan portfolio was changed upwards to 14% to 16%. This reflects the good performance on the retail lines and also the good perspective for the agribusiness sector. Those segments also had the estimates change upwards. The wholesale portfolio, which considers corporates with annual revenues greater than BRL200 million was impacted by early redemptions and the higher demand for alternatives in the

capital markets, which drove the revision of this line downwards. For the NII the performance above expectations both in the loan portfolio and in the treasury led to an increase in the growth range to 4% to 6%

Estimates for fee income, administrative expense, and the allowance for loan losses were maintained. Finally, our adjusted net income was revised upwards to reflect changes in all other lines. With that, I conclude the presentation of the result of the third quarter of 2021 of Banco do Brasil. We can now begin the Q&A session.

Questions And Answers

Operator

Thank you. We will now begin the Q&A session. Questions can be asked by right clicking on the icon raise a hand. When announced, a request to open the microphone will appear on your screen and you should click on unmute to activate your microphone. (Operator Instructions) Our first question comes from Mr. Jason Mollin from Scotiabank. Please, you may proceed.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. (Foreign Language) I was wondering if we could get an update on Banco do Brasil's strategy to sell non-core businesses and an update on potential JVs in certain businesses and also perhaps now that you've reached one year, the one-year mark on your JV and investment banking, if you could provide some color on how that is going. It seems like you've done according to the release a lot of transactions. Thank you.

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

Okay. Thanks, Jason for the question. So let's start on the divestments, that let's say we are working on. I believe that we delivered the first divestment in this quarter. It's subject to approval by the Central Bank and the competition authority in Brazil. We sold half of our let's say half of the bank called (inaudible) that we have in partnership with Bradesco, and this was due to that. This was originally an incumbent bank or a bank kind of financing, that was let's say during the last years, invested to be a digital bank, but for us, it's not a synergy in our digital strategy. So we, in the, let's say the road to be digital, it will require a lot of investments and we decide to sell and Bradesco is our partner over there, they had a preference. So they bought this equity from us and we are just waiting for approval from the Central Bank and the competition authority to finalize the transaction. So this is, first one that we are on the, let's say trying to keep with the core. It's, this is one of the first ones that we have delivered, let's say.

In terms of other ones, I believe that the market always talks about the CLO. We are not interested in selling CLOs. We are working together with our partners over there because we believe it's a core business. We have the ability as well, not on divestment, but on our partnership, let's say discussion. We are still studying, let's say we don't have any, any new evolution in terms of this discussion, we still looking forward to a partner that can improve our competencies, and let's see move forwards and knowing that BB DTVM is a leader in the Brazilian market. So it is something that we are looking forward to a joint venture debt that could keep up our position as a leader in the asset management market. We have also some time discussion about Banco Votorantim, Banco Votorantim is a very good bank. They are delivering, delivering results. We are working together with our partners over there. We work in a potential IPO in the beginning of this year that the market was not, let's say welcoming in terms of pricing at that time and together with partners we decided to hold and stay on the partnership and work together. So we're looking forward in the future for let's say a mix, it will be for let's say a good price for our stake.

And Bank Patagonia, I think is not the one that I think is the potential list of divestments, but say the market is in Argentina are not say very liquid or welcoming for a transaction. So we are holding in the wait and see how, how the market evolves. Meanwhile, Bank Patagonia is a very good and

profitable asset. So we are not, it's not up -- it is not against us holding the position because the asset is profitable. Okay.

Q - Jason Mollin {BIO 1888181 <GO>}

Okay, very helpful.

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

Okay.

Q - Jason Mollin {BIO 1888181 <GO>}

Yeah. An update on UBS?

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

Yeah. Update on UBS. We just made one year's say of the joint venture working. We are performing say better than we expected considering the pandemic scenario. We are -- we have very good transactions. We are working the market in the fixed income in Brazil is going well. The competence of a global player like UBS and the local leader like Banco do Brasil is working well on this.

Equity we are working well as well, but let's say the market is, let's say a bit more sensitive for equity transactions and we say advancing our competencies in the mergers and acquisitions, I think this is something that has a more longer-term for let's say this pipeline to come up, but we are very happy with the joint venture with UBS.

Q - Jason Mollin {BIO 1888181 <GO>}

Very helpful. Maybe just on a separate bay and separate way, if you could just comment on the competitive environment, perhaps from newer entrants or digital banks, we've seen the price range for a new bank, the midpoint, I think is over three times the market cap of Banco do Brasil. How do you think that's impacting your business? Are you seeing that on a day-to-day business and what do you think of that disadvantage on the valuation front?

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

I believe that Banco do Brasil as an increment bank and say we are working hard on our digital strategy and I believe that during the presentation, I believe that the material that our CEO presented about what we are doing in terms of delivering and developing new business models and you have this, the marketplace is we have this in the agribusiness, we have this gift cards, and now, the marketplace in partnership with Amazon, that is just starting, and keeping our app as the best or one of the best in the Brazilian financial system is something that we are working hard and we are trying to accelerate our digital initiatives. We have been very active in the open banking initiative in Brazil right now, together say supporting the Central Bank initiatives peaks in the open banking. So the digital banks are niche players, and I believe that we have, we are building and delivering our core digital proposition for our clients. So that's what we are working and mainly that's why, for example, (inaudible) was not something that would be a synergy for our business plan.

A - Daniel Maria {BIO 17030121 <GO>}

And just to add some numbers to what Forni said. I think that's quite related to our strategy.

First of all, we have a good number of people using our app. We have a good flow inside the organization with more than 22 people using it at least once a month.

A - Fausto de Andrade Ribeiro {BIO 22225741 <GO>}

20 million.

A - Daniel Maria {BIO 17030121 <GO>}

20 million people using once a month and we have on average 6.7 million people using every day including we peaked more than eight million people in one day and these actually shows the value that the bank as a platform and not only to generate business in the banking business but also to generate other flow for non-banking business. For that reason, it's important to see the developments that we have in terms of platform for instance growth that's certainly we are escalating this to monetize. You see also the movement that we are doing in the gift cards, and now bringing to this marketplace with amazon.com.br, yeah. And certainly, this is a new way of generating to monetize the customer base, then this is a good representation of the strategy, digital strategy for the bank. It's roughly since you have a large market, there are more ice looking at the market, but we have the instruments, to compete with. It doesn't matter who is in the market.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much for your comments. Appreciate it.

Operator

Remember that to ask questions just click on the icon raise hand, when announced activate your microphone (Operator Instructions) Thank you. As there are no questions, I would like to turn the floor over to Mr. Ricardo Forni for his closing remarks. Please go ahead, sir.

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

Okay. So thanks to everyone who is attending this conference. I believe that we are very happy to deliver very good results. That is consistent with our trajectory and the work with our employees to deliver good results, and I believe that we are working not only towards let's say to keep the profitability going up and closing the gap with our peers but working on the efficiency, agenda and the working on the new business model and digital transformation that is very important and is a very, and it's our strategy that as our CEO said before that, he set in the beginning of his administration 10 lines of work that we are trying to deliver and I believe that we are very happy in what we reached so far and working hard on the end of this, the fourth quarter to deliver the complete 2021 results in good sound and prepare the floor for the next year that will be a challenging year in terms of the market scenario, but in the competition as well, but we are confident that we have all the conditions to keep improving in delivering profitability, evolving the efficiency agenda and most important of out to let's say intent our clients. So we believe that everything that we do at Banco Brasil is to deliver and to take care of our clients. Thank you for the attendance today.

Operator

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

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