

Q1 2013 Earnings Call

Company Participants

- Gustavo Sousa, IR
- Ivan de Souza Monteiro, CFO

Other Participants

- Boris Molina, Analyst
- Gustavo Schroden, Analyst
- Jorge Kuri, Analyst
- Marcelo Henriques, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, everyone. And thank you for waiting. Welcome to Banco do Brasil's First Quarter of 2013 earnings conference call.

The conference is being recorded. And all the 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 conference is also being broadcasted live via webcast through Banco do Brasil's website at www.bb.com.br/ir, where the presentation is also available. Participants may view the slides whenever they wish.

Before proceeding, let me mention that this presentation may include references and statements, planned synergies, estimated projections. And forward-looking strategy concerning Banco do Brasil Group, its associated and affiliated companies and subsidiaries. These expectations are highly dependent on market conditions and performance of domestic and international markets, the Brazilian economy. And the banking system.

Banco do Brasil is not responsible for updating the estimates in this presentation. With us today we have Mr. Ivan de Souza Monteiro, CFO. And Mr. Gustavo Sousa, Head of Investor Relations. Mr. Gustavo, you may now begin.

Gustavo Sousa {BIO 17683157 <GO>}

Thank you very much. Good morning, everyone. And starting on slide three of this material, we look at the highlights of Banco do Brasil's earnings on the First Quarter of this year.

The adjusted net income, reaching BRL2.7 billion, our loan portfolio growing 25.6% over the past 12 months, Banco do Brasil still with a delinquency rate better than the system's at 2% on delinquency

past 90 days, while the system is at 3.6%. Our recent business expansion funded by mainly the growth in agribusiness letters of credit.

Moving to slide four, we see the breakdown of our operating revenues and of our operating expenses. Starting with NII, we saw a 1.7% growth. NII traditionally represents roughly 70% of Banco do Brasil's operating revenues. In the First Quarter, 68.3% versus 68.2% in the First Quarter of last year.

In terms of fee income, Banco do Brasil saw a growth of 6.7%, a little below the Bank's guidance range for this year. The Previ item at its lowest historical contribution to operating revenues at 1.2% of total operating revenues and BRL187 million on the First Quarter of 2013.

The highlight in operating expenses is the growth below the guidance range of admin expenses with 6.6%. And that's because of a 2% growth in other administrative expenses. And that's a result of the Bank's emphasis in cost control.

In terms of credit provision expenses, we saw a reduction of 8.3% in the quarterly flow when comparing this quarter with the First Quarter of 2012. And that's because of the extension of credit in low-risk items. And also because of the continuous evolution improvement in the quarterly growth of credit provision expenses at Banco Votorantim. Banco do Brasil's adjusted net income at BRL2.7 billion.

Moving to page five, we see a breakdown of sources and uses of Banco do Brasil, total sources growing by 25.1%. The highlight is the growth of 11.4% in commercial funding, mainly because of this above-300% growth in agribusiness letters of credit. Traditionally Banco do Brasil invests the vast majority of those funds in credit. So the Bank's net loan portfolio represents 88% of the Bank's uses.

We also show on this slide on this table in the bottom several metrics comparing the loan portfolio with the funding base of Banco do Brasil. I highlight the net loan portfolio over total deposits at 88%, at total funding at 88%.

On page six of this presentation, we see the breakdown of the Bank's net interest income. We have a reduction in the global spread. This global spread -- the net interest margin represents the spread on Banco do Brasil's overall financial business. And also a reduction on the credit spread on this graph on the right upper-hand side, we see the credit spread per segment.

And that's because of both the growth in lower-risk credit items. Naturally, these lower-risk credit items come with lower spreads. And also because of a lower average SELIC rate. With that, even though we had an expansion in the credit portfolio, the credit portfolio credit operations revenues were stable.

When we look at the funding cost of Banco do Brasil, we had improvements in funding expenses, even with a growth of 25.1% of total funding. Specifically, in -- when we talk about institutional funding expenses, we saw a growth of 48% in the average daily balance of this item over the past 12 months. And a stability in terms of funding expenses. So the Bank has been able to capture a significant benefit in its funding size.

When we look at the treasury items, we have a reduction in this item because of a lower average effective SELIC rate, because of a lower reserve requirement on demand deposits. When you compare the reserve requirement on the -- the (inaudible) reserve requirement on demand deposits on the First Quarter, this was at 12%. And in the First Quarter of this year, we are now at 0%. And this covers a roughly BRL900 million reduction in this comparison.

And we also had, because of a shift in the yield curve on the First Quarter of this year, mark-to-market expenses. Roughly 18% of Banco do Brasil's securities portfolio are on fixed securities. And with the shift upwards in the yield curve, we had mark-to-market expenses of BRL194 million.

Moving to slide seven of this presentation, we see a 25.6% growth in the credit portfolio, totaling over BRL592 billion, where we highlight the importance of the loans with companies, they represent 47.2% of the Bank's portfolio. And the portfolio with individuals. And that's at 26.4% of the Bank's portfolio.

Specifically, on page eight, we show you the organic loan book with individuals. In this organic view we exclude the partial consolidation of Banco Votorantim and also the acquisition of credit portfolios from other banks. In this metric, we grew by 26.3% over the past 12 months. And this is driven by the growth in mortgage of above 60%, auto loans originated at the Banco do Brasil branches of above 150%. And of a nearly 20% growth in payroll credits.

If we look at the first four products in our individual portfolios -- payroll, salary loans, auto loans. And mortgage -- these are the ones with the lower risk in the -- the lowest risk in the portfolio. We saw an evolution of concentration from the First Quarter of last year, when they represented 72% of the portfolio, to the First Quarter of this year, these four products now representing 75% of the portfolio.

Only slide nine, we see the evolution of the loans with companies, a growth of 32.7% over the past 12 months, driven by the 38% growth in working capital lines, the above 20% growth in investments. And also the nearly 60% in investments in corporate bonds.

On slide 10 of this presentation, we show you our -- the importance of the agribusiness portfolio of Banco do Brasil. The Bank is traditionally the leader in this segment, with a market share of about 63%. This portfolio grew by 19.7% over the past 12 months and maintained a very low delinquency ratio of only 0.66% past 90 days.

If we look at the concentration of this portfolio, small -- I'm sorry, mid-size and large-size producers, along with agribusiness cooperatives, represent 73.2% of this portfolio.

On slide 11 we show you the NPL metrics of Banco do Brasil. The system saw -- the banking industry saw a decrease and reached 3.6% in NPLs past 90 days, while Banco do Brasil reached 2%. If we exclude Banco Votorantim, Banco do Brasil would reach 1.74%.

Looking at coverage ratios, Banco do Brasil with the highest coverage among its large-size banking peers in Brazil, with roughly 200% of provisions over NPLs past 90 days. If we look at Banco do Brasil ex Banco Votorantim, this metric is of nearly 218%.

Moving to slide 12, we see the relative stability across the different segments -- the different business segments of Banco do Brasil, individuals, companies. And agribusiness.

On slide 13, we show the improvement of delinquencies at Banco Votorantim, delinquencies past 90 days reaching 7.2% in the end of March of 2013. And that's because, if we look on page 14. And that's because of the gradual dilution of the problematic vintage at Banco Votorantim. This problematic vintage is a vintage that has higher NPL and was originated between July 2010 and September 2011.

The origination of this newer vintage with an improved credit methodology has been gaining importance with this vintage originated after September 2011, with -- now representing 44% of the total portfolio. With that, we see an improvement in the quarterly flow of provisions of Banco Votorantim.

If we compare the First Quarter of this year with the First Quarter of 2012, total credit provision expenses showing an improvement of 36.7%. And if we look at the provision associated to the auto loan portfolio only, an improvement of roughly 40%.

The coverage ratio of this portfolio continually improving, reaching 111% at the end of March of 2013. And that's the coverage ratio for Banco Votorantim as a whole.

On page 15, we look at Banco do Brasil's administrative expenses. The Bank grew below its guidance range. The guidance range is between 7% and 10%. The Bank grew at 6.6%. And this is because of this very small growth in other administrative expenses of only 2%. And this is an emphasis of Banco do Brasil in efficiency programs and controlling its cost growth.

With that, we have, on page 16, a relative stability on the cost-to-income ratio when we look at the 12 months ratio of around 43%.

Moving to slide 17, we see the expansion on the Bank's BIS ratio, now reaching the highest level since June 2007 at 16.3%. And on page 18, we show the performance of Banco do Brasil in the First Quarter, compared to the Bank's guidance.

So the ROE performing a little above the guidance range, both NII and commercial funding performing below the guidance range, the several credit metrics performing either above or within the guidance range, the allowance for loan losses performing on the bottom of the guidance range, fee income below the guidance range. And admin expenses performing below the guidance range, as well.

With that, we open for the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Mr. Marcelo Henriques from BTG Pactual would like to make a question.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Hi. Good morning. Thanks for taking my question. I actually have a more broader question about the credit and competitive environment. The private banks have been saying for a while that they were expecting to see a deceleration of credit growth coming from the public banks, while the public banks have also been saying that they would expect to see the private banks a little bit more aggressive in lending and we haven't seen this in Q1.

We already have April in the pocket and we are like mid-May and I would say with a high level of confidence that the picture remains the same. So I was just wondering how much you think this is sustainable on a going concern basis. I mean, do you see the picture remaining like this? I mean, public banks and you guys growing like 20%, 20%-plus a year. And the private banks growing like below 10%, at least in 2013, or do you already see the picture changing a little bit at the margin.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Marcelo. Thank you for the question. Well the -- in our view, the competitive environment hasn't changed significantly. Banco do Brasil remains with its usual strategy of growing in the credit items of lower risk. Naturally, in the First Quarter, we have a seasonally weaker First Quarter in Brazil, as you know. So we weren't able to grow nearly as fast as we grew in the Fourth Quarter.

With that, the best estimate that we can give you is our guidance range for credit growth for this year. And, as you know, that's between 16% and 20% It's still too early to indicate whether we'll be at the top of this range, closer to the bottom of this range. We haven't seen any significant changes in the environment to adapt our guidance number.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Actually, it looks like the credit growth was pretty strong, 25% year-over-year while your private peer is growing like 10% or lower than that. But so you're not seeing this change.

What do you think could cause, like, a change in this picture where private banks could be a little more aggressive and, I don't know, maybe sacrificing spreads a little bit more to compete with you guys? Do you see -- what do you think that needs to change in the system for this environment to become a little bit more balanced?

A - Gustavo Sousa {BIO 17683157 <GO>}

Marcelo, I think the first important point is that when we look at the 12-month growth, we still have a strong effect of a very strong second half in terms of growth, right? So Third Quarter and Fourth Quarter, these two quarters we grew quite fast.

When we look at the growth in this quarter, it is driven by our usual strategy. So you can look at the priority projects we have in this quarter -- real estate credit with individuals growing by 11%, salary loans growing at 4%. And payroll credit growing at 3.4%.

We don't -- when we think about the behavior from our competitors, I don't know what would lead them to more into these types of credits. What we can tell you is that we are very comfortable with the expansion in these prioritized products.

As you know, most of our payroll credits come from civil servants. That's roughly 85% of the originated amount. An additional between 8% to 9% from (inaudible). So we are very comfortable with this portfolio.

Salary loans also a segment with very low delinquency. And if we look at the other two priority products in our individual portfolio, auto loans originated at the Banco do Brasil branches and mortgage financing, we are also very comfortable with the delinquency levels at Banco do Brasil.

So from our end, we see no reason not to be confident and comfortable with this strategy. I can't comment on the appetites of the other banks on these particular products.

Q - Marcelo Henriques {BIO 17385475 <GO>}

No. I understand that. I wonder what you're seeing and they're not seeing. But --

So the second question is on the ROE. You're running around 16% ROE this quarter. What do you think could be the sustainable ROE for Banco do Brasil as a whole, when you look at the consolidated business?

And if you look a little bit more separately, I mean, in terms of the commercial bank, per se, especially after you kind of know what the ROE of (inaudible) as a whole, what you think is the -- a sustainable ROE for the bank to run, going forward?

A - Gustavo Sousa {BIO 17683157 <GO>}

Marcelo, of course we understand that different analysts and investors do their adjustments in the ROE metric. You arrived at 16-point -- you said 16.5%, right?

Q - Marcelo Henriques {BIO 17385475 <GO>}

Yes.

A - Gustavo Sousa {BIO 17683157 <GO>}

Yes, our number in our situation is 17.4%. And this is a little above the guidance range for the year. It's still too early to indicate whether in our calculation we will be for the full year in the top of this range or closer to the bottom of the range.

So far, we are sticking to the guidance range, even with our calculations of the effect of BB Seguridade's IPO. So naturally, we will make a capital gain on this number. It will be treated as an extraordinary item, a non-recurring event. But even with the impact of selling nearly one-third of this business, we are still indicating that the ROE will perform within the guidance range.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Okay. Thanks.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Marcelo.

Operator

Mr. Marcelo Telles from Credit Suisse would like to make a question.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello. Hello, everyone. Thanks for the opportunity. My question is actually regarding Votorantim, right? You mentioned that you expect them to get to breakeven by the end of the year.

And I just want to ask if you could give us an update. I remember you mentioned sort of the press release talking about the interest of Banco do Brasil to increase its stake in Banco Votorantim. And what is the current situation regarding that particular negotiation? And going a little bit beyond that, what would be the strategic reason for you guys to increase your stake in Votorantim?

And are you seeing like a big improvement in ROE next year? Do you think the Bank can actually, at some point, deliver ROE in line with your cost of equity? So how do you see that playing out? Thank you.

A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

Marcelo, unfortunately, we can't talk with you about this. But I can tell you that all the recovering by Banco Votorantim, you see that they're not at net profit yet. But you see the improvement of the results quarter by quarter. And we believe that in the -- I mean, the Third Quarter, you'll see a quite nice stability in Brazil. But in the fourth and in 2014 ahead you will see that the Bank will be in a profitable way. And we are pretty confident that we can do that.

You know that the synergies between Banco do Brasil and Banco Votorantim could increase if, in the end of these discussions between the two banks, we are able to reach a good result for both shareholders. We believe that the synergies are doing well. But there is much more to come.

And we -- (inaudible) is we need to wait for the final discussions between the two shareholders and to see what kind of or what new wave of synergies we could capture in the end of this process.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. Thank you very much.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Marcelo.

Operator

Mr. Boris Molina from Santander would like to make a question.

Q - Boris Molina {BIO 1904979 <GO>}

Yes. Thank you for taking my question. My first question is related to your pension fund deficit. You started to do the mark to market of the deficit that has accumulated. And we were wondering how could we estimate the growth in your actuarial liabilities for the combined fund?

And secondly, what would be the procedure going forward when you would be required to address the deficit if it remains at the current level or if it grows in the future?

And if you have any explanation of how the process of adjusting your rate of recognition of earnings or increased contribution to the fund, when would it take place?

A - Gustavo Sousa {BIO 17683157 <GO>}

Okay. If we look -- Boris, thank you for the questions. It's not easy to project the growth of the actuarial liabilities. It's an actuarial calculation that is done twice a year, every June and December. So I can't -- unfortunately, I can't indicate a number or proxy that will lead you to a good estimate.

With that, I think a good way to look at that is look at the past numbers and work with the average progression. Because it is -- it's too complicated an actuarial calculation just to project on a number of small variables.

If we look at the procedures of accounting for this, this means the rule that was implemented starting in January of this year basically says that you still continue with the semi-annual confrontation of the fair value of the plan's assets with the present value of the actuarial liabilities. One thing that you saw already in December was a reduction of the interest rate used to calculate this present value.

And this impact that used to go to what was called the corridor method now generates an impact in shareholders' equity. And you see that in our statement, as well. So what you're seeing in terms of reduction of our shareholders' equity position around BRL4.5 billion is this confrontation of the fair value of the plan's assets to the present value of the plan's liabilities, net of tax effects. And this reduced our shareholders' equity position.

What now goes to earnings is that the effect of two financial items, of calculating the current cost of the plan's liabilities and that -- the calculation of an interest rate over the actuarial liabilities and the same interest rate over the plan's assets. So it is basically projecting what the evolution of the assets and liabilities will be over the next six months. And then continues to accrue that on a monthly basis. This is the BRL187 million effect that you saw on the First Quarter of this year.

So basically, what changed from the previous regulation is the extinction of the corridor method. Now (inaudible) calculation causes an adjustment on the shareholders' equity position. But still with a monthly accrual related to these financial items that I mentioned.

Q - Boris Molina {BIO 1904979 <GO>}

Now a couple of clarifications. What's the driver of the growth in your actuarial liabilities in the Fourth Quarter? Because it was significantly larger than historical experience.

And what is the impact of inflation on your actuarial liabilities? Could we expect that if inflation remains at current high levels you will have to actually continue to adjust your actuarial liabilities at a higher rate than we were in the past?

A - Gustavo Sousa {BIO 17683157 <GO>}

Boris, let me just take one step back over here, just for the benefit of everybody participating. Of course, when we talk about this situation, we're taking specifically about plan one on (inaudible). And, as you know, this plan was closed in '98. So we're talking about no new participants and just with the participants that were -- that joined the Bank before '98.

The impact on inflation is our estimate of what this will cause in terms of benefit adjustments. So naturally, we project inflation for the next period and also the increasing compensation for our workforce that is usually very much linked to inflation. This is one of the components that increases the actuarial liabilities. And, actually, this is embedded in our projections for these amounts, as well.

If you see -- so, basically, if you see lower inflation that is beneficial for the Bank in terms of actuarial liabilities. But if you see significant increases in inflation, you will see a rise in the actuarial liabilities because of that, because of this impact on the benefits.

Q - Boris Molina {BIO 1904979 <GO>}

Okay. Thank you. Just (inaudible) question, (inaudible), we saw that you began to disclose your stock of public sector lending. Do you have any idea of how large this public sector lending will be. And what are the drivers (inaudible)? Is it related to investment for Olympics or infrastructure? So can you give us a little bit more color on this?

A - Gustavo Sousa {BIO 17683157 <GO>}

Yes, Boris. Let's just separate the two things. Let me talk about investment in infrastructure. They could be investments that are related to a given state or municipality, or they could also be infrastructure projects undertaken by the private sector.

This growth that you see in what we call government clients is usually related to loans to states and municipalities, always with a guarantee from the national treasury. And it is hard to project, to predict, the growth on this item, because we're talking about a number of loans of a large size. So it's difficult to say that it follows a trend.

Q - Boris Molina {BIO 1904979 <GO>}

Okay. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

And naturally, Boris, these loans to states and municipalities are usually related -- are always related to projects of urban infrastructure, let's say, sewage renewal, telecommunications of that specific municipality. It's always related to some public sector projects undertaken by that government entity. And always backed by the national treasury.

Q - Boris Molina {BIO 1904979 <GO>}

Wonderful.

Operator

Mr. Saul Martinez from JPMorgan would like to make a question.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, guys. Good -- well, I guess it's good afternoon for you guys, now. But two questions, as well.

First, on your net interest income, obviously, you highlighted Gustavo, why the quarter -- some of the reasons why the quarterly number was pretty lackluster. It seems, based on First Quarter number, like the '13 guidance is going to be tough to reach. Just very simple math suggests that the run rate for the rest of the year has to be -- to get to the low end of the 7% to 10% guidance -- has to be much, much higher than what you had in 1Q '13. I think we estimate BRL12.8 billion.

But I'm not really asking you about whether you reach the guidance. It's just can you give us a sense of how quickly the NII can rebound and what your expectations are for net interest income in the coming quarters? How -- just a sense of the magnitude in terms of which the net interest income line should improve from 1Q levels?

Then secondly, I guess on the other direction in terms of guidance, your provisioning, if I just look at 1Q, annualized, I calculate about 2.5% credit cost of loan loss provision to average loans, well below your guidance range. If I look out over the full year, is it fair to say that there is the possibility that you could be below that guidance range? I know you probably don't want to change it now. But is there risk to doing better than that guidance range, based on how you're looking at things at this current moment?

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you for the question. On your NII question, it's hard to predict the behavior of, let's say, the Second Quarter. What we are seeing is the trend of a gradual recovery. We have some initiatives that were already implemented. But that will still bring us some benefit on the funding side. And on the other components of NII, which means that we reached the bottom on the First Quarter.

So we -- I understand what you're saying. We see the same thing. We are -- even though it is challenging, we are committed to reaching the guidance range initially appointed.

When we talk about specifically the provisions over the portfolio, over the last 12 months we are at 3%. If you look at the quarterly number, yes, we are closer to 2.5%. We are confident that we will see stability across -- in terms of delinquencies across the different portfolios. At this point, we are confident in saying that we will perform at the bottom of the range. It's just too early to say if we will, let's say, overperform and deliver a number below the guidance range. At this point, we're comfortable saying that we will be at the bottom of the range.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. I mean, that -- I mean, I understand you don't want to commit to specific figures at this point, especially with the NII. It's very difficult. But when I look at -- you're also saying, though, you're committed to getting to the guidance. And to get to the guidance, you had BRL46 billion of NII last year, BRL11 billion in this quarter. The average run rate has to be something like 15% to 20% higher in 2Q, 3Q, 4Q versus 1Q.

So I just want to make sure I'm not missing something here. That's not consistent with a gradual recovery, that's consistent with a tremendous recovery in NII. So is there -- other than mark to market normalizing, do you see lending spreads stabilizing from here? Or what will drive that improvement, more specifically, other than initiatives on funding cost?

A - Gustavo Sousa {BIO 17683157 <GO>}

In terms of the treasury component, the mark-to-market effects, we believe we reached the bottom now at the First Quarter. And we won't see impacts from that in the upcoming quarters. In terms of lending spreads, we also believe that all of the measures in terms of spread compression were already changing and fell through the portfolio in its different components. So those are two items where, again, as you saw, the bottom of this trend in terms of NII.

I think we're looking at the same thing. So I don't think you're missing anything. We understand that it is challenging. But we are still committed to reaching the guidance range in terms of NII.

The statement in terms of provision over the portfolio is -- it's more of a conservative statement. We can confidently point to the bottom of the range. But, again, it's too early to say if we will be able to deliver a lower number.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, fair enough. Thanks a lot, Gustavo.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Saul.

Operator

Mr. Mario Pierry from Deutsche Bank would like to make a question.

Q - Mario Pierry {BIO 1505554 <GO>}

Hello. Hi, everybody. Let me ask you two questions, as well.

The first one is going back to your slide on page six. You show the evolution of your NIM by segment. And we do see an improvement in NIM for corporate. And a sharp drop in NIM for agribusiness. So I just wanted to understand how sustainable are NIMs for corporate? Why are they rising? Is it because of a less competitive environment, with private sector banks trying -- becoming more cautious? And on the agribusiness portfolio, also, why was it such a sharp compression in NIMs? Is that the NIM that we should expect for agribusiness, going forward?

Then my second question is with regards to your fee income. You are growing your fees about 7% year on year, which is slightly below your guidance. But there were two lines there that concerned me. One was your account fees. These fees are down about 8% year on year, while I assume that your client base has been growing. Then the second one was fees on loan operations. Despite the 25% increase in credits, your fees from loan operations are up only 5%.

So if you could help us understand what is this a function of. Is this a function of the (inaudible) program, or how should we look at fees going forward? Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Mario. If you talk -- let me try -- let me make sure that I cover all your questions. Let me start with the first. When we look at the spreads with companies, actually what you have there is that in the Fourth Quarter we had a strong growth of short-term credit with large corporations. So this specific expansion reduced the spreads on the portfolio with companies in the Fourth Quarter.

So the actual outlier when you look at the series is the Fourth Quarter with First Quarter more going back to a normal. So a normal level.

If you look at the agribusiness portfolio, what we are seeing is the reduction in lending rates when we compare the 2012 to 2013 vintage, or the 2012/2013 vintage, with the 2011/2012 vintage. You actually had a reduction on most of the agribusiness lending rates from 6.75% to 5.5% on the actual lending rate. So we start to see the effects of that in the portfolio more strongly in this First Quarter.

If we think of fees, we have a specific example when we look at the checking account fees and the service package fees. These fees are under constant, let's say, scope or microscope from the regulator. We have done some adjustments. And specifically on this item, we will see a reduction.

If you look at other items in our fee revenue, we have strong growth in fees related to credit cards, in fees (technical difficulty).

Q - Unidentified Participant

Hi. My questions have been answered. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you.

Operator

Mr. (inaudible) from Morgan Stanley would like to make a question.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. This is Jorge Kuri from Morgan Stanley.

Look, I think all of the key points have been addressed. Let me just, if I may, go back to one of the initial questions about what is it that you are seeing in the market that private sector banks are not. And what do you think that explains that divergence in growth rates which are pretty dramatic? You guys are growing at 25%, the private sector banks are growing single digits. On the consumer side, you're growing at 18% and private sector banks are not growing.

And so, I just wanted to understand is it you are going after riskier clients that the private sector banks are not? Are you going in different geographies that the private sector banks are not? Are you introducing new products? I mean, can you walk us through, are you better at pricing risk? Just walk us why the largest bank in the country is able to grow at twice the rate. And much more than that on the consumer side, than the rest of the banking system. Just saying that -- just help us conceptualize that, please. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Jorge. If we look at the growth, I think it's important to first separate two groups of banks, right? And we see that whenever we see industry reports.

So if we group public sector banks and we compare them with the private sector banks, yes, we have a discrepancy in terms of growth rates. We would have to, specifically in our case, separate Banco do Brasil and compare Banco do Brasil with the private banks and see that the discrepancy isn't as great. Last year, we still grew faster than the average of the system and faster than the private banks, as well. But not as fast as public sector, as a group, as a whole.

In our case, we are comfortable with the growth. It's not a function of geography or a comfort level with a specific niche line. It's a consequence of our strategy for the past, at least, five years, which is to grow in the lower-risk segments.

If you compare the individual portfolio of Banco do Brasil with that of our retail peers, you will see a much stronger concentration in, for example, payroll credits and salary loans. We are very comfortable with growth in these specific portions of the portfolio.

As you know, roughly 85% of that -- I think I mentioned this answering another question -- comes from civil servants. And an additional 8% to 9% from (inaudible). So we complete comfort with this portfolio.

We have been growing quite fast in mortgage because we were a later starter in this game. With that, we have been gaining market share. And we have continuously climbed -- continually climbed on the league table of mortgage credit in Brazil. And specifically last year, we advanced our organic auto loan portfolio and we were able to show a growth of above 150%. But starting from a very low base. So it's just, in our case, a function of a strategy and with total comfort with this type of low-risk product.

One other thing that we should not forget is that roughly 18% of the Bank's portfolio is in agribusiness credit. This portfolio is growing between 17% to 20%, depending on the quarter that you look at. And this is the portfolio if you look at three specific segments of Banco do Brasil -- individuals, companies. And agribusiness, this is the one with the lowest delinquency at 0.66% NPL past 90 days.

So this is the one difference that we have when you compare Banco do Brasil to the retail peers. Other than that, it's just a strategy of lower-risk credit.

Q - Jorge Kuri {BIO 3937764 <GO>}

I'm -- so, when you ask -- when we ask the private sector banks about their reluctance to grow faster, I think they -- one of the things that they mention is that they probably believe the consumer has a level of leverage that is just difficult to continue to provide at the same pace. I think they were a bit reluctant to say that a couple of years ago. But as growth decelerated I think they're embracing that view more.

What is your view about that? How do you guys see the consumer leverage and when you look at debt service ratios of 22% for the population at large, how can you continue to grow with that hurdle? You think some issues, how many more years can you grow your consumer loans at 18%, given that? Then, overall, what's your view on that?

A - Gustavo Sousa {BIO 17683157 <GO>}

Jorge, this is -- we follow that very closely, as well. We follow the indebtedness of the Brazilian consumer with a lot of attention. This is why we try to prioritize those four products -- payroll, salary loans, auto loans. And mortgage.

Payroll, again, because of the concentration with civil servants, we're talking about a client base that has very steady salary increases. There's no better credit that you can do in the country than a credit with -- payroll credit with a civil servant.

When you look at auto loans and mortgages, we're talking about collateralized products. Auto loans, specifically, with clients that have a long history with Banco do Brasil the vast majority of the portfolio with clients that have above five years of credit history with us.

That being said, of course, we follow investments. But our methodology separates investments across the different income levels. So we look at this 22% or 24%, depending on the methodology, of the commitment of household income to debt service. We follow that very closely.

What separates this in different fields, the clients can have a larger commitment of their monthly income. And other clients can't be at 20%. In the bottom of the pyramid of our client base, our system assigns a commitment of no more than 10%. This is how we treat this specific variable, the commitment of household income to investments. We segment the clients and assign different limits according to our interpretation of their data.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks for the detailed answers. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Jorge.

Operator

Mr. Gustavo Schroden from Espirito Santo (inaudible) would like to make a question.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Hi, guys. Good afternoon. And thanks for taking the question again. Actually, I'd like to explain the discussion of spreads and means, because we have seen this trend of lower NIMs and pressure on margins in all Brazilian banks. And the explanation is always the same, I mean, a change in mix of products and lower SELIC rates.

My question is, in your case, in addition of these factors, are you also really adopting lower prices on your clients than your private competitors or the pressure in your spreads and NIMs is also only related to mix and lower SELIC rate? My question is, because sometimes it is difficult to understand if this pressure on your NIMs is only related to mix and lower SELIC, or if there is a really lower price of credit on this (inaudible) in your specific case, mainly to your higher credit growth than your private peers.

I think that I like to (understand) if there is a really lower prices or just a change in the mix and lower SELIC rate. Thanks.

A - Gustavo Sousa {BIO 17683157 <GO>}

Gustavo, thank you for your question. Just I would like to start with one opening remark, which is Banco do Brasil traditionally. And this is not a 2013 or 2012 event, Banco do Brasil has always been one of the most competitive banks in terms of credit cost. It has always been the case with Banco do Brasil, because the Bank has traditionally been the bank with the lowest cost of funding. So this has always been the case for Banco do Brasil.

Specifically in 2012, we marketed that as an initiative to attract and retain clients with this adjustment in credit cost across the most important credit items in loans for individuals. And loans for companies. Specifically, in individuals, as you know, last year the regulator implemented the bank mobility law for civil service employees. That's the bulk of our client base. And that's also the cream of the crop in terms of banking clients for payroll credit in Brazil.

So we made adjustments in our portfolio in 2012. These adjustments already took place. And so, that's what we see in terms of changes in 2013 is the mix effect.

Then, because we have a higher growth in mortgages and auto financing -- those are lower risk. But also lower spreads -- you see a compression in spreads with individuals. So in a way it's a mix of the two events that you mention, pricing adjustments that happened last year. And also the mix effect.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Okay. Okay. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Gustavo.

Operator

Mr. (inaudible) from (inaudible) would like to make a question.

Q - Unidentified Participant

Hi. (inaudible).

A - Gustavo Sousa {BIO 17683157 <GO>}

(inaudible), are you still there? I think we lost (inaudible). Why don't we go to another question and (inaudible) will probably try to reconnect again.

Operator

Mr. Mario Pierry from Deutsche Bank would like to make a question.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi. Let me ask you a couple of follow or new questions here. First, you recently issued a press release saying that the IPO BB Seguridade should generate a gain of BRL8.4 billion for Banco do Brasil. I'm assuming this is a pretax gain. Should we expect this amount to flow to your bottom line in the Second Quarter? And if so, what is the benefit to your Tier 1 ratio from this transaction?

Then, the second question is related also on capital, the capital of Banco Votorantim, even though you're showing that results are improving, the Bank continues to lose money. The Tier 1 ratio of Votorantim has now dropped to 9%. Can you just give us how you're looking at the capital level of Votorantim? Do you think you might need to make a capital infusion there again? Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Mario, why don't we start with your second question. At Banco Votorantim, as Ivan has mentioned in answering another question, we are already starting -- projecting breakeven for Banco Votorantim. So this capital consumption because of the net loss will be reversed shortly. It's a matter of whether on the third or the Fourth Quarter. We do not project the need to do a capital injection at Banco Votorantim at this point.

Moving to your question BB Seguridade, the total amount, the total capital gain that we would see if we include the full exercise of the reissue -- the reinsurance, sorry, the (inaudible) issue was already included, the (inaudible) would be BRL9.4 billion.

This will have an effect on Second Quarter numbers. However, the payout ratio for Banco do Brasil is 40%. This number will be added to the earnings of the -- let's say the recurring earnings of Banco do Brasil in the Second Quarter. And we will have to see what the net effect is.

Because of the dynamics of the Second Quarter and the difficult (inaudible) in terms of assigning numbers, we haven't been disclosing our projection of the capital enhancement contribution of BB Seguridade as a single event. We'll have to wait and see the dynamics of the Second Quarter as a whole.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And just to confirm, this gain that you're talking about is pretax, right?

A - Gustavo Sousa {BIO 17683157 <GO>}

It's pretax, yes, Mario.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Mario.

Operator

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

A - Gustavo Sousa {BIO 17683157 <GO>}

Thank you very much. If you have any follow-up questions, please contact our IR department. Thank you.

Operator

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

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