



BANCO DO BRASIL

2Q2021

EARNINGS

CONFERENCE CALL

OPERATOR - Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Banco do Brasil 2Q2021 Earnings conference call. This conference call is being broadcasted live via webcast through Banco do Brasil website at www.bb.com.br/ir. The replay of the conference call will be available through the phone number +55 11 2188 0400, until August 2021, in English and in Portuguese. To access the replay, please ask the operator to listen to BB's conference call. Identification will be required. The full presentation detailing the main aspects of the 2Q2021 results was made available yesterday and can be accessed at Banco do Brasil's Investor Relations website. If you need assistance during the conference call, please request the assistance of an operator by typing *0. With us today we have Fausto Ribeiro, CEO; Ricardo Forni, CFO; and Daniel Maria, Head of Investor Relations. First, Mr. Fausto Ribeiro will make the opening remarks, followed by Mr. Ricardo Forni's considerations. After that, we'll open the Q&A session.

Mr. Fausto Ribeiro, you may now begin.

FAUSTO RIBEIRO – Good morning, everyone. It's a pleasure to be with you today to talk about the results of the 2Q and the 1H2021. Ladies and gentlemen, I would like to speak slowly in order to guarantee that everybody is going to understand. Please let me know if you have any difficulty in understanding the accent. Feel free to interrupt me at anytime.

For the second consecutive quarter Banco do Brasil posted record results. In the first half of 2021 our adjusted net income reached R\$ 10 billion, a growth of 48.0% in one year. In the quarter, the adjusted net income was R\$ 5 billion, up 52.2% from the 2Q2020, a high level of profitability than that we had before the pandemic. This result was supported by a robust credit growth with a portfolio



exceeding R\$ 766 billion, a growth of 6.1% in 12 months. Also, NPLs were totally under control, reducing in all portfolios. Credit expenses reduces 52% in the semester due to the anticipation of preemptive provisions made last year. With better customer service and diversification of business, we increased the fee income. At the same time the expenses were under control, with a reduction of 0.2% compared to the first half of 2020, as a result of our efforts in expenses management. The commitment to the profitability and the construction of an increasingly sustainable results is one of the guidelines of my term, as I had already mentioned when I was here with you last quarter.

To compose the tripod of our strategic agenda, in addition to focusing on profitability, we have been investing in proximity, and digital in practice. This proximity can be translated into knowledge of the customer, their profile, and their needs. As a result, we have specialized our services models and, in this sense, a relevant delivery this quarter was the conclusion of the cycle of service specialization with over 1.5 million clients started to be served by a manager. In 3 months, we saw an 18% increase in the profitability of these clients.

Another reflection of the success of customer proximity was the 10-point increase in our NPS in one year. To conciliate the best service and efficiency, we are changing the characteristics of our service network, migrating to lighter structures. With the increase in customer preference for digital, it is natural that our service network reflects this behavior. Another important shift is that we almost doubled our partnership with banking correspondents in one year. These models of service is another way to efficiently expand our capillarity.

The Light Setup Offices bring a new model of service for heavy users. Within this model, we have a lower cost, with specialized service and a greater quantity of customers served. We offer human managed services with the use of digital solutions and with that, we improve scale and profitability.

We have a set of ongoing initiatives in digital optimization, to improve our business model, and in digital transformation, which involves seeking new sources of results, both being enabled by a deep cultural transformation, through the intensification of the use of analytics intelligence, new ways of acting and new technologies. We are optimizing our business models with the use of



technology. In June, we reached 21.6 million digital customers. Of these, 6.5 million were assisted by our virtual assistants, through Artificial Intelligence, both on FaleCom, within BB App, as well on social media, expanding our digital capillarity and facilitating customer's access in addition to our own channels.

This quarter, we raised more than R\$ 21 billion completely digital, through solutions that use analytics and data to recommend the best investment options based on the client's profiles and objectives. When we bring to the business digital, we gain efficiency with the transactional, we work with a lower operating cost, we add a very positive experience and, at the same time, our salesforce can be driven to relationship and advisory.

When we talk about digital transformation, we look especially at new sources of results accelerated by open innovation and digital technologies. In this sense, we are expanding our operations as a platform, within banking and non-banking products and services. Broto, our agro digital platform, already achieved more than R\$ 756 million in business and is our innovation hub in this segment. We also expanded the availability of gift cards in our Apps, with sales of 420 thousand units in the last quarter.

We have important competitive advantages in the open banking scenarios. Banco do Brasil was the first bank to develop APIs credit solutions, back in 2017, and today is the financial institution with the greatest number of available interfaces.

For us, it is very important to be ahead of relevant segments that generate value, reinforcing our leading roles and here I'd like to specially highlight our support to agribusiness. Our credit portfolio for the sector exceeded R\$ 205 billion and we announced the biggest harvest plan in history, with the availability of R\$ 135 billion in resources, it means 18% higher than the previous harvest. Another important milestone was the achievement of R\$ 100 billion in payroll loans, one of the most competitive markets in the financial industry. We also reinforce our support for micro and small companies, disbursing R\$ 6.5 billion in the new phase of Pronampe, now in July.

To conclude my initial remarks, I would like to talk about sustainability, a theme that pass through all of our activities. In the second quarter, we expanded



the offer of ESG products with the launch of the BB Crédito Energia Renovável line, in which we disbursed R\$ 50 million in loans to individuals from May to July this year, and Green Group Credits, which achieved more than R\$ 700 million in sales in just one month. These initiatives help our customers' transition to a more sustainable economy. Also, confirming our commitment to transparency, BB adhered to the recommendations of the Task Force on Climate-Related Financial Disclosures - TCFD, an initiative that aims to develop a consistent format of disclosure of financial risks related to climate change.

Well, with all that said, I will give the floor to our CFO, Ricardo Forni, who will talk more details about our numbers. And I'll be available for the questions after that. Thank you very much.

RICARDO FORNI – OK, thanks Fausto for your insights about structural initiatives moving forward at Banco do Brasil.

Good morning everyone, I'm Ricardo Forni, it's a pleasure to be here with you once again. You have all the material distributed by our investor relations team, so I'll only highlight some of the numbers here.

Our earnings came strong in the second quarter with the adjusted net income reaching R\$ 5 billion, the highest level in the historical data, up to 2.6% compared to the 1Q and 52% compared to the 2Q20. On a quarterly basis, we saw an acceleration in fee income, converging to the guidance, while administrative expenses remained under control. Provision expenses had an increase of 13.8%, but remained below pre-pandemic levels, as a result of the high quality of the disbursements in addition to some residual effect of the preemptive provisions of 2020.

The Net Interest Income decreased in the quarter, reflecting an increase in the Selic Rate, which impacted the funding expenses. This effect was partially offset by the increase in interest income from loan operations, in line with the strong growth of the loan portfolio. The Net Interest Margin contracted slightly by 10 bps, to 3.6%, impacted by the higher liquidity. If we had the same pre-pandemic liquidity level, the Net Interest Margin would be around 4%.

The expanded loan portfolio grew in all segments, reaching R\$ 766.5 billion. The individual's portfolio presented an evolution of 10.3% compared to June/20



and 2.8% compared to March/21. The highlights were payroll loans, with a growth of 16.4% in the year, surpassing the mark of R\$ 100 billion, and also the evolution of non-payroll lines, especially the personal loans and credit card. The Agribusiness portfolio grew 9.7% compared to Jun/20 and 3.7% in the quarter. We reached the historical mark of R\$ 205.9 billion in this portfolio. Highlight also the 47.3% growth in agribusiness bills, which are new ways of financing agribusiness that have shown a significant evolution, growing over 100% in the past couple of years, reaching a balance of almost R\$ 8 billion in June/21. The Small and Medium Enterprise segment grew 24.8% yearly and 0.6% in the quarter, influenced by disbursements in the Pronampe, CGPE and PESE lines, made since last year. The portfolio under forbearance is keeping a downward trend, as a result of amortizations and settlements. At its peak, this portfolio reached R\$ 130 billion. In June, the balance was at R\$ 94 billion. Of which, only R\$ 12 billion were still in grace period, and approximately R\$ 9.4 billion or 78%, should resume the payments in the 3rd quarter of 2021.

Delinquency improved in all portfolios this quarter. The NPL over 90 days ended June at 1.86%, down from 1.90% in March/21, reflecting the high quality of origination and robust methodologies for managing and monitoring the loan portfolio. Coverage rate had a slight reduction, ending the quarter at 325.9%, against 328.2% in 1Q21. The New NPL on the portfolio reached 0.74% and its coverage reached 74.6%.

The CET 1 ended, the capital, in June 2021 at 13.49%.

Finally, we made some adjustments to our 2021 guidance. We increased the range of growth for the rural portfolio to 11% to 15%, reflecting the good prospects for the segment. On the other hand, we reduced the Wholesale range to 3% to 7% growth, due to the impact of early settlements and the strategy of targeting this audience to the capital market. Retail estimates remained unchanged as well as the expectation for the total portfolio. In Provisions for Loan Losses - Expanded View, the good delinquency rates in all portfolios, added to the granular management of portfolio quality, allowed us to reduce the proposed range to R\$ 13 to R\$ 15 billion. We reduced also the Net Interest Income range to 1% to 4% due to the increase in the Selic rate and consequent impact on our funding expenses, given the mismatch profile of our balance sheet.



The ranges of Fee Income and Administrative Expenses remained unchanged. Finally, after incorporating the effects of the adjustments mentioned above, in addition to the strong R\$ 10 billion earnings delivered in the first half of 2021, we are adjusting the range of the guidance for the Net Income to R\$ 17 to R\$ 20 billion.

I appreciate everyone's presence and we can now move on to the Q&A session.

OPERATOR - Ladies and gentlemen, we will now begin the Question-and-Answer session. If you have a question, please dial *1 now.

Our first question comes from Jason Mollin, from Scotiabank. You may proceed.

JASON MOLLIN – Hello. “Obrigado pela apresentação”. First question is if you can give us a sense of the strategy that you are taking in different lines of credit, it seems some different trends in Banco do Brasil loanbook versus some of your largest private sector peers, I mean, mortgages is one that comes to mind. If you could just talk about the bank strategy in the consumer segments and what do you see driving growth going forward. And my second question is an update. If you can provide update on the planned strategy you talked about in the past on your non-core assets. Thank you.

DANIEL MARIA – Hi Jason, let me start with the first question and I'll pass to Fausto and Forni to give more color about the investments and divestments more specifically. What we expect in the strategy for the credit portfolio growth is reflected in our guidance and certainly the agribusiness segment is quite relevant. When you see the percentage of the economy how representing and how is performing is one important aspect. And certainly, this drives a lot of collateral businesses for the Bank. Just reminding that the customer from the agribusiness has more products consumed inside the Bank. This is one aspect and is reflected in our guidance. By the way we've just reviewed the guidance for this segment. In the case of large corporate, we have one effect that we see in the guidance that is basically a base effect. Certainly, we look at this segment and we are close to the companies, this is linked to the strategy of investment banking originating bills and servicing the companies through this. When you



look at the performance in this first half of the year is basically explained by the strong performance in the last year, just reminding that with the pandemic some companies came here, not only to Banco do Brasil, but to the system, to raise funds to be cash rich, exactly to pass through this period. And along this second half they started to pay this back and actually we are comparing actually a very strong semester with a semester with more normalized, and we reviewed the guidance, but we expect to converge to the guidance exactly because we are going to have these effects. When we go to individuals, or retail business, certainly is one aspect that we have been growing, this is helping also the mix, because actually we are moving more towards retail. This is important for the total mix of the credit portfolio. We have certainly the consumer credit as one important driver for this. Payroll loan is one line important that we have good participation in the system. It will continue to be this, but we are targeting also the non-payroll loan. We saw, for instance, the growth in the credit cards, that is important product, mainly for that we have space to grow including with the no-account holders. You see also growth in the other consumer credits. More specifically, the mortgage is quite different our portfolio relative to the system. Certainly, you have a structural effect that is explaining why we see a growth in the system, because Central Bank changed some rules and distimulated the system, to look more for those loans. In our case the funding, or the savings account that usually supports this portfolio, in our case is agribusiness. Certainly, we have space to do it, but we are targeting one segment to grow that is basically the segment that we have the best penetration, that's our customers that we have payroll, customers that we have other credits. And we have also an effect that is a reduction of the portion of the portfolio of the low-income portfolio. This can be explained mainly because you have more write-offs on this. And this explains a little bit why the movement in terms of mortgage is slightly different from the system, but it doesn't mean that we don't have this as a target. It's much more due to the composition of our portfolio. Did I cover all the points of your question, before passing to the next one?

JASON MOLLIN – Yeah, I think it was very helpful.

FAUSTO RIBEIRO – OK, let's try to explain a little bit about the disinvestment strategy. I can say that this is still the same. As I explained before, during our last



meeting when I tried to explain the result of the first quarter. It means that we are going to sell non-core assets. Of course, that we have to wait the best opportunities in terms of the market. Nowadays we have a very comfortable position in terms of capital index. This is the reason that we have to wait the best opportunity. The agenda keep going, and of course that we want to maximize the return of those assets. We are discussing about Banco Patagonia, we are discussing about Banco Votorantim and other ones that we not consider core business.

JASON MOLLIN – It's clear. Maintaining the same strategy, you know, maintaining the same strategy that you've been talking about in the similar types of non-core assets and you're looking the market opportunities.

FAUSTO RIBEIRO – Yes, we are keeping the same strategy. Only, as I said before, we have a very comfortable position in terms of capital, this is the reason that we don't have to move so fast in this strategy. We want to maximize the returns of those assets that we have selected non-core business.

JASON MOLLIN – Thank you very much.

OPERATOR – Our next question comes from Nicolas Riva, from Bank of America. You may proceed.

NICOLAS RIVA – Thanks very much for the chance to ask questions. I have two questions. The first one on your forbearance portfolio, you have a slight better on that. So, I understand that you have R\$ 94 billion in the outstanding balance, long standing balance, some sort of that since the beginning of the pandemic and of those R\$ 94 billion, R\$ 12 billion are not paying anything at all, they're under grace period and you expect in those grace periods to finish by the end of this year 2021. Now, I want to check that is correct my understanding and then the remaining R\$ 82 billion, right?, which are not under grace period. Are you still providing some sort of forbearance for them even though they are paying less than they should be paying at this point? And then my second question on a different topic. I wanted to get an update on the repayment of hybrid debt with the government of R\$ 8.1 billion in terms of timing and the schedule to pay that. Thanks.



DANIEL MARIA – First of all, talking about the forbearance portfolio. Actually, it's behaving exactly the way we have expected, we see that the total amount has been reducing. The same story for the what is in grace period. We have a remaining R\$ 12 billion and when we look at those R\$ 12.0 billion, about 2/3 of this is scheduled to end the grace period in the 3Q. And when you look inside about 50% of these are government loans, or loans to the government. In these cases, we have almost fully guaranteed by the federal government. That's a very low risk, it's a question of cash flow. And then this portfolio is behaving quite well, it's growing the NPL over 90 days as we expected. But when we look at the NPL it's not far from what is our normal loan portfolio. Another thing that is coming to another point of your question, if we were granted new forbearance, no, we're not. And just as a reference, for instance, the Pronampe, those lines of credit, with credit enhancements that we contracted last year, we had the possibility according to the program to grant some forbearance to some specific cases. We have demand less than 5% for those cases. Then the portfolio is behaving quite well, performance is going OK, we expect that this portfolio, the portion that is in grace period will be residual in the next quarters, then things are going well. And moving to the hybrid instruments, what we have so far is the proposal that we made to pay in 90 installments, starting next year, so far we have no definition about that but we understand that it's very likely this scenario. But we need to wait a little bit to have a final position about it.

NICOLAS RIVA – Thanks very much, Daniel. One follow up, so the forbearance program: the R\$ 82 billion which is not under grace period are they making regular payments, like payments as you were speaking before in the beginning of the forbearance program or not?

DANIEL MARIA – Sorry, let me check if I understood well your question. You're referring to what is in grace period or what ended the grace period and if this portion has been paid? Did I correctly... What was your question?

NICOLAS RIVA – You said that the outstanding balance under forbearance is R\$ 94 billion, and of those R\$ 12 billion are not making any payments, if I understand correctly, under the grace period? The other R\$ 82 billion are they making regular payments?



DANIEL MARIA – OK. Actually this is an extract of our portfolio, we showed just what we granted any sort of forbearance. And by the way, this is the total loan. Let's assume that I have a loan for R\$ 1 million and I granted the forbearance for 10. I account, I considered for R\$ 1 million, not for 10. For that reason, the total loan is higher and this portion that is in grace period actually is in the period that we granted for not paying. For that reason, this metrics is quite relevant because they didn't pay yet because the date didn't arrive but we expect, it's not due yet, but we expect that this will happen in the 3Q, you see that 2/3 of this. And looking backwards how this portfolio is behaving we don't expect major surprises on this.

NICOLAS RIVA – OK. Thank you very much Daniel.

OPERATOR – Ladies and gentlemen, as a reminder, if you'd like to pose a question please dial *1.

Our next question comes from Carlos Gomez from HSBC. Please, you may proceed.

CARLOS GOMEZ – Thank you for the call. My question is about your legal risk. We saw your strategy to finish legal cases earlier and so lower your legal cost last year but we stood there this year and that's substantial that can be, you know, R\$ 4.5 billion per year amount. Where do you see this going on the next few years, and what could you or Congress could do to reduce this legal risk going forward.

DANIEL MARIA – OK, Carlos. Thank you for the question. Actually the legal risk we gave a soft guidance as the beginning of the year that we expected to reach R\$ 6.5 billion for this year. Just reminding, last year we had R\$ 4.2 billion. And the reason why we expect higher legal risks is basically the approach that we're having to those cases. You know that previously Banco do Brasil had, as a policy, to go to any resorts, to any... to the last resorts, to the last courts to solve the case but sometimes it's very expensive to do it. And what is the idea? Exactly the test that we made in 2019, trying to anticipate some of those cases, making agreements. And these R\$ 6.5 billion can be explained by the insistence of the bank to increase agreements. By the way, this is a quite interesting strategy because we increase efficiency, because you don't need to have thousands of



cases to follow up, and you can, when you do agreements to get some benefits or reducing the final financial impact for this. For next year, probably we need to fine-tune this number, as we arrive to the end of the year, but probably the best ballpark I can offer to you is to replicate R\$ 6.5 billion for next year. But certainly, this is an update that we are going to have ahead.

CARLOS GOMEZ - So, let's understand, so you said so far the soft guidance of 6.5, again we understand that you don't have certainty of how much it will be, did you say you'd expect to replicate that, to again have R\$ 6.5 billion?

DANIEL MARIA - No. What I said for this year, the soft guidance for this line is R\$ 6.5 billion that we expect for the full year. What we delivered so far is R\$ 1.7 per quarter, that is consistent with this soft guidance. As a comparison last year was R\$ 4.0 billion approximately. And in this process we expect that for next year we tend to continue in the region of 6.5. Did I clarify your point?

CARLOS GOMES - Yes. So, it's similar you took this year. And again, in the long run, you'd expect this strategy presumably with this strategy you pay more upfront but you pay less later. Should we expect a reduction later on or for the time of sphere of legal cost?

DANIEL MARIA - Exactly. This is the idea, is to try to reduce the total cost of those cases. Because you have two impacts, you have the financial cost and you have the administrative costs that you have the entire group to follow up all those cases. At the moment that we reduce these we have a lighter structure. And then this is... you got to the rationale of this.

CARLOS GOMES - Thank you so much.

OPERATOR - Our next question, comes from Gustavo Schroden from Bradesco BBI. You may proceed.

GUSTAVO SCHRODEN - Hi, good morning. Thanks for taking my question again. One question on the net interest income evolution. Your cost of funding increased this quarter and NII and the reason behind that is the increase in the Selic rate, but the question here is that Selic is still increasing and so, how should we expect the cost of funding evolving in the coming quarters and when should we see the benefits of these higher Selic rate on the asset side? I mean, when the



repricing of this loan portfolio should mitigate or should offset this increase in the cost of funding? Thank you.

RICARDO FORNI – Hello, Gustavo. I believe that what we have seen in the first semester and what we are seeing happening in the second semester because all the market is now projecting Selic to be at 7 or even above 7 at the year-end. I believe that we will continue with this trajectory where we have the repricing of our cost of funds growing, and the net interest margin being compressed by this because the speed of the repricing on the asset side takes a little bit more, and on the asset side you have also the competition working, that is to say, the repricing as is occurring but it's limited to the competition forces over there. So this is something that we need to, we are considering. This is the reason we have readjusted the guidance for the net interest income. And we believe that this range from 1.0% to 4.0% is now, let's say, fair to what we expect for the year-end, considering the speed of the repricing on the liability side, considering the ability to reprice the asset side.

DANIEL MARIA – Gustavo, just to give some numbers to order these matches. By the way you can find this in our MD&A, there is a section that we show the mismatches of our balance sheet. Basically, what we have, we have assets, net assets at fixed rates against net liabilities. 2/3 of those net liabilities, net assets, are financed by saving deposits, that is basically 70% of Selic rate and 1/3 is current accounts that they are not sensitive to the interest rates. Then, in a certain way, this smooths a little bit the impact. And this one third, these mismatches that we have in terms of assets, about 50% of them is repricing in one year. Then this means that liabilities, they priced faster than the assets. And coming to your question, we made an exercise that we shared with the market, that we expect for any current base points move in the interest rate, base rates, we should have an impact in the region of R\$ 400 million on an annual basis for the NII. When you look at the impact in the NII, is consistent with this number. Coming to the other part of your question, when this will be repriced? We tend to have this effect more towards the end of the year and next year, and certainly the impact tends to be more this year in terms of the liabilities. And when we built the budget for this year and the other, or the formal guidance, we had in the projections a Selic rate reaching 3.5 by the end of the year and now all the



market is working with 7%. Then this comes to what Forni said. The adjustment in the NII can be fully explained by this exogenous effect that is the interest rate.

GUSTAVO SCHRODEN - No, that's clear. Just to be sure if I understood. So, it would be fair to assume that the first half of our next year, maybe the repricing of assets, we could see the benefits of a better pricing on asset side.

DANIEL MARIA - It's hard to say exactly in which quarter because actually we have optionality for part of those assets, but for sure in 2022. But certainly somewhere in 2022 we tend to have this effect.

GUSTAVO SCHRODEN - That's clear. Thank you very much.

OPERATOR - This concludes today's question and answer session. Mr. Fausto Ribeiro to proceed with his closing statements. Please go ahead sir.

FAUSTO RIBEIRO - I just want to say thank you guys, everybody for this opportunity to clarify a little bit about the result of Banco do Brasil in the 2Q, of course, and the first semester also. And I'd like to say that this kind of result is a great, it's a record in terms of results of Banco do Brasil and it was just possible because we have capillarity, we have strong people working together in order to guarantee that the goals will be achieved. I hope that the explanations here helped you guys to understand a little bit better, how was the results of the Banco do Brasil, and I hope that everybody was clear with the explanations that we did before. I hope to see you guys at the next meeting in the 3Q of this year and thank you very much for this opportunity. See you. Bye, bye.

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