Banrisul's 4Q19 Results Presentation

Conference Call – February 12, 2019

Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 4Q19 results conference call. Today with us we have Marcus Staffen, CFO and Investor Relations Officer; Werner Kohler, Head of Accounting; and Alexandre Ponzi, Head of Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Banrisul's remarks are completed, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

The audio and slide show of this presentation are available through a live webcast at http://www.banrisul.com.br/ir. The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banrisul's management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Banrisul and could cause actual results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Marcus Staffen, CFO and Investor Relations Officer, who will start the presentation. Mr. Marcus, you may begin the conference.

Marcus Staffen:

Good morning, everyone. Before we start our presentation, I would like to give a few quick comments about our guidance. We expect the credit portfolio to maintain a significant growth in a better economic scenario in Brazil and Rio Grande do Sul. Payroll loans are growing fast and corporate credit should improve.

On the other hand, with a more competitive market and our new rules about overdraft in loans, we believe that our margin and ROE can be affected.

Alexandre, could you make the presentation?

Alexandre Ponzi:

Welcome again. I will start with a presentation of our recurring net income, that has been pressured by a more competitive environment in Brazil and in the state of Rio Grande do Sul throughout 2019 that is expected to be fiercer throughout the coming year. That is why Mr. Marcus just mentioned that our guidance may represent a slightly impact in terms of our margins and profitability.

But recurring net income that increased 16% year-on-year was impacted mostly by: first of all, NII compression, given the competitive environment; lower provision expenses on credit; still increasing banking fees at a rate of 3% year-on-year and 2% quarter-on-quarter that eventually will be the trend for 2020 as a whole; controlled administrative expenses; and on account of the rate of the social contribution on net income, we had a lower effective interest tax rate in 2019.

When we take into consideration the events that adjusted our reported net income, those events that are treated as extraordinary, we have seen an increase of almost 30% year-on-year. And those extraordinary or one-off events were the restructuring of our postemployment pension plan that is offered to Banrisul employees that occurred throughout the 1H19. We had higher labor provisions and the reversal of civil provisions as well. We have also updating of our deferred tax credits on account of the changing from 15% to 20% of the rate of the CSLL.

Those events have produced one recorded reported net income of R$1.3 billion that shareholders will be paid at the rate of 40%. This competitive environment has had an impact in terms of both NIM and NII.

NII has seen a similar decrease year-on-year and quarter-on-quarter of a little less than 3% performance. This is what we are expecting on an environment that is ever challenging with the addition of this mentioned cap on our overdraft accounts.

But then again, in terms of return on equity, we produced, with the numbers of 2019 as a whole, almost 7.9% of ROE.

Provision expenses on the other hand and as we had anticipated in the beginning of the year, we were expecting that those numbers would be reduced in comparison to 2018, and then we saw a decrease of almost 7%. And given the trend of specialty credits that were written off and were renegotiated, that is an ongoing process, which had a higher and more relevant amount average ticket in the third quarter, we have seen a reduction of 24% in terms of the provision expenses that were booked in the last quarter alone.

Our funding structure has been maintained, a very positive driver for impacting and producing credit assets. We have seen an increase in average of 6.5% year-on-year. But more importantly than the growth itself is the fact that we have maintained funding costs under control, and loans-to-deposit ratio very positive, meaning that we have all the conditions to start increasing our credit portfolio that currently is being mostly focused on payroll loans.

And our guidance anticipates that we are expecting an increase in terms of our credit to companies as well that had a negative performance of minus 2.3% in the last year, and we are assuming that they shall grow at least 2% in comparison to the number at the end of 2019.

Banking fees. They have increased year-on-year at a rate of 2.3%, and in the last quarter alone, when we compare to September, they increased almost 2%. This quarter-on-quarter performance may be the trend that we are expecting going forward on account that part of the impact in terms of compression of fees, eventually, will be mitigated by the fact that all the lines of products shall increase.

We were too dependent on MDR coming from our acquiring network that is a very compressed, very competitive environment to challenge. The new incumbents are disrupting the acquiring business as a whole, but we assume that there may be events positive in order to expect a slightly increase, 5% to 6% year-on-year in terms of our fees.

And we shall consider as well that the comparison basis with 2018 must have a discount almost R$51 million of MDRs that were recorded until May 2018 coming from our card company booking together not only the MDR, but interchange fee as well. Therefore, the managerial performance of our banking fees would have been higher than this 2.3%. It would have been almost close to 5% if we take into consideration this changing the way that MDRs were booked until mid-2018.

I started by saying that we have a very well-behaved administrative expenses, and the proof is that they are at similar levels that we had in 2018, a slightly reduction of 0.4% regardless of the personnel or other administrative expenses altogether.

Other adjusted operating incomes and expenses, they give reasons -- the performance give reasons of the extraordinary impacts that were recorded in terms of our reported net income, especially those related to the reversal of civil lawsuits, and the increase of labor provisions that we booked in the 4Q19.

In terms of our balance sheet altogether, assets increasing 5.3%. Banrisul now reached R$81.6 billion in terms of total assets, of which almost R$23 billion are represented by our securities portfolio that increased 7% year-on-year and slightly under what we had in September on account of seasonal effects and the fact that by the year-end, there is a higher amount of money into circulation that's being used for all the proceeds.

Credit portfolio is still driven by non-earmarked credit. They increased 6.2%. This non-earmarked market credit, 3/4 of that are represented by payroll loans. But we are still seeing some increase in terms of earmarked altogether that is recovering the trend, especially coming in the last six months from our agricultural loan portfolio.

The slide that is before you now represents the breakdown of our credit portfolio in which credit to individuals represent 60% of our total credit assets. And out of this, 75% are represented by payroll loans, R$16 billion in terms of total balance that are increasing at more than 15% of our pace year-on-year, regardless of the channel of production, with customers using our banking correspondents to produce credit that has been offered to civil servants and retirees from the national pension plan throughout Brazil.

Provision, as a total of our loan book, has increased at a trend that is lower than what we produce in terms of credit portfolio, and this is the trend that we are expecting to see in 2020. Even though we are assuming that our credit portfolio shall increase in terms of guidance, provisions are not to follow suit at the same level. So provisions represent now 7.6% of our total loan portfolio vis-à-vis the 7.7% that were the shares that we saw in December. Shareholders' equity 7.1% increase in 12 months, R$7.8 billion in total.

Main indicators of Banrisul annualized ROE for the numbers of the last quarter, 19.7%, but if we take 2019, we delivered almost 17% of ROE, and similarly, 1.6% in terms of ROA.

Default rate increased on account of very one-off events throughout the last quarter, slightly higher than they were in the previous quarter, and almost 30% above December. But this 3.4% of 90-day default rate is what the retail banking industry in Brazil has reported so far. We are in line with the industry.

Similarly, cover ratio is at the same trend that we are seeing in the banks that have reported so far. And we announced in the beginning of the year that the 300-and-plus cover ratio that we had, they would be reduced naturally and organically throughout the coming quarters, and this has happened, placing Banrisul at the similar levels as its competitors.

We are trying to improve our efficiency ratio. The guidance is from 50% to 54%. We believe that this 52% that we presented in 2019 shall be the point from which we want to improve the numbers.

We are comfortable with fees, regardless of the competitive environment, being able to support in full, with some additional amount, our personnel expenses. We have very comfortable Basel ratio total and Tier 1 altogether.

And you have before you as well the number of employees in current branches that Banrisul possesses. This gives us some room to expect an increase in terms of our efficiency.

Guidance was presented by Marcus at the beginning of our call. Therefore, now I shall pass the microphone over to Q&A session. Thank you.

Operator:

There are no questions in the queue.

Alexandre Ponzi:

We received one that we will read and then we will respond. “Can you please give a bit more detail on the effect of the changes in loan mix for cost of credit and asset quality for 2020?"

We can. We are not expecting credit quality to deteriorate even further. We assume that we have a very safeguard credit portfolio that is still pending on increasing credit to companies.

But regardless of the performance of our total loan book, and again, have guided that we expect an increase in companies altogether, the change of mix will not – this is our expectancy – impact the cost of the credit. It is to remain at similarly levels that we have produced, which would be a little higher than historical levels, but they were impacted by a more productive environment for production of transactions. Even though we assume that credit is to grow, cost of credit will not follow suit the performance of the credit portfolio as a whole.

Operator:

If there are no more questions, I would like to turn the floor over to Mr. Marcus for his final remarks.

Marcus Staffen:

Thanks for the audience, and we will be available for any questions. Thank you.

Operator:

The conference has now concluded. You may now disconnect.

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