A bank for Brazil



Aldemir Bendine

Banco do Brasil CEO

Klaus Kleber, from São Paulo

Banco do Brasil (BB) accounts for 20.2% of domestic credit today and plans to become one of the three largest lenders in the real estate market by 2012. The board is negotiating the acquisition of Banco de Brasília and Banco Patagônia from Argentina; it also plans to open new branches in the USA, where it has recently created BB Money Transfers. So Banco do Brasil CEO Aldemir Bendine tells us. To strengthen the bank's capital structure, he says, the bank has issued US$1.4 billion in perpetuity bonds and US$570 million in subordinate debt and may offer shares in the primary and secondary markets. "Our commitment to the BM&FBOVESPA's New Market is to increase our free float from 21.5% to 25% by June 2011," he adds. BB shares are also traded on the New York Stock Exchange. Today foreign investors hold 11% of BB capital, but in principle that could go as high as 20%.

***The Brazilian Economy* — How relevant have the acquisitions of Banco do Brasil been in boosting Brazil's capacity to overcome the international crisis? What share of credit does BB hold today?**

Aldemir Bendine — Our acquisitions have undoubtedly been important to both BB and the country. In recent months we have completed the incorporation of Banco do Estado do Piauí (BEP), Banco do Estado de Santa Catarina (BESC), and Banco Nossa Caixa and have secured a 50% capital share of Banco Votorantim. Today, BB has over 50 million clients; it has the largest network of branches in the country and, as a result of the acquisition of Nossa Caixa, in the state of São Paulo. Our exceptional funding structure both in Brazil and abroad gives us an advantage over our competitors. Furthermore, BB acts as the banker for 15 states of the Federation, which translates into countless business opportunities; we are responsible for paying wages to 1.9 million state and 2.1 million local civil servants. To illustrate our organic growth, BB's credit portfolio grew 22% in the 12 months ending in September 2009, while average growth in the national financial system was 16.9%. We hold 20.2% of all credit available in the country, a historic record.

Has BB reduced interest spreads? Can this downward trend continue with the yearly base interest rate at 8.75%?

We took advantage of the policy rate reduction period to introduce an aggressive policy of reducing rates and expanding credit. Continuity of this policy will depend on macroeconomic conditions and on other variables beyond our control. We are obsessive about working efficiently. We will relentlessly pursue operational efficiency, cost reduction, and responsible high-quality lending.

Has the reduction of spreads affected BB's default ratio?

Even during the crisis and with the reduction of financial margins, BB managed to keep its overdue loan ratio below the market average. In September 2009, the ratio of BB borrowers more than 90 days overdue was 3.6% — the National Financial Service (SFN) ratio was 4.4%. Our average risk was also better: 5.7% compared with the SFN's 7.2%. This is a clear proof that the excellent performance of BB's loan portfolio this year was the result of responsible management that preserved our assets and the earnings of our shareholders.

How much will BB credit operations increase in 2010, when expansion of Brazilian GDP is expected to be between 5.5% and 6%?

We are projecting 20% growth in our credit portfolio, which in September 2009 surpassed the US$170 billion mark. With the resumption of economic growth and the confidence the productive sector and the market as a whole have demonstrated, we believe that 2010 will be highly favorable to credit operations. We will resume investment and expansion projects that were postponed in 2009. With economic stability and the improved employment and income indicators seen in the last few months, consumption credit tends to grow significantly. There will also be the launch of large projects related to the 2014 World Soccer Cup, the 2016 Olympic Games, and the pre-salt oil field, as well as the conclusion of public works of the PAC (Growth Acceleration Program). BB will definitely be supporting these investments.

When do you expect the operations of Nossa Caixa bank to be fully incorporated into BB? Will there not be an overlap of branches in the State of São Paulo countryside? If so, is there a plan to close branches or service centers?

Operations will be integrated gradually during 2010. Nossa Caixa branches will migrate by groups, in a smooth process to avoid any negative impact on our clients. Starting in February clients will be offered BB's operational platform, with its entire product and service portfolio. There will be no overlap of the Nossa Caixa and BB networks. We are already the largest service network in São Paulo, where we operate 1,340 branches, and we will continue investing in improving services state-wide. Our plan is to open 83 new branches in 2010, of which 7 are already being set up. We will also increase the number of branches dedicated to high-income clients. That means 23 additional branches in the State of São Paulo next year. In other good news, in 2010 we will hire 1,500 new employees in São Paulo alone to meet the challenges we will be facing in the most competitive market in the country.

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Foto: Credit de foto

Banco do Brasil and Nossa Caixa each has a pension fund. Will BB's take over the other fund?

This issue is currently being studied. For now nothing changes from the point of view of BB's support to Nova Caixa's pension fund.

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By issuing perpetuity bonds amounting to US$1.5 billion and US$570 million in subordinate debt, BB has increased its capital adequacy ratio to 13.9%, above the 11% required by the central bank. Do you plan to issue any more bonds?

Issuing bonds or acquiring any other type of debt depends to a large extent on market conditions. Taking advantage of a window of opportunity that opened in October, BB managed to issue a unique bond in the foreign market, and demand surpassed US$14 billion. The operation has been an unquestionable success. We have been recognized as the year's best deal by several specialized periodicals. BB is constantly watchful for opportunities as long as the cost is attractive. It is worth remembering that BB's liquidity is very comfortable. Thus, we resort to the market only when conditions are ideal.

How and when is new stock to be issued in 2010? It has been said that the free float — bank shares circulating in the market — will be increased. What will be the size of the offering?

We have recently informed the market that we have begun negotiations with the National Treasury to increase BB's free float to 25%; it is currently 21.7%. This is a commitment the board made when BB went public in the New Market. BM&FBOVESPA has given us a deadline of June 2011 to reach that goal. We have not yet concluded studies but the discussions are considering both a secondary offering — a sale of shares belonging to the controlling shareholders — or a primary offering, which would be the issuance of new shares. It is still too early to determine how we will increase the free float. Likewise, it is premature to discuss the size of the offering, whether it will be a primary or secondary offering, and even the final schedule.

What is the share of foreign investors today in BB, and how much could that share grow?

Currently foreign investors account for 11% of total BB capital. In Brazil, the share of foreign investors in bank voting capital is regulated by the constitution. Any changes to the ceilings require presidential authorization. A new decree has increased the ceiling for foreign participation in BB capital from 12.5% to 20%. In principle, foreign investors may hold at the most 20% of bank capital.

In addition to offering new shares, the Treasury, which holds 66% of BB shares, and the National Bank of Social and Economic Development (BNDES), which holds 2%, could also sell some shares in the secondary market. Is that a possibility?

Yes, if the current studies recommend a secondary offering of BB stock as a way of increasing the free float. This would mean that the controlling shareholders would sell part of their shares. Shareholders that the

BM&FBOVESPA considers part of this controlling block are the National Treasury, the BNDES, and the BB employees' pension fund.

The acquisition of Banco do Estado do Espírito Santo (Banestes) did not materialize, but there is talk of BB acquiring Banco de Brasília (BRB). Is BB considering new acquisitions in the Brazilian market? How are the negotiations proceeding?

For the time being we are not planning any domestic acquisitions. Obviously, if a good opportunity comes up, and if it is a sensible opportunity from a business point of view, one that complements the bank's activities and generates value to its shareholders, we will consider it. We are currently directing our efforts toward the absorption of Nossa Caixa, which must be carried out with prudence, serenity, and professionalism, so that both clients and employees are spared any impact from the change in management. As to Banco de Brasília, negotiations are still under way.

Exports of manufactured goods fell drastically in 2009. Does BB foresee growth in its financing of foreign trade?

Although projections indicated a reduction in Brazilian exports in 2009, our foreign trade operations went in the opposite direction. The total of all credit lines to exports amounts to US$18 billion — 18.6% higher than in 2008. In 2010 the economic scenarios point toward 18% growth in Brazilian exports. At the BB, the projection is for a 25% increase in the volume of export credit, from US$18 billion to US$23 billion.

In December our real estate loan portfolio totaled US$460 million. …BB's real estate portfolio should close 2009 with 16% growth compared with 2008.

BB's presence in real estate financing is still modest. How much can it grow in 2010?

We entered the real estate financing market just over a year ago, when we were granted authorization by the National Monetary Council and the Central Bank to do so by using part of the funds raised through our Golden Savings Accounts. In 2009 we financed both clients purchasing homes and developers building new homes. In December our real estate loan portfolio totaled US$460 million, the same amount as in the Nossa Caixa portfolio. Even given the consequences of the world financial crisis, BB's real estate portfolio should close 2009 with 16% growth compared with 2008, using funds raised from savings accounts alone. In 2010 that market is expected to grow by 40%, and BB intends to double its current portfolio volume. We have approximately US$4 billion immediately available to the market. In 2010 we will expand the credit supply through specific agreements, with special conditions and rates for our clients; additionally, we would give more emphasis to developers and real estate companies.

Our retail strategy also foresees financing of projects for the construction of lower-cost housing for the "My House, My Life" program. Because the construction cycle of those homes is very short, in 2010 the projects supported by BB will be able to finance tens of thousands of residential units with Workers' Guarantee Fund (FGTS) resources. Our intent is to become one of the three major real estate financing institutions in Brazil by 2012.

Foto: Credito da foto

What about financing for agriculture, where the BB presence is fundamental?

We are very proud to be the major lender to Brazilian agrobusinesses. We work with all segments: small, medium, and large producers; cooperatives; equipment and input suppliers; and agro-industry. We have a customized methodology to assess the risks of production activities. Furthermore, Aliança do Brasil, a company of the Banco do Brasil Group, is the leader in rural insurance, and our Ourocard Agrobusiness card is a new instrument to provide rural credit. Between January and September 2009, BB disbursed US$17 billion to rural and agroindustrial operations, reaching a US$38 billion balance as of September 2009. For 2010 BB is projecting disbursements of US$26.5 billion, targeting a year-end balance of US$44 billion.

How are the negotiations coming along for the acquisition of Banco Patagônia in Argentina?

We are negotiating with several financial institutions in Argentina; Banco Patagônia is one of them. I cannot reveal the content of the negotiations, but as soon as we have concrete results, we will let the market know.

Are there any other international operations in sight?

Historically, BB has been the Brazilian bank that enjoys the most solid international presence. We are present in 23 countries with 44 units, including subsidiaries, branches, and offices. Our strategy is to take our business in three directions: expansion of the country's trade relations, internationalization of Brazilian businesses, and concentration on Brazilian communities abroad. BB will plant its flag where those conditions are present and where there is enough volume of business. We are looking for those opportunities.

In the USA, we have submitted an application to the local regulator to open bank branches to operate in the retail market. Because the American market already meets all three conditions, it is one of our priorities. Recently, we established a money transfer company in that country, BB Money Transfers; the idea is to serve the Brazilian community living in the USA, which is estimated at 1.4 million.

How does BB support Brazilian multinationals?

Wherever there is a domestic company or a consistent foreign trade flow of appropriate size, BB will certainly be there to offer the financial guidance those clients require. To give you an idea of our presence, 185 large Brazilian business groups that enjoy international exposure are BB clients. In Latin America there are excellent opportunities in Chile, Paraguay, Uruguay, and Colombia. In Argentina, for instance, Brazilian companies have a significant presence; about 20 Brazilian businesses employ over 160,000 workers there. We want a bigger role in Argentine retail bank business — why not?

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[1] The Brazilian Securities, Commodities and Futures Exchange — BM&FBOVESPA — is the third largest stock exchange in the world in market value. The BM&FBOVESPA' New Market is a listing of companies that undertake, on a voluntary basis, to adopt corporate governance practices and accept other legal obligations.